

CITY OF GRAND RIVERS, KENTUCKY

FINANCIAL STATEMENTS
With Independent Auditor's report

FOR THE YEAR ENDED JUNE 30, 2011

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GRAND RIVERS, KY 42045

INDEPENDENT AUDITOR'S REPORT

Honorable B.T. Moodie, Mayor
Members of the City Council
City of Grand Rivers
Grand Rivers, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Rivers, Kentucky (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grand Rivers, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Rivers, Kentucky, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and 32 through 33, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grand Rivers, Kentucky's basic financial statements. The supplementary information section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of these financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

Baker, Anderson & Elliott, CPAs

February 10, 2012

CITY OF GRAND RIVERS, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011

As management of the City of Grand Rivers, Kentucky (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. The City first implemented GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, for the fiscal year ended June 30, 2004. GASB (Governmental Accounting Standards Board) establishes accounting practices for state and local governments. GASB 34 requires the City to present a Management Discussion and Analysis (MD&A) as part of the audited financial statements. To fully understand the City's financial activities, this information should be read in conjunction with the basic financial statements (pages 8-16) provided in this document.

Nature of Organization and Reporting Entity

The City was formed in 1892 and provides water and sewer, streets, parks, cemetery, and general administration services for its residents.

In evaluating the City as a reporting entity, management has addressed its relationship with other governments and organizations and concluded that, in accordance with the criteria set forth in Sections 2100 and 2600 of the Governmental Accounting Standards Board Codification, the City is a separate reporting entity.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), Basic Financial Statements, and Supplementary Information. The Basic Financial Statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) include notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business.

The Statement of Net Assets presents information on all City assets and liabilities, with the difference between assets and liabilities reported as net assets. Monitoring increases and/or decreases in net assets over time may serve as a useful indicator of whether the financial position of the City is improving, stagnating, or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All net asset changes are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Revenues and expenses are reported in the Statement of Activities for some items that will only result in cash flows in the future (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish City functions that are primarily supported by taxes and intergovernmental revenues (governmental activities) from other City functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). City governmental activities include general government, public safety, parks and recreation, and interest on long-term debt. Business-type activities of the City include Water and Sewer systems.

The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over segregated resources for specific activities or objectives. The City of Grand Rivers, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds can be divided into two categories:

1) *Governmental Funds*. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike government-wide financial statements, however, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a city's near term financing requirements.

The City maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Tourism Commission and Storm Damage Funds, which are considered to be major funds. Data from the other five (5) funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Readers may better understand the long-term impact of the City's near term financing decisions by comparing the narrow-focus governmental funds financial statements with governmental activities in the government-wide financial statements. Pages 11 and 13 provide a reconciliation to ease comparison between the fund financial statements and the government-wide statements.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

2) *Proprietary Funds*. The City has been using two enterprise funds to account for the water and sewer utility systems. During the year, the City added an additional enterprise fund to account for the operations of a Wi-Fi service. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. These operations are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic proprietary fund financial statements can be found on pages 14-16 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 17-30 of this report.

Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparison schedules for general and major special revenue funds, except for the Storm Damage Fund. A budget for the Storm Damage Fund was not prepared. This information can be found on pages 31-32 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required budgetary supplementary information. Combining and individual fund statements and schedules can be found on pages 33-37 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. City assets exceeded liabilities by \$4.378 million as of June 30, 2011.

The largest portion of the City's net assets (96%) reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide service to citizens and, as a result, these assets are not available for future spending. The City's capital assets investment is reported net of related debt, but the resources to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

The following statements present comparison of the current year government-wide data with the prior year government-wide data for analyses purposes:

The City of Grand Rivers, Kentucky Condensed Statements of Net Assets June 30

ASSETS

	<u>Government Activities</u>		<u>Business-Type Activities</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 542,063	\$ 476,600	\$ 290,541	\$ 270,103
Non-current assets	<u>2,292,791</u>	<u>2,289,511</u>	<u>3,107,690</u>	<u>2,774,736</u>
TOTAL ASSETS	<u>\$2,834,854</u>	<u>\$2,766,111</u>	<u>\$3,398,231</u>	<u>\$3,044,839</u>

LIABILITIES AND NET ASSETS

Liabilities:

Current liabilities	\$ 460,431	\$ 296,498	\$ 349,595	\$ 227,564
Non-current liabilities	<u>373,578</u>	<u>423,951</u>	<u>671,779</u>	<u>697,773</u>
Total liabilities	<u>834,009</u>	<u>720,449</u>	<u>1,021,374</u>	<u>925,337</u>

Net Assets:

Invested in capital assets, net of related debt	1,870,941	1,813,407	2,335,555	1,987,519
Restricted net assets	15,949	19,685	-	-
Unrestricted net assets	<u>113,955</u>	<u>212,570</u>	<u>41,302</u>	<u>131,983</u>
Total net assets	<u>2,000,845</u>	<u>2,045,662</u>	<u>2,376,857</u>	<u>2,119,502</u>

TOTAL LIABILITIES AND NET ASSETS

<u>\$2,834,854</u>	<u>\$2,766,111</u>	<u>\$3,398,231</u>	<u>\$3,044,839</u>
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Analysis of the City's Operations

The following statement provides a summary of the City's operations for years ended June 30, 2011 and 2010. Governmental activities decreased the City's net assets by \$44,817 and business-type activities increased the City's net assets by \$257,355 resulting in an overall increase in net assets of \$212,538. In the prior year, overall net assets increased by \$139,754.

The City of Grand Rivers, Kentucky
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30

	Government Activities		Business-Type Activities	
	2011	2010	2011	2010
Total revenues	\$ 539,410	\$ 512,735	\$1,145,837	\$1,088,635
Total expenses	<u>(585,227)</u>	<u>(641,214)</u>	<u>888,482</u>	<u>820,402</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (44,817)</u>	<u>\$ (128,479)</u>	<u>\$ 257,355</u>	<u>\$ 268,233</u>

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in determining the City's financing requirements. Unreserved fund balance serves as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$126 thousand. Approximately 39% of this total amount, \$49 thousand, is unreserved fund balance, which is available for spending at the government's discretion. Of the remaining \$77 thousand of fund balance, \$61 thousand is assigned and not available for current expenditures and \$16 thousand is restricted and must be used for a specific purpose.

The general fund is the chief operating fund of the City. At the end of the 2011-2010 fiscal year, the fund balance of the General Fund was \$195,038. This was a decrease of \$3,110 from the 2010-2009 fiscal year.

The Tourism Commission's fund balance at the end of the 2011-2010 fiscal year was \$86,835. This was an increase of \$12,330 from the 2010-2009 fiscal year.

The Storm Damage fund was established to account for cost of maintenance and repairs needed as result of recent ice storm and flood damages. At the end of the 2011-2010 fiscal year, there was a deficit fund balance of \$191,584. This deficit increased by \$103,155 during this fiscal year. Some of these costs (flood damages) that occurred during the fiscal years 2009-2011 may be reimbursed by state and federal agencies.

Capital Asset and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of June 30, 2011, is \$5.39 million (net of accumulated depreciation). This investment in capital assets includes land, building, improvements, machinery, and equipment.

During fiscal year 2011, projects and equipment expenditures totaled approximately \$596 thousand. Approximately \$17 thousand of these expenditures were for water improvement projects and \$315 thousand were for sewer improvement projects. The remaining capital expenditures were for various other projects and equipment.

At year end, the City had \$1,442,359 in outstanding capital leases and notes, compared to \$1,280,771 at June 30, 2010, with maturities extending through 2027. During the year, the City's total debt increased by \$161,588.

(Continued)

Requests for Additional Information

This report is intended to provide readers with a general overview of the City's finances and to provide information regarding the receipts and uses of funds. If you need clarification regarding a statement(s) made in the report or need additional information, please contact the City of Grand Rivers, P.O. Box 265, Grand Rivers, Kentucky 42045.

CITY OF GRAND RIVERS, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 253,120	\$ (115,480)	\$ 137,640
Investments	79,663	169,084	248,747
Receivables, net:			
Fees and services	3,924	221,021	224,945
Taxes	193,729		193,729
Internal balances	10,085	(10,085)	-
Inventory	-	24,000	24,000
Prepaid insurance	1,542	2,001	3,543
Total current assets	542,063	290,541	832,604
Noncurrent Assets:			
Lease issuance costs, net	215	9,500	9,715
Net capital assets:			
Land and construction in progress	265,350	3,561	268,911
Depreciable capital assets	2,026,801	3,094,629	5,121,430
Other assets	425	-	425
Total noncurrent assets	2,292,791	3,107,690	5,400,481
Total assets	2,834,854	3,398,231	6,233,085

LIABILITIES

Current Liabilities:			
Accounts payable	38,618	183,577	222,195
Notes payable	209,217	49,297	258,514
Taxes withheld and accrued	2,017	1,696	3,713
Meter deposits payable	-	12,035	12,035
Deferred revenue	161,498	-	161,498
Accrued interest	1,449	12,134	13,583
Leases payable due within one year	47,632	90,856	138,488
Total current liabilities	460,431	349,595	810,026
Noncurrent Liabilities:			
Leases payable	373,578	671,779	1,045,357
Total liabilities	834,009	1,021,374	1,855,383

NET ASSETS

Invested in capital assets, net of related debt	1,870,941	2,335,555	4,206,496
Restricted for:			
Program purposes	15,949	-	15,949
Unrestricted	113,955	41,302	155,257
TOTAL NET ASSETS	\$2,000,845	\$2,376,857	\$4,377,702

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 404,270	\$ -	\$ 7,750	\$ -
Highways and streets	61,469	-	7,417	-
Parks and recreation	84,985	8,800	-	-
Interest on long-term debt	33,503	-	-	-
	<u>584,227</u>	<u>8,800</u>	<u>15,167</u>	<u>-</u>
Total governmental activities				
Business-type activities:				
Water system	564,240	548,770	-	7,500
Sewer system	295,718	253,857	-	324,319
Internet fund	28,524	7,403	-	-
	<u>888,482</u>	<u>810,030</u>	<u>-</u>	<u>331,819</u>
Total business-type activities				
TOTALS	<u><u>\$1,472,709</u></u>	<u><u>\$818,830</u></u>	<u><u>\$15,167</u></u>	<u><u>\$331,819</u></u>

General revenues:

Taxes and licenses:

Property taxes, levied for general purposes

Franchise tax

Hotel/motel and restaurant taxes

Vehicle tax

Interest income

Rent income

Gain (loss) on disposition of property

Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets, July 1, 2010

NET ASSETS, JUNE 30, 2011

See auditor's report and notes to the financial statements.

**Net (Expense) Revenue and Changes in
Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (396,520)	\$ -	\$ (396,520)
(54,052)	-	(54,052)
(76,185)	-	(76,185)
<u>(33,503)</u>	<u>-</u>	<u>(33,503)</u>
<u>(560,260)</u>	<u>-</u>	<u>(560,260)</u>
-	(7,970)	(7,970)
-	282,458	282,458
<u>-</u>	<u>(21,121)</u>	<u>(21,121)</u>
<u>-</u>	<u>253,367</u>	<u>253,367</u>
<u>(560,260)</u>	<u>253,367</u>	<u>(306,893)</u>
192,491	-	192,491
5,316	-	5,316
126,812	-	126,812
23,236	-	23,236
1,886	3,988	5,874
104,070	-	104,070
-	-	-
<u>61,632</u>	<u>-</u>	<u>61,632</u>
515,443	3,988	519,431
<u>-</u>	<u>-</u>	<u>-</u>
<u>515,443</u>	<u>3,988</u>	<u>519,431</u>
(44,817)	257,355	212,538
<u>2,045,662</u>	<u>2,119,502</u>	<u>4,165,164</u>
<u>\$2,000,845</u>	<u>\$2,376,857</u>	<u>\$4,377,702</u>

CITY OF GRAND RIVERS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

<u>ASSETS</u>	<u>General Fund</u>	<u>Tourism Commission</u>	<u>Storm Damage Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$261,128	\$75,240	\$ (31,692)	\$(51,556)	\$253,120
Investments	29,738	-	-	49,925	79,663
Accounts receivable:					
Fees and services	3,924	-	-	-	3,924
Taxes	11,758	16,229	-	-	27,987
Property taxes levied - 2011	161,498	-	-	-	161,498
Prepaid insurance	928	614	-	-	1,542
Utility deposits	425	-	-	-	425
Due from other funds	17,428	-	3,554	42,022	63,004
TOTAL ASSETS	<u>\$486,827</u>	<u>\$92,083</u>	<u>\$ (28,138)</u>	<u>\$ 40,391</u>	<u>\$591,163</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 34,063	\$ 3,218	\$ -	\$ 1,337	\$ 38,618
Note payable	46,631	-	162,586	-	209,217
Taxes withheld and accrued	2,017	-	-	-	2,017
Accrued interest	247	-	860	-	1,107
Due to other funds	47,333	2,030	-	3,556	52,919
Unearned revenue	161,498	-	-	-	161,498
Total liabilities	<u>291,789</u>	<u>5,248</u>	<u>163,446</u>	<u>4,893</u>	<u>465,376</u>
Fund Balances:					
Reserved for:					
Highways and streets	-	-	-	16,032	16,032
Assigned for:					
Prepaid items	928	614	-	-	1,542
Due from other funds	17,428	-	-	42,022	59,450
Unreserved	176,682	86,221	(191,584)	(22,556)	48,763
Total fund balances	<u>195,038</u>	<u>86,835</u>	<u>(191,584)</u>	<u>35,498</u>	<u>125,787</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$486,827</u>	<u>\$92,083</u>	<u>\$ (28,138)</u>	<u>\$ 40,391</u>	<u>\$591,163</u>

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balance - total governmental funds \$ 125,787

*Amounts reported for governmental activities in the Statement
of Net Assets are different because:*

Delinquent property taxes receivable are not reported in the governmental funds balance sheet since they are not considered "available" revenues. 4,244

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. 2,292,151

Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. The long-term liabilities are:

Due within one year	\$ 47,632	
Due after one year	<u>373,578</u>	(421,210)

Lease issuance costs used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. 215

Accrued interest payments on debt are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet. (342)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$2,000,845

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Tourism Commission	Storm Damage Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$215,089	\$126,812	\$ -	\$ -	\$341,901
Franchise fees	5,316	-	-	-	5,316
Intergovernmental	-	6,650	-	7,417	14,067
Interest	871	178	-	837	1,886
Miscellaneous	77,487	49,229	-	49,322	176,038
Total revenues	<u>298,763</u>	<u>182,869</u>	<u>-</u>	<u>57,576</u>	<u>539,208</u>
Expenditures:					
Current operations:					
General government	129,240	119,177	34,418	59,848	342,683
Highways and streets	55,975	-	-	2,950	58,925
Parks and recreation	40,616	-	-	-	40,616
Capital outlay	35,933	3,479	60,000	12,584	111,996
Debt service:					
Principal requirement	31,374	22,664	-	-	54,038
Interest and fiscal requirement	6,735	15,219	8,737	2,768	33,459
Total expenditures	<u>299,873</u>	<u>160,539</u>	<u>103,155</u>	<u>78,150</u>	<u>641,717</u>
Excess (deficiency) of revenues over expenditures	<u>(1,110)</u>	<u>22,330</u>	<u>(103,155)</u>	<u>(20,574)</u>	<u>(102,509)</u>
Other Financing Sources (Uses):					
Long-term debt issued	-	-	-	-	-
Transfers in	10,000	-	-	12,000	22,000
Transfers out	(12,000)	(10,000)	-	-	(22,000)
Total other financing sources (uses)	<u>(2,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>12,000</u>	<u>-</u>
Net change in fund balances	(3,110)	12,330	(103,155)	(8,574)	(102,509)
Fund balances, July 1, 2010	<u>198,148</u>	<u>74,505</u>	<u>(88,429)</u>	<u>44,072</u>	<u>228,296</u>
FUND BALANCES, JUNE 30, 2011	<u>\$195,038</u>	<u>\$ 86,835</u>	<u>\$(191,584)</u>	<u>\$35,498</u>	<u>\$125,787</u>

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	\$(102,509)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in the current period.	111,996
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(108,500)
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Principal payments of debt require the use of current financial resources and, therefore, are reported as expenditures in governmental funds. However, principal payments of debt do not affect net assets in the government-wide statement of activities.	54,038
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Delinquent property taxes receivable are not considered "available" revenues in the governmental funds.	202
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The remaining basis on disposal of capital assets is not recorded in the governmental funds because the assets were recorded as expenditures when purchased.	-
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Accrued interest payments on debt do not require the use of current financial resources. Accrued interest is reported as an expenditure in the government-wide statement of activities.	514
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Governmental funds report the effect of bond issuance costs when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This reflects amortization expense for the current year ended.	(558)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (44,817)</u>
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See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

ASSETS

	Business-Type Activities			Totals
	Water Fund	Sewer Fund	Nonmajor-Internet Fund	
Current Assets:				
Cash and cash equivalents	\$ 39,384	\$ (129,948)	\$ (24,916)	\$ (115,480)
Investments	80,733	88,351	-	169,084
Accounts receivable (net of allowance of doubtful accounts of \$4,688)	61,356	158,215	1,450	221,021
Due from other funds	-	142,941	-	142,941
Inventory	20,000	4,000	-	24,000
Prepaid insurance	1,334	667	-	2,001
Total current assets	202,807	264,226	(23,466)	443,567
Noncurrent Assets:				
Unamortized note costs	9,228	272	-	9,500
Property, plant, and equipment, net of accumulated depreciation	1,792,559	1,283,145	22,486	3,098,190
Total noncurrent assets	1,801,787	1,283,417	22,486	3,107,690
Total assets	2,004,594	1,547,643	(980)	3,551,257

LIABILITIES

Current Liabilities:				
Note payable	-	29,959	19,338	49,297
Accounts payable	27,668	155,730	179	183,577
Taxes withheld and accrued	1,174	522	-	1,696
Due to other funds	36,413	116,091	522	153,026
Meter deposits payable	12,035	-	-	12,035
Accrued interest payable	11,353	679	102	12,134
Lease and note obligations, current	55,206	35,650	-	90,856
Total current liabilities	143,849	338,631	20,141	502,621
Noncurrent Liabilities:				
Lease and note obligations, noncurrent	591,227	80,552	-	671,779
Total liabilities	735,076	419,183	20,141	1,174,400

NET ASSETS

Invested in capital assets, net of related debt	1,146,126	1,166,943	3,148	2,316,217
Unrestricted	123,392	(38,483)	(24,269)	60,640
TOTAL NET ASSETS	\$1,269,518	\$1,128,460	\$ (21,121)	\$2,376,857

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities			
	Water	Sewer	Nonmajor-	
	Fund	Fund	Internet	
			Fund	Totals
Operating Revenues:				
Charges for services	\$ 455,151	\$ 253,270	\$ 7,403	\$ 715,824
Surcharges	79,872	-	-	79,872
Miscellaneous	13,747	587	-	14,334
Total operating revenues	548,770	253,857	7,403	810,030
Operating Expenses:				
Salaries and wages	96,562	74,363	-	170,925
Depreciation	92,892	54,915	1,681	149,488
Utilities	4,110	25,151	-	29,261
Chemical, treatment, and testing	5,694	50,548	-	56,242
Gasoline, oil, and grease	7,841	4,017	-	11,858
Repairs	36,991	42,134	591	79,716
Insurance	28,331	19,872	-	48,203
Taxes	8,355	5,688	-	14,043
Water and service purchased	212,065	-	25,628	237,693
Office supplies	10,094	2,809	-	12,903
Professional fees	6,188	3,386	-	9,574
Miscellaneous	19,560	4,655	-	24,215
Total operating expenses	528,683	287,538	27,900	844,121
Operating income (loss)	20,087	(33,681)	(20,497)	(34,091)
Nonoperating Revenues (Expenses):				
Grant revenue	7,500	324,319	-	331,819
Interest income	1,888	2,100	-	3,988
Interest expense	(35,557)	(8,180)	(624)	(44,361)
Total nonoperating revenues (expenses)	(26,169)	318,239	(624)	291,446
Change in net assets before capital contributions	(6,082)	284,558	(21,121)	257,355
Capital Contributions:				
Contributed capital	-	-	-	-
Change in net assets	(6,082)	284,558	(21,121)	257,355
Total net assets, July 1, 2010	1,275,600	843,902	-	2,119,502
TOTAL NET ASSETS, JUNE 30, 2011	\$1,269,518	\$1,128,460	\$(21,121)	\$2,376,857

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-Type Activities			
	Water Fund	Sewer Fund	Nonmajor-Internet Fund	Totals
Cash Flows from Operating Activities:				
Cash received from customers	\$ 542,664	\$ 265,142	\$ 5,954	\$ 813,760
Payments to suppliers	(332,913)	(135,198)	(26,040)	(494,151)
Payments to employees	(96,562)	(74,363)	-	(170,925)
Other receipts (payments)	12,222	(13,170)	522	(426)
Net cash provided by operating activities	<u>125,411</u>	<u>42,411</u>	<u>(19,564)</u>	<u>148,258</u>
Cash Flows from Capital and Related Financing Activities:				
Note proceeds	67,793	260,525	19,338	347,656
Payments on lease obligations	(70,541)	(241,070)	-	(311,611)
Interest payments on notes and lease obligations	(34,812)	(7,974)	(522)	(43,308)
Grant proceeds	7,500	246,859	-	254,359
Proceeds from sale of equipment	-	-	-	-
Payments for capital assets	(95,185)	(321,430)	(24,168)	(440,783)
Net cash used by capital and related financing activities	<u>(125,245)</u>	<u>(63,090)</u>	<u>(5,352)</u>	<u>(193,687)</u>
Cash Flows from Investing Activities:				
Interest on cash and investments	1,888	2,100	-	3,988
Purchase of investments	(1,782)	(2,100)	-	(3,882)
Net cash provided by investing activities	<u>106</u>	<u>-</u>	<u>-</u>	<u>106</u>
Net decrease in cash and cash equivalents	272	(20,679)	(24,916)	(45,323)
Cash and cash equivalents, July 1, 2010	<u>39,112</u>	<u>(109,269)</u>	<u>-</u>	<u>(70,157)</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2011	<u><u>\$ 39,384</u></u>	<u><u>\$ (129,948)</u></u>	<u><u>\$ (24,916)</u></u>	<u><u>\$ (115,480)</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 20,087	\$ (33,681)	\$ (20,497)	\$ (34,091)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	92,892	54,915	1,681	149,488
Change in assets and liabilities:				
Accounts receivable	6,241	11,871	(1,449)	16,663
Prepaid insurance	(91)	16	-	(75)
Due from other funds	-	39,263	-	39,263
Accounts payable	(1,948)	17,359	179	15,590
Taxes withheld and accrued	249	41	-	290
Meter deposits payable	1,400	-	-	1,400
Due to other funds	6,581	(47,373)	522	(40,270)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 125,411</u></u>	<u><u>\$ 42,411</u></u>	<u><u>\$ (19,564)</u></u>	<u><u>\$ 148,258</u></u>

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

General Statement

The City of Grand Rivers (City) complies with generally accepted accounting principles (GAAP) as applied to governmental units. This requires the use of the accrual basis of accounting for government-wide financial statements and proprietary funds financial statements and a modified accrual basis of accounting for the governmental funds financial statements. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial reporting entity, basis of accounting, and other significant policies employed by the City are summarized as follows:

Financial Reporting Entity

The City operates under a City Council form of government. The City Council consists of six members elected at large by the citizens on a nonpartisan basis. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Grand Rivers. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. As a result of applying GAAP criteria, no component units have been included in these financial statements.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Basis of Presentation

The funds of the financial reporting entity are described below:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund - To account for resources traditionally associated with governments which are not required to be accounted for in another fund.

Tourism Commission - To account for the collection and expenditure of hotel/motel and restaurant taxes. These revenues are to be used to promote tourism in the City.

Storm Damage Fund - To account for the cost of maintenance and repairs needed as result of the 2009 Kentucky Winter Ice Storm.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Water Fund - To account for providing water to the residents of the City.

Sewer Fund - To account for providing sewer services to the residents of the City.

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation lease principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include employee license taxes, property taxes, grants, entitlements, and donations. The City considers property taxes as available if they are collected within sixty days after year end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

The revenues susceptible to accrual are taxes, intergovernmental, employer and employees' contributions to trust funds, interest revenue, and charges for services. License and permit revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Unearned Revenue

The City reports unearned revenue on its statement of net assets. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net assets and revenue is recognized.

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to July, the City Administrator submits to the City Council a proposed budget for the fiscal year commencing on July 1. The budget includes proposed expenditures and the means of financing those.
2. Public hearings are conducted by the City to obtain taxpayer comments.
3. Prior to July, the budget is legally enacted through passage of an ordinance.
4. The City Administrator is authorized to transfer budgeted amounts between department line items; however, any revisions that alter the total expenditures of any department must be approved by the City Council.

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand and savings accounts of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments, which are composed of certificates of deposit, are reported at cost, which approximates fair value. Additional cash and investment disclosures are presented in Note 3.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. The major receivable balance for the governmental activities normally includes property taxes. Business-type activities report utilities as their major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as franchise tax and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting.

Proprietary fund material receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details of interfund transactions, including receivables and payables at year end.

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Inventories

Inventories are stated at estimated cost.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2003.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. After July 1, 2003, these assets, when purchased, will be capitalized.

Depreciation of all exhaustible fixed assets used by propriety funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	10-35 Years
Buildings	35-50 Years
Equipment	5-10 Years
Furnishings and fixtures	3-10 Years
Vehicles	5- 7 Years

The City has elected not to retroactively report general infrastructure assets purchased prior to July 1, 2003.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of leases payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as restricted, committed, assigned, and unassigned.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The City considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The City does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Operating and Nonoperating Revenues and Expenses - Proprietary Funds

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Operating expenses for the enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - by character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund - by operating and nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies:

Statement of Cash Flows

In September 1989, the Governmental Accounting Standards Board issued Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, Compliance, and Accountability

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds.

Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include grants.

For the year ended June 30, 2011, the City complied, in all material respects, with these revenue restrictions.

Debt Restrictions and Covenants

The City may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue without first obtaining voter approval. For the year ended June 30, 2011, the City incurred no such indebtedness.

Note 2 - Property Taxes:

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Livingston County, as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of Livingston County, and the annual increase in the property tax levy cannot exceed 4%. City property tax revenues are recorded as a receivable when assessed because the City has an enforceable legal claim to the resources. At this time, the receivable is offset by unearned revenue. Property tax revenues are recognized during the period for which they are levied.

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 3 - Detail Notes on Transaction Classes/Accounts:

The due dates and collection period for all property taxes, exclusive of vehicle taxes, for the fiscal year ended June 30, 2011, are as follows:

<u>Description</u>	<u>Date</u>
Assessment and enforceable lien	January 1, 2010
Levy	October 31, 2010
Face value amount payment dates	December 1, 2010

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Deposits

The Kentucky Revised Statutes authorize the City to invest in interest-bearing and demand deposits in national or state chartered banks and insured by an agency of the U.S. government. The City can also invest in U.S. Treasury obligations, agencies, and instrumentalities. The City has no other policy that further limits its investments. At year end, the carrying amount of the City's cash and cash equivalents and investments was \$386,087 and the bank balance was \$392,680. Demand deposits, certificates of deposit and other cash and cash equivalents were held in various financial institutions. Deposits of \$279,306 were covered by FDIC insurance, \$37,633 was composed of U.S. Treasury obligations and the remaining balance of \$75,741 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The remaining balance of \$75,741 was uninsured and collateralized with securities held by the pledging bank's agent, not in the City's name.

Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

Governmental Activities:	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 265,350	\$ -	\$ -	\$ 265,350
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>265,350</u>	<u>-</u>	<u>-</u>	<u>265,350</u>
Capital assets, being depreciated:				
Infrastructure	105,824	64,571	-	170,395
Land improvements	1,289,396	-	-	1,289,396
Buildings	1,182,533	13,678	-	1,196,211
Furnishings and fixtures	117,492	33,748	1,397	149,843
Vehicles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, being depreciated	<u>2,695,245</u>	<u>111,997</u>	<u>1,397</u>	<u>2,805,845</u>

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 3 - Detail Notes on Transaction Classes/Accounts:

Capital Assets

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities:				
Less accumulated depreciation:				
Infrastructure	\$ 10,281	\$ 2,544	\$ -	\$ 12,825
Land improvements	289,000	57,746	-	346,746
Buildings	313,082	37,697	-	350,779
Furnishings and fixtures	59,577	10,514	1,397	68,694
Vehicles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>671,940</u>	<u>108,501</u>	<u>1,397</u>	<u>779,044</u>
Total capital assets, being depreciated, net	<u>2,023,305</u>	<u>3,496</u>	<u>-</u>	<u>2,026,801</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$2,288,655</u>	<u>\$ 3,496</u>	<u>\$ -</u>	<u>\$2,292,151</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,561	\$ -	\$ -	\$ 3,561
Capital assets, being depreciated:				
Buildings and improvements	4,445,821	365,414	-	4,811,235
Equipment	297,546	92,195	-	389,741
Vehicles	<u>118,861</u>	<u>26,664</u>	<u>-</u>	<u>145,525</u>
Total capital assets, being depreciated	<u>4,862,228</u>	<u>484,273</u>	<u>-</u>	<u>5,346,50</u>
Less accumulated depreciation:				
Buildings and improvements	1,883,443	110,023	-	1,993,466
Equipment	156,527	28,397	-	184,924
Vehicles	<u>62,413</u>	<u>11,069</u>	<u>-</u>	<u>73,482</u>
Total accumulated depreciation	<u>2,102,383</u>	<u>149,489</u>	<u>-</u>	<u>2,251,872</u>
Total capital assets, being depreciated, net	<u>2,759,845</u>	<u>334,784</u>	<u>-</u>	<u>3,094,629</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$2,763,406</u>	<u>\$ 334,784</u>	<u>\$ -</u>	<u>\$3,098,190</u>

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 3 - Detail Notes on Transaction Classes/Accounts:

Depreciation expense was charged to governmental activities as follows:

General government	\$ 61,587
Streets and highways	2,544
Parks and recreation	<u>44,370</u>
 TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	 <u>\$108,501</u>

Depreciation expense was charged to business-type activities as follows:

Water Fund	\$ 92,892
Sewer Fund	54,915
Internet Fund	<u>1,681</u>
 TOTAL DEPRECIATION EXPENSE - BUSINESS-TYPE ACTIVITIES	 <u>\$149,488</u>

Accounts Payable

Payables in the governmental and proprietary funds are composed of payables to vendors.

Long-Term Debt

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Long-Term Debt

Governmental Activities

As of June 30, 2011, the governmental long-term debt consisted of the following:

General obligation notes and leases:	
Current portion	\$ 47,632
Noncurrent portion	<u>373,578</u>
 TOTAL GENERAL OBLIGATION NOTE AND LEASE COSTS	 <u>\$421,210</u>

Business-Type Activities

As of June 30, 2011, the long-term leases payable from proprietary fund resources consisted of the following:

Long-term leases:	
Current portion	\$ 90,856
Noncurrent portion	<u>671,779</u>
 TOTAL LONG-TERM LEASE COSTS	 <u>\$762,635</u>

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 3 - Detail Notes on Transaction Classes/Accounts:

Long-Term Debt

General Obligation Notes and Leases

National Rural Water Association - The City entered into a loan agreement on July 1, 2009, to finance sewer and water system improvements. The original amount advanced was \$100,000. Monthly payments of \$966 including principal and interest began August 1, 2008, and continue for 119 months with a final payment of \$963 due July 1, 2019, at 3% per annum. The loan grants the lender a secured interest in the assets of the City. The principal balance at June 30, 2011, is \$73,859.

2003KADD-058E Issue - The City entered into a leasing agreement on April 24, 2003, with the Kentucky Area Development Districts Financing Trust to help finance the Trails Project at interest rates ranging from 2.5% to 4.4% per annum. Semiannual payments including principal and interest began October 20, 2003, and the final payment is due April 20, 2013. The lease is backed by the full faith and credit of the City. The principal balance at June 30, 2011, is \$40,000.

First Kentucky Bank - The City (Grand Rivers Tourist Commission) entered into an agreement on December 1, 2006, with the First Kentucky Bank to help finance the Badgett Playhouse building at a variable interest rate. This loan consolidated two initial construction advances of \$200,000 and \$150,000. Present monthly payments of \$1,992 include principal and interest and the note matures in 2026. The note is backed by the full faith and credit of the City. The rate of the note is 2.875% and the principal balance at June 30, 2011, is \$297,843.

First Kentucky Bank - The City entered into an agreement on October 19, 2010, with the First Kentucky Bank to finance the purchase of a 2011 Ford F250 at an interest rate of \$6.49%. Monthly payments of \$519 including principal and interest began July 2010, and the note matures in 2015. The note is secured by the truck. The principal balance at June 30, 2011, is \$23,421.

Long-Term Debt

General Obligation Notes and Leases

First Kentucky Bank - The City entered into an agreement on June 27, 2007, with the First Kentucky Bank for \$125,250 to finance various projects. Monthly payments of \$1,368 including principal and interest began July 27, 2007, and the note matures on June 27, 2017. The note is backed by the full faith and credit of the City. The rate of the note is 5.55% and the principal balance at June 30, 2011, is \$83,367.

Leases Payable

2003KADD-059E Issue - The City entered into a leasing agreement on April 24, 2003, with the Kentucky Area Development Districts Financing Trust to finance sewer improvement projects at interest rates ranging from 2.5% to 4.4% per annum. Semiannual payments including principal and interest began October 20, 2003, and the final payment is due April 20, 2013. The lease is backed by the full faith and credit of the City. The principal balance at June 30, 2011, is \$50,000.

KRWFC Series 2001 B Issue - The City entered into a leasing agreement on December 19, 2001, with the Kentucky Rural Water Finance Corporation Area Development Districts Financing Trust to finance water improvement projects at interest rates approximating 5% per annum. Monthly payments including principal and interest are made to a sinking fund beginning January 2002, and the final payment is due July 2022. The lease is backed by the full faith and credit of the City. The principal balance at June 30, 2011, is \$548,000.

Backhoe Lease - The City entered into a leasing agreement on January 26, 2006, with Kentucky League of Cities to finance the acquisition of a backhoe. Monthly payments including principal and interest began March 1, 2006, and the final payment is due in 2016 at an effective interest rate of approximately 3%. The principal balance at June 30, 2011, is \$25,912.

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 3 - Detail Notes on Transaction Classes/Accounts:

Long-Term Debt

General Obligation Notes and Leases

Excavator Lease - The City entered into a leasing agreement in November 2010, with Caterpillar Financial Services Corporation to finance the acquisition of an excavator. Sixty-two monthly payments of \$888.33 including principal and interest began December 2010. The principal balance at June 30, 2011, is \$41,443.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

Type of Debt:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Reductions</u>	<u>Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General obligation leases and notes:					
Trails project	\$ 60,000	\$ -	\$20,000	\$ 40,000	\$20,000
Playhouse project	320,507	-	22,664	297,843	15,544
Other projects	<u>94,741</u>	<u>-</u>	<u>11,374</u>	<u>83,367</u>	<u>12,088</u>
TOTAL GENERAL LONG- TERM DEBT	<u>\$475,248</u>	<u>\$ -</u>	<u>\$54,038</u>	<u>\$421,210</u>	<u>\$47,632</u>
Business-type activities:					
Leases payable:					
Sewer improvements	\$ 75,000	\$ -	\$25,000	\$ 50,000	\$25,000
Water improvements	587,000	-	39,000	548,000	38,000
Loan - Water and sewer improvements	83,080	-	9,221	73,859	9,502
Backhoe lease	30,806	-	4,894	25,912	5,079
Vehicle note	-	26,473	3,052	23,421	4,828
Excavator lease	<u>-</u>	<u>46,180</u>	<u>4,737</u>	<u>41,443</u>	<u>8,447</u>
TOTAL LONG-TERM LEASES	<u>\$775,886</u>	<u>\$72,653</u>	<u>\$85,904</u>	<u>\$762,635</u>	<u>\$90,856</u>

Long-Term Debt

Annual Debt Service Requirements

The annual debt service requirements to maturity for general long-term leases and notes payable as of June 30, 2011, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest/ Fees</u>
2012	\$ 138,488	\$ 53,691
2013	142,963	47,060
2014	100,557	39,296
2015	108,282	34,469
2016	99,080	29,447
2017-2021	409,113	89,643
2022-2026	174,785	13,510
2027	<u>10,577</u>	<u>81</u>
TOTALS	<u>\$1,183,845</u>	<u>\$307,197</u>

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 3 - Detail Notes on Transaction Classes/Accounts:

Temporary Note Payable

First Kentucky Bank Loan - The City entered into a loan agreement on June 30, 2010, for temporary financing at an interest rate of 5.95% per annum to finance various projects. The loan matured on June 30, 2011, and interest is due monthly. The loan is backed by the full faith and credit of the City. The principal balance at June 30, 2011, is \$258,514.

Interfund Transactions and Balances

Interfund transfers during the year ended June 30, 2011, were as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
Governmental Funds:		
General Fund	\$10,000	\$12,000
Community Center Building Fund	12,000	-
Tourism Commission	-	10,000
TOTALS	<u>\$22,000</u>	<u>\$22,000</u>

Due To/From Balances

Due to/from balances used to cover current operating expenses were as follows as of June 30, 2011:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 17,428	\$ 47,333
Tourist Commission	-	2,030
Storm Damage Fund	3,554	-
Nonmajor Governmental Funds	42,022	3,556
Water Fund	-	36,413
Sewer Fund	142,941	116,091
Internet Fund	-	522
TOTALS	<u>\$205,945</u>	<u>\$205,945</u>

Note 4 - Budget Deficits:

The following funds had excess expenditures over appropriations for the fiscal year ended June 30, 2011:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 23,373
Community Center Building Fund	13,738
Cemetery Fund	894

The following funds also had a deficit fund balance at June 30, 2011:

<u>Fund</u>	<u>Amount</u>
Storm Damage Fund	\$191,584
Jetty/Trails Project Funds	49,704
Interned Fund	21,121

(Continued)

CITY OF GRAND RIVERS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Note 5 - Commitments and Contingencies:

Construction Commitments

The City has entered into an agreement with the Kentucky Infrastructure Authority for sewer system improvements totaling \$500,000 on September 11, 2008. As of June 30, 2011, expenditures totaling \$306,137 have been incurred and grant revenues of \$306,137 have been recognized on this project.

Grant Contingencies

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

Note 6 - Risk Management and Litigation:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains coverage from commercial insurance companies to handle the risk of loss. There have been no decreases in insurance coverage from the prior year. There have been no settlements in excess of insurance coverage during the prior three years.

Note 7 - Commitment Under Noncapitalized Lease:

The City is committed under an operating lease agreement for office equipment that provides the minimum future rental payments as of June 30, 2011, as follows:

2011-2012	\$1,920
2012-2013	1,000

Rent expense for the year ended June 30, 2011, was \$1,920.

CITY OF GRAND RIVERS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

			Variance with Final Budget Positive (Negative)
Revenues:	Budget	Actual Amounts	
Taxes	\$200,800	\$215,089	\$14,289
Franchise fees	13,000	5,316	(7,684)
Intergovernmental	-	-	-
Interest	900	871	(29)
Miscellaneous	63,800	77,487	13,687
Total revenues	278,500	298,763	20,263
Expenditures:			
General government	155,700	129,240	26,460
Highways and streets	47,500	55,975	(8,475)
Parks and recreation	31,300	40,616	(9,316)
Capital outlay	-	35,933	(35,933)
Debt service	42,000	38,109	3,891
Total expenditures	276,500	299,873	(23,373)
Excess of revenues over (under) expenditures	2,000	(1,110)	(3,110)
Other Financing Sources (Uses):			
Long-term debt issued	-	-	-
Operating transfers in	10,000	10,000	-
Operating transfers out	(12,000)	(12,000)	-
Total other financing sources (uses)	(2,000)	(2,000)	-
Net change in fund balance	\$ -	(3,110)	\$ (3,110)
Fund balance, July 1, 2010		198,148	
FUND BALANCE, JUNE 30, 2011		\$195,038	

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
TOURISM COMMISSION
FOR THE YEAR ENDED JUNE 30, 2011

			Variance with Final Budget Positive (Negative)
Revenues:	Budget	Actual Amounts	
Taxes	\$118,200	\$126,812	\$ 8,612
Intergovernmental	4,300	6,650	2,350
Interest	300	178	(122)
Miscellaneous	72,639	49,229	(23,410)
Total revenues	195,439	182,869	(12,570)
Expenditures:			
General government	141,929	119,177	22,752
Capital outlay	-	3,479	(3,479)
Debt service	43,510	37,883	5,627
Total expenditures	185,439	160,539	24,900
Excess of revenues over expenditures	10,000	22,330	12,330
Other Financing Sources (Uses):			
Long-term debt issued	-	-	-
Operating transfers out	(10,000)	(10,000)	-
Total other financing sources (uses)	(10,000)	(10,000)	-
Net change in fund balance	\$ -	12,330	\$12,330
Fund balance, July 1, 2010		74,505	
FUND BALANCE, JUNE 30, 2011		\$ 86,835	

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

<u>ASSETS</u>	Jetty/Trails Project Funds	Municipal Aid Road Fund	Local Government Economic Assistance Fund	Cemetery Fund	Community Center Building Fund	Totals
Cash and cash equivalents	<u>\$(61,213)</u>	<u>\$ 16,032</u>	<u>\$(2,693)</u>	<u>\$(11,620)</u>	<u>\$ 7,938</u>	<u>\$(51,556)</u>
Investments	-	-	-	29,603	20,322	49,925
Due from other funds	<u>11,509</u>	<u>24,058</u>	<u>6,455</u>	-	-	<u>42,022</u>
TOTAL ASSETS	<u>\$(49,704)</u>	<u>\$ 40,090</u>	<u>\$ 3,762</u>	<u>\$ 17,983</u>	<u>\$ 28,260</u>	<u>\$ 40,391</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Current Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,337	\$ 1,337
Due to other funds	-	-	-	489	3,067	3,556
Unearned revenue	-	-	-	-	-	-
Total current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>489</u>	<u>4,404</u>	<u>4,893</u>
Fund Balances:						
Reserved:						
For program purposes	-	-	-	17,494	-	17,494
For due from other funds	11,509	24,058	6,455	-	-	42,022
Unreserved	<u>(61,213)</u>	<u>16,032</u>	<u>(2,693)</u>	<u>-</u>	<u>23,856</u>	<u>(24,018)</u>
Total fund balances	<u>(49,704)</u>	<u>40,090</u>	<u>3,762</u>	<u>17,494</u>	<u>23,856</u>	<u>35,498</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$(49,704)</u>	<u>\$ 40,090</u>	<u>\$ 3,762</u>	<u>\$ 17,983</u>	<u>\$ 28,260</u>	<u>\$ 40,391</u>

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Jetty/Trails Project Funds	Municipal Aid Road Fund	Local Government Economic Assistance Fund	Cemetery Fund	Community Center Building Fund	Totals
Revenues:						
Intergovernmental	\$ -	\$ 7,417	\$ -	\$ -	\$ -	\$ 7,417
Interest	-	-	-	667	170	837
Miscellaneous	-	-	-	2,700	46,622	49,322
Total revenues	-	7,417	-	3,367	46,792	57,576
Expenditures:						
General government	-	-	-	5,494	54,354	59,848
Highways and streets	-	2,950	-	-	-	2,950
Capital outlay	-	-	-	-	12,584	12,584
Debt service:						
Principal requirement	-	-	-	-	-	-
Interest and fiscal requirement	2,768	-	-	-	-	2,768
Total expenditures	2,768	2,950	-	5,494	66,938	78,150
Excess (deficiency) of revenues over expenditures	(2,768)	4,467	-	(2,127)	(20,146)	(20,574)
Other Financing Sources:						
Transfers in	-	-	-	-	12,000	12,000
Net change in fund balances	(2,768)	4,467	-	(2,127)	(8,146)	(8,574)
Fund balances, July 1, 2010	(46,936)	35,623	3,762	19,621	32,002	44,072
FUND BALANCES, JUNE 30, 2011	<u><u>\$ (49,704)</u></u>	<u><u>\$ 40,090</u></u>	<u><u>\$ 3,762</u></u>	<u><u>\$ 17,494</u></u>	<u><u>\$ 23,856</u></u>	<u><u>\$ 35,498</u></u>

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
MUNICIPAL AID ROAD FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

			Variance with Final Budget Positive (Negative)
Revenues:	<u>Budget</u>	<u>Actual</u>	
Intergovernmental	<u>\$ 11,000</u>	<u>\$ 7,417</u>	<u>\$ (3,583)</u>
Expenditures:			
Highways and streets	11,000	2,950	8,050
Debt service:			
Principal requirement	-	-	-
Interest and fiscal requirement	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>11,000</u>	<u>2,950</u>	<u>8,050</u>
Net change in fund balance	<u><u>\$ -</u></u>	4,467	<u><u>\$ 4,467</u></u>
Fund balance, July 1, 2010		<u>35,623</u>	
FUND BALANCE, JUNE 30, 2011		<u><u>\$40,090</u></u>	

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
CEMETERY FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

			Variance with Final Budget Positive (Negative)
Revenues:	Budget	Actual	
Intergovernmental	\$ -	\$ -	\$ -
Interest	900	667	(233)
Miscellaneous	3,700	2,700	(1,000)
Total revenues	4,600	3,367	(1,233)
Expenditures:			
General government	4,300	5,494	(1,194)
Highways and streets	-	-	-
Capital outlay	300	-	300
Debt service:			
Principal requirement	-	-	-
Interest and fiscal requirement	-	-	-
Total expenditures	4,600	5,494	(894)
Net change in fund balance	\$ -	(2,127)	\$ (2,127)
Fund balance, July 1, 2010		19,621	
FUND BALANCE, JUNE 30, 2011		\$17,494	

See auditor's report and notes to the financial statements.

CITY OF GRAND RIVERS, KENTUCKY
COMMUNITY CENTER BUILDING FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

			Variance with Final Budget Positive (Negative)
Revenues:	Budget	Actual	
Intergovernmental	\$ -	\$ -	\$ -
Interest	300	170	(130)
Miscellaneous	52,900	46,622	(6,278)
Total revenues	53,200	46,792	(6,408)
Expenditures:			
General government	53,200	54,354	(1,154)
Highways and streets	-	-	-
Capital outlay	-	12,584	(12,584)
Debt service:			
Principal requirement	-	-	-
Interest and fiscal requirement	-	-	-
Total expenditures	53,200	66,938	(13,738)
Excess (deficiency) of revenues over expenditures	-	(20,146)	(20,146)
Other Financing Sources:			
Transfers in	-	12,000	12,000
Net change in fund balance	\$ -	(8,146)	\$ (8,146)
Fund balance, July 1, 2010		32,002	
FUND BALANCE, JUNE 30, 2011		\$23,856	

See auditor's report and notes to the financial statements.

BAKER, ANDERSON & ELLIOTT
CERTIFIED PUBLIC ACCOUNTANTS
738 U.S. HIGHWAY 62
GRAND RIVERS, KY 42045

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable B.T. Moodie, Mayor
Members of the City Council
City of Grand Rivers
Grand Rivers, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grand Rivers, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Grand Rivers, Kentucky's basic financial statements and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Grand Rivers, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Grand Rivers, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Grand Rivers, Kentucky's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Grand Rivers, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Grand Rivers, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Grand Rivers, Kentucky's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Grand Rivers, Kentucky's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grand Rivers, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baker, Anderson & Elliott, CPAs

February 10, 2012