

CITY OF BEAVER DAM, KENTUCKY  
FINANCIAL STATEMENTS WITH ACCOMPANYING  
INFORMATION

For the Year Ended June 30, 2012

and

REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS

**CITY OF BEAVER DAM, KENTUCKY  
TABLE OF CONTENTS**

---

|  |         |
|--|---------|
| <b>Independent Auditors' Report</b>  | 1 - 2   |
| <b>Basic Financial Statements:</b>   |         |
| Government-Wide Financial Statements:  |         |
| Statement of Net Assets  | 3       |
| Statement of Activities  | 4       |
| Fund Financial Statements:   |         |
| Balance Sheet - Governmental Funds   | 5       |
| Statement of Revenues, Expenditures, and Changes in Fund Balance -<br>Governmental Funds   | 6       |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes<br>In Fund Balance - Governmental Fund with the Statement of Activities   | 7       |
| Statement of Net Assets - Proprietary Funds  | 8       |
| Statement of Revenues, Expenses, and Changes in Net Assets -<br>Proprietary Funds  | 9       |
| Statement of Cash Flows - Proprietary Funds  | 10      |
| Statement of Fiduciary Assets and Liabilities - Fiduciary Fund   | 11      |
| Notes to Financial Statements  | 12 - 30 |
| <b>Required Supplementary Information:</b>   |         |
| Budgetary Comparison Schedule - General Fund   | 31      |
| Note to Required Supplementary Information   | 32      |
| <b>Supplementary Information:</b>  |         |
| Combining Balance Sheet - Nonmajor Governmental Funds  | 33      |
| Combining Statement of Revenues, Expenditures, and Changes in<br>Fund Balance - Nonmajor Governmental Funds  | 34      |
| Schedule of Charges for Services - Proprietary Funds   | 35      |
| <b>Report on Internal Control Over Financial Reporting and on Compliance and<br/>    Other Matters Based on an Audit of Financial Statements Performed in<br/>    Accordance with <i>Government Auditing Standards</i></b> | 36 - 37 |
| <b>Schedule of Findings and Responses</b>  | 38      |
| <b>Management Letter</b>   | 39      |



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577  
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704  
FAX (270) 756-5927

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Commissioners  
City of Beaver Dam, Kentucky

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information of the City of Beaver Dam, Kentucky (City) as of and for the year ended June 30, 2012, 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'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 Beaver Dam, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 issued our report dated January 22, 2013 on our consideration of City of Beaver Dam, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 31 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The supplementary information shown on pages 33 to 35 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information shown on pages 33 to 35 is fairly stated in all material respects in relation to the financial statements as a whole.

Management has not presented the Management Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

January 22, 2013

**CITY OF BEAVER DAM, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>        |
|---|------------------------------------|-------------------------------------|---------------------|
| <b>Assets</b>                                   |                                    |                                     |                     |
| <b>Current Assets</b>                           |                                    |                                     |                     |
| Cash and cash equivalents                       | \$ 310,180                         | \$ 1,358,095                        | \$ 1,668,275        |
| Receivables - net                               | 22,044                             | 243,124                             | 265,168             |
| Unbilled revenue                                | -                                  | 73,655                              | 73,655              |
| <b>Total Current Assets</b>                     | <u>332,224</u>                     | <u>1,674,874</u>                    | <u>2,007,098</u>    |
| <b>Noncurrent Assets</b>                        |                                    |                                     |                     |
| Restricted cash                                 | 284,453                            | -                                   | 284,453             |
| Investments - noncurrent                        | 1,000                              | -                                   | 1,000               |
| Capital assets:                                 |                                    |                                     |                     |
| Construction in progress                        | 659,479                            | 8,260                               | 667,739             |
| Land and land improvements                      | 342,871                            | 132,681                             | 475,552             |
| Buildings                                       | 346,795                            | -                                   | 346,795             |
| Building improvements                           | -                                  | 62,773                              | 62,773              |
| Office equipment                                | -                                  | 48,972                              | 48,972              |
| Vehicles  | 501,972                            | 210,375                             | 712,347             |
| Machinery and equipment                         | 677,286                            | 561,162                             | 1,238,448           |
| Utility plants                                  | -                                  | 3,022,074                           | 3,022,074           |
| Sewage disposal system                          | -                                  | 1,760,120                           | 1,760,120           |
| Furniture and fixtures                          | 9,716                              | -                                   | 9,716               |
| Infrastructure                                  | 2,484,360                          | -                                   | 2,484,360           |
| Less: accumulated depreciation                  | (2,523,242)                        | (2,464,118)                         | (4,987,360)         |
| <b>Total Noncurrent Assets</b>                  | <u>2,784,690</u>                   | <u>3,342,299</u>                    | <u>6,126,989</u>    |
| <b>Total Assets</b>                             | <u>3,116,914</u>                   | <u>5,017,173</u>                    | <u>8,134,087</u>    |
| <b>Liabilities</b>                              |                                    |                                     |                     |
| <b>Current Liabilities</b>                      |                                    |                                     |                     |
| Accounts payable                                | 7,900                              | 36,003                              | 43,903              |
| Accrued liabilities                             | 31,428                             | 35,608                              | 67,036              |
| Interfund payables                              | 9,151                              | 4,925                               | 14,076              |
| Customer deposits                               | -                                  | 47,300                              | 47,300              |
| Capital lease payable - current portion         | 23,546                             | -                                   | 23,546              |
| Notes payable - current portion                 | 26,900                             | 28,253                              | 55,153              |
| <b>Total Current Liabilities</b>                | <u>98,925</u>                      | <u>152,089</u>                      | <u>251,014</u>      |
| <b>Long-term Liabilities</b>                    |                                    |                                     |                     |
| Capital lease payable - long-term portion       | 106,454                            | -                                   | 106,454             |
| Notes payable - long-term portion               | 204,161                            | 459,432                             | 663,593             |
| <b>Total Long-term Liabilities</b>              | <u>310,615</u>                     | <u>459,432</u>                      | <u>770,047</u>      |
| <b>Total Liabilities</b>                        | <u>409,540</u>                     | <u>611,521</u>                      | <u>1,021,061</u>    |
| <b>Net Assets</b>                               |                                    |                                     |                     |
| Invested in capital assets, net of related debt | 2,138,176                          | 2,854,614                           | 4,992,790           |
| Restricted for:                                 |                                    |                                     |                     |
| Municipal roads                                 | 1,636                              | -                                   | 1,636               |
| Cemetery maintenance                            | 160,090                            | -                                   | 160,090             |
| LGEA  | 122,243                            | -                                   | 122,243             |
| Community pride                                 | 484                                | -                                   | 484                 |
| Unrestricted, expendable                        | 284,745                            | 1,551,038                           | 1,835,783           |
| <b>Total Net Assets</b>                         | <u>\$ 2,707,374</u>                | <u>\$ 4,405,652</u>                 | <u>\$ 7,113,026</u> |

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

| Functions/Programs<br>Governmental Activities | Program Revenues    |                            |  | Net (Expense)/Revenue and<br>Changes in Net Assets |                            |                             |                     |
|---|---------------------|----------------------------|--|--|----------------------------|-----------------------------|---------------------|
|   | Expenses            | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions             | Governmental<br>Activities | Business-Type<br>Activities | Total               |
| Cemetery                                      | \$ 38,976           | \$ 12,500                  | \$ -                                     | \$ -   | \$ (26,476)                | \$ -                        | \$ (26,476)         |
| Code enforcement                              | 10,158              | -                          | -  | -  | (10,158)                   | -                           | (10,158)            |
| Community pride project                       | 1,543               | 66                         | -  | -  | (1,477)                    | -                           | (1,477)             |
| General government                            | 168,817             | 4,625                      | 618                                      | 22,185   | (141,389)                  | -                           | (141,389)           |
| Parks and recreation                          | 30,553              | 280                        | 42,325                                   | 53,043   | 65,095                     | -                           | 65,095              |
| Public safety                                 |                     |                            |  |  |                            |                             |                     |
| Fire  | 39,536              | 17,820                     | 8,250                                    | -  | (13,466)                   | -                           | (13,466)            |
| Police  | 409,597             | -                          | 37,294                                   | -  | (372,303)                  | -                           | (372,303)           |
| Streets                                       | 186,509             | -                          | -  | 121,685  | (64,824)                   | -                           | (64,824)            |
| <b>Total Governmental Activities</b>          | <b>885,689</b>      | <b>35,291</b>              | <b>88,487</b>                            | <b>196,913</b>                                     | <b>(564,998)</b>           | <b>-</b>                    | <b>(564,998)</b>    |
| <b>Business-Type Activities</b>               |                     |                            |  |  |                            |                             |                     |
| Water utilities                               | 641,813             | 560,173                    | -  | -  | -                          | (81,640)                    | (81,640)            |
| Sewer services                                | 1,132,444           | 1,137,488                  | -  | -  | -                          | 5,044                       | 5,044               |
| Sanitation services                           | 131,162             | 158,015                    | -  | -  | -                          | 26,853                      | 26,853              |
| <b>Total Business-Type Activities</b>         | <b>1,905,419</b>    | <b>1,855,676</b>           | <b>-</b>                                 | <b>-</b>   | <b>-</b>                   | <b>(49,743)</b>             | <b>(49,743)</b>     |
| <b>Total Primary Government</b>               | <b>\$ 2,791,108</b> | <b>\$ 1,890,967</b>        | <b>\$ 88,487</b>                         | <b>\$ 196,913</b>                                  | <b>\$ (564,998)</b>        | <b>\$ (49,743)</b>          | <b>\$ (614,741)</b> |

**General Revenues:**

Taxes:

|                              |                |               |                |
|------------------------------|----------------|---------------|----------------|
| Ad valorem taxes             | \$ 30,564      | \$ -          | \$ 30,564      |
| Franchise taxes              | 143,597        | -             | 143,597        |
| Insurance premium taxes      | 214,280        | -             | 214,280        |
| Property taxes               | 313,876        | -             | 313,876        |
| Occupational licenses        | 14,248         | -             | 14,248         |
| Gain on sale of fixed assets | 1,541          | -             | 1,541          |
| Interest income              | 4,268          | 16,786        | 21,054         |
| Miscellaneous                | 25,003         | -             | 25,003         |
| <b>Total</b>                 | <b>747,377</b> | <b>16,786</b> | <b>764,163</b> |

**Changes in Net Assets**

|                                   |                  |                     |                     |
|-----------------------------------|------------------|---------------------|---------------------|
| <b>Net Assets - July 1, 2011</b>  | 182,379          | (32,957)            | 149,422             |
| <b>Net Assets - June 30, 2012</b> | 2,524,995        | 4,438,609           | 6,963,604           |
| <b>\$</b>                         | <b>2,707,374</b> | <b>\$ 4,405,652</b> | <b>\$ 7,113,026</b> |

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

|   | <u>General<br/>Fund</u> | <u>Nonmajor<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|---------------------------|---|
| <b>Assets</b>                             |                         |                           |   |
| Cash and cash equivalents                 | \$ 310,180              | \$ -                      | \$ 310,180                              |
| Receivables, net                          | 22,044                  | -                         | 22,044                                  |
| Restricted cash                           | -                       | 284,453                   | 284,453                                 |
| Investments - noncurrent                  | -                       | 1,000                     | 1,000                                   |
| <b>Total Assets</b>                       | <u>\$ 332,224</u>       | <u>\$ 285,453</u>         | <u>\$ 617,677</u>                       |
| <b>Liabilities</b>                        |                         |                           |   |
| Accounts payable                          | \$ 5,801                | \$ 2,099                  | \$ 7,900                                |
| Accrued liabilities                       | 30,494                  | 934                       | 31,428                                  |
| Interfund payables                        | 9,151                   | -                         | 9,151                                   |
| <b>Total Liabilities</b>                  | <u>45,446</u>           | <u>3,033</u>              | <u>48,479</u>                           |
| <b>Fund Balance</b>                       |                         |                           |   |
| Restricted for:                           |                         |                           |   |
| Cemetery maintenance                      | -                       | 160,090                   | 160,090                                 |
| LGEA                                      | -                       | 122,243                   | 122,243                                 |
| Pension trust                             | 36                      | -                         | 36                                      |
| Assigned to community projects            | -                       | 484                       | 484                                     |
| Unassigned                                | 286,742                 | (397)                     | 286,345                                 |
| <b>Total Fund Balance</b>                 | <u>286,778</u>          | <u>282,420</u>            | <u>569,198</u>                          |
| <b>Total Liabilities and Fund Balance</b> | <u>\$ 332,224</u>       | <u>\$ 285,453</u>         | <u>\$ 617,677</u>                       |

**Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities**

|  |                     |
|--|---------------------|
| <b>Total Governmental Fund Balance</b>   | \$ 569,198          |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:                                   |                     |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | 2,499,237           |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.      | (361,061)           |
| <b>Net Assets of Governmental Activities</b>   | <u>\$ 2,707,374</u> |

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

|   | <u>General<br/>Fund</u> | <u>Nonmajor<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|---------------------------|---|
| <b>Revenues</b>                                 |                         |                           |   |
| Charges for services                            | \$ 65,050               | \$ 12,566                 | \$ 77,616                               |
| Interest income                                 | 2,811                   | 1,457                     | 4,268                                   |
| Intergovernmental revenues                      | 121,390                 | 121,685                   | 243,075                                 |
| Licenses and permits                            | 14,248                  | -                         | 14,248                                  |
| Miscellaneous revenues                          | 19,038                  | 5,965                     | 25,003                                  |
| Taxes   | 702,317                 | -                         | 702,317                                 |
| <b>Total Revenues</b>                           | <u>924,854</u>          | <u>141,673</u>            | <u>1,066,527</u>                        |
| <b>Expenditures</b>                             |                         |                           |   |
| <b>Current:</b>                                 |                         |                           |   |
| Cemetery  | -                       | 35,315                    | 35,315                                  |
| Code enforcement                                | 10,158                  | -                         | 10,158                                  |
| Community pride project                         | -                       | 1,543                     | 1,543                                   |
| General government                              | 163,246                 | -                         | 163,246                                 |
| Public safety:                                  |                         |                           |   |
| Fire  | 20,231                  | -                         | 20,231                                  |
| Police  | 394,837                 | 4,688                     | 399,525                                 |
| Parks and recreation                            | 29,326                  | -                         | 29,326                                  |
| Streets   | -                       | 83,377                    | 83,377                                  |
| <b>Debt Service:</b>                            |                         |                           |   |
| Principal                                       | 26,258                  | -                         | 26,258                                  |
| Interest  | 408                     | -                         | 408                                     |
| <b>Capital Outlay</b>                           | 618,921                 | 45,901                    | 664,822                                 |
| <b>Total Expenditures</b>                       | <u>1,263,385</u>        | <u>170,824</u>            | <u>1,434,209</u>                        |
| <b>Deficiency of Revenues Over Expenditures</b> | <u>(338,531)</u>        | <u>(29,151)</u>           | <u>(367,682)</u>                        |
| <b>Other Financing Sources (Uses)</b>           |                         |                           |   |
| Capital lease proceeds                          | 130,000                 | -                         | 130,000                                 |
| Proceeds from sale of fixed assets              | 600                     | 6,550                     | 7,150                                   |
| Operating transfers in                          | 6,550                   | 56,250                    | 62,800                                  |
| Operating transfers out                         | (56,250)                | (6,550)                   | (62,800)                                |
| <b>Total Other Financing Sources (Uses)</b>     | <u>80,900</u>           | <u>56,250</u>             | <u>137,150</u>                          |
| <b>Net Change in Fund Balance</b>               | <u>(257,631)</u>        | <u>27,099</u>             | <u>(230,532)</u>                        |
| <b>Fund Balance - July 1, 2011</b>              | 544,409                 | 255,321                   | 799,730                                 |
| <b>Fund Balance - June 30, 2012</b>             | <u>\$ 286,778</u>       | <u>\$ 282,420</u>         | <u>\$ 569,198</u>                       |

The accompanying notes are an integral part of this financial statement.



**CITY OF BEAVER DAM, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUND WITH THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**Net Changes in Fund Balances - Governmental Funds** \$ (230,532)

Amounts reported for governmental activities in the Statement of Activities are different because:

The governmental fund reports capital outlay 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 by which capital outlays (\$664,822) exceeded depreciation (\$142,560). 522,262

In the Statement of Activities, only the gain or loss (\$1,541) on the sale or disposal of capital assets is reported, whereas in the governmental funds, the proceeds (\$7,150) from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the equipment sold or disposed. (5,609)

Capital lease funding provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (130,000)

Debt repayments are expensed in the governmental funds as a use of current financial resources 26,258

**Changes in Net Assets of Governmental Activities** \$ 182,379

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2012**

|  | <b>Enterprise Funds</b> |                     |   | <b>Total</b>        |
|--|-------------------------|---------------------|---|---------------------|
|  | <b>Water</b>            | <b>Sewer</b>        | <b>Nonmajor<br/>Fund<br/>Sanitation</b> |                     |
| <b>Assets</b>                                  |                         |                     |   |                     |
| <b>Current Assets</b>                          |                         |                     |   |                     |
| Cash and cash equivalents                      | \$ 475,135              | \$ 667,402          | \$ 215,558                              | \$ 1,358,095        |
| Trade accounts receivable - net                | 77,652                  | 149,918             | 15,554                                  | 243,124             |
| Interfund receivables                          | -                       | 319                 | -                                       | 319                 |
| Unbilled revenue                               | 23,985                  | 49,670              | -                                       | 73,655              |
| <b>Total Current Assets</b>                    | <u>576,772</u>          | <u>867,309</u>      | <u>231,112</u>                          | <u>1,675,193</u>    |
| <b>Noncurrent Assets</b>                       |                         |                     |   |                     |
| Construction in progress                       | 8,260                   | -                   | -                                       | 8,260               |
| Land and land improvements                     | 25,490                  | 106,691             | 500                                     | 132,681             |
| Building improvements                          | 31,918                  | 27,127              | 3,728                                   | 62,773              |
| Office equipment                               | 17,316                  | 26,708              | 4,948                                   | 48,972              |
| Vehicles                                       | 49,769                  | 75,997              | 84,609                                  | 210,375             |
| Machinery and equipment                        | 298,436                 | 262,726             | -                                       | 561,162             |
| Utility plants                                 | 1,619,241               | 1,402,833           | -                                       | 3,022,074           |
| Sewage disposal system                         | -                       | 1,760,120           | -                                       | 1,760,120           |
| Less: accumulated depreciation                 | (1,124,211)             | (1,247,957)         | (91,950)                                | (2,464,118)         |
| <b>Total Noncurrent Assets</b>                 | <u>926,219</u>          | <u>2,414,245</u>    | <u>1,835</u>                            | <u>3,342,299</u>    |
| <b>Total Assets</b>                            | <u>1,502,991</u>        | <u>3,281,554</u>    | <u>232,947</u>                          | <u>5,017,492</u>    |
| <b>Liabilities</b>                             |                         |                     |   |                     |
| <b>Current Liabilities</b>                     |                         |                     |   |                     |
| Accounts payable                               | 29,942                  | 2,315               | 3,746                                   | 36,003              |
| Accrued liabilities                            | 26,739                  | 7,393               | 1,476                                   | 35,608              |
| Interfund payables                             | 2,301                   | 2,098               | 845                                     | 5,244               |
| Customer deposits                              | 47,300                  | -                   | -                                       | 47,300              |
| Notes payable - current portion                | -                       | 28,253              | -                                       | 28,253              |
| <b>Total Current Liabilities</b>               | <u>106,282</u>          | <u>40,059</u>       | <u>6,067</u>                            | <u>152,408</u>      |
| <b>Long-Term Liabilities</b>                   |                         |                     |   |                     |
| Notes payable - long-term portion              | -                       | 459,432             | -                                       | 459,432             |
| <b>Total Liabilities</b>                       | <u>106,282</u>          | <u>499,491</u>      | <u>6,067</u>                            | <u>611,840</u>      |
| <b>Net Assets</b>                              |                         |                     |   |                     |
| Invested in capital assets net of related debt | 926,219                 | 1,926,560           | 1,835                                   | 2,854,614           |
| Unrestricted                                   | 470,490                 | 855,503             | 225,045                                 | 1,551,038           |
| <b>Total Net Assets</b>                        | <u>\$ 1,396,709</u>     | <u>\$ 2,782,063</u> | <u>\$ 226,880</u>                       | <u>\$ 4,405,652</u> |

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

|  | Enterprise Funds    |                     |                                | Total               |
|--|---------------------|---------------------|--------------------------------|---------------------|
|  | Water               | Sewer               | Nonmajor<br>Fund<br>Sanitation |                     |
| <b>Operating Revenues</b>                      |                     |                     |                                |                     |
| Charges for services                           | \$ 553,984          | \$ 1,122,637        | \$ 154,775                     | \$ 1,831,396        |
| Miscellaneous                                  | 6,189               | 14,851              | 3,240                          | 24,280              |
| <b>Total Operating Revenues</b>                | <u>560,173</u>      | <u>1,137,488</u>    | <u>158,015</u>                 | <u>1,855,676</u>    |
| <b>Operating Expenses</b>                      |                     |                     |                                |                     |
| Advertising                                    | 578                 | -                   | 193                            | 771                 |
| Communications and postage                     | 5,210               | 3,804               | 1,690                          | 10,704              |
| Depreciation                                   | 79,732              | 90,313              | 3,203                          | 173,248             |
| Dues and subscriptions                         | 985                 | -                   | -                              | 985                 |
| Employee insurance                             | 34,695              | 22,848              | 11,938                         | 69,481              |
| Employee retirement                            | 24,890              | 22,834              | 9,679                          | 57,403              |
| Insurance and bonds                            | 13,128              | 10,392              | 7,594                          | 31,114              |
| Miscellaneous                                  | -                   | -                   | 822                            | 822                 |
| Motor fuel and lubricants                      | 11,711              | 7,635               | 9,239                          | 28,585              |
| Office supplies                                | 5,083               | 1,726               | 1,272                          | 8,081               |
| Other contractual services                     | 16,689              | -                   | 31,284                         | 47,973              |
| Other supplies                                 | 7,423               | 1,514               | 760                            | 9,697               |
| Payroll tax expense                            | 7,469               | 7,394               | 3,025                          | 17,888              |
| Professional fees                              | 5,020               | 2,379               | 2,850                          | 10,249              |
| Repairs and maintenance                        | 20,777              | 21,169              | 2,452                          | 44,398              |
| Salaries                                       | 103,157             | 102,493             | 42,256                         | 247,906             |
| Sewage treatment                               | -                   | 800,016             | -                              | 800,016             |
| Technical supplies                             | 21,349              | 7,482               | -                              | 28,831              |
| Travel   | 2,932               | 1,831               | 983                            | 5,746               |
| Uniforms                                       | 3,556               | 1,876               | 1,922                          | 7,354               |
| Utilities                                      | 10,226              | 20,634              | -                              | 30,860              |
| Water purchases                                | 267,203             | -                   | -                              | 267,203             |
| <b>Total Operating Expenses</b>                | <u>641,813</u>      | <u>1,126,340</u>    | <u>131,162</u>                 | <u>1,899,315</u>    |
| <b>Operating Income (Loss)</b>                 | <u>(81,640)</u>     | <u>11,148</u>       | <u>26,853</u>                  | <u>(43,639)</u>     |
| <b>Non-Operating Revenues (Expenses)</b>       |                     |                     |                                |                     |
| Interest income                                | 6,324               | 9,403               | 1,059                          | 16,786              |
| Interest expense                               | -                   | (5,087)             | -                              | (5,087)             |
| Lease executory cost                           | -                   | (1,017)             | -                              | (1,017)             |
| <b>Total Non-Operating Revenues (Expenses)</b> | <u>6,324</u>        | <u>3,299</u>        | <u>1,059</u>                   | <u>10,682</u>       |
| <b>Changes in Net Assets</b>                   | <u>(75,316)</u>     | <u>14,447</u>       | <u>27,912</u>                  | <u>(32,957)</u>     |
| <b>Net Assets - July 1, 2011</b>               | <u>1,472,025</u>    | <u>2,767,616</u>    | <u>198,968</u>                 | <u>4,438,609</u>    |
| <b>Net Assets - June 30, 2012</b>              | <u>\$ 1,396,709</u> | <u>\$ 2,782,063</u> | <u>\$ 226,880</u>              | <u>\$ 4,405,652</u> |

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

|  | <b>Enterprise Funds</b> |                   |   | <b>Total</b>        |
|--|-------------------------|-------------------|---|---------------------|
|  | <b>Water</b>            | <b>Sewer</b>      | <b>Nonmajor<br/>Fund<br/>Sanitation</b> |                     |
| <b>Cash Flows from Operating Activities:</b>   |                         |                   |   |                     |
| Receipts from customers  | \$ 567,034              | \$ 1,128,746      | \$ 156,861                              | \$ 1,852,641        |
| Payments to employees for services   | (170,264)               | (155,879)         | (66,596)                                | (392,739)           |
| Payments to suppliers  | (390,686)               | (883,326)         | (62,106)                                | (1,336,118)         |
| Internal activity - payments to other funds  | 4,236                   | 4,159             | 1,637                                   | 10,032              |
| <b>Net Cash Provided by Operating Activities</b>   | <u>10,320</u>           | <u>93,700</u>     | <u>29,796</u>                           | <u>133,816</u>      |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                               |                         |                   |   |                     |
| Acquisition and construction of capital assets   | (13,835)                | -                 | -                                       | (13,835)            |
| Principal payments   | -                       | (27,973)          | -                                       | (27,973)            |
| Interest payments  | -                       | (5,087)           | -                                       | (5,087)             |
| Lease executory cost   | -                       | (1,017)           | -                                       | (1,017)             |
| <b>Net Cash Used by Capital and Related Financing Activities</b>                               | <u>(13,835)</u>         | <u>(34,077)</u>   | <u>-</u>                                | <u>(47,912)</u>     |
| <b>Cash Flows from Investing Activities:</b>   |                         |                   |   |                     |
| Interest income  | 6,324                   | 9,403             | 1,059                                   | 16,786              |
| <b>Net Increase in Cash and Cash Equivalents</b>   | <u>2,809</u>            | <u>69,026</u>     | <u>30,855</u>                           | <u>102,690</u>      |
| <b>Cash and Cash Equivalents - July 1, 2011</b>  | <u>472,326</u>          | <u>598,376</u>    | <u>184,703</u>                          | <u>1,255,405</u>    |
| <b>Cash and Cash Equivalents - June 30, 2012</b>   | <u>\$ 475,135</u>       | <u>\$ 667,402</u> | <u>\$ 215,558</u>                       | <u>\$ 1,358,095</u> |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b> |                         |                   |   |                     |
| Operating income (loss)  | \$ (81,640)             | \$ 11,148         | \$ 26,853                               | \$ (43,639)         |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: |                         |                   |   |                     |
| Depreciation   | 79,732                  | 90,313            | 3,203                                   | 173,248             |
| Change in assets and liabilities:  |                         |                   |   |                     |
| Increase in net receivables  | (2,044)                 | (8,573)           | (1,154)                                 | (11,771)            |
| Decrease (increase) in unbilled revenue  | 130                     | (169)             | -                                       | (39)                |
| Increase (decrease) in accounts payable  | 1,184                   | (2,868)           | (1,045)                                 | (2,729)             |
| Increase (decrease) in accrued liabilities   | (53)                    | (310)             | 302                                     | (61)                |
| Increase in customer deposits  | 8,775                   | -                 | -                                       | 8,775               |
| Decrease in due from other funds   | 2,254                   | 2,061             | 792                                     | 5,107               |
| Increase in due to other funds   | 1,982                   | 2,098             | 845                                     | 4,925               |
| <b>Net Cash Provided by Operating Activities</b>   | <u>\$ 10,320</u>        | <u>\$ 93,700</u>  | <u>\$ 29,796</u>                        | <u>\$ 133,816</u>   |

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUND**  
**JUNE 30, 2012**

|                      | <u>Agency<br/>Fund</u> |
|----------------------|------------------------|
| <b>Assets</b>        |                        |
| Due from other funds | \$ 14,076              |
| Restricted cash      | 9,922                  |
| <b>Total Assets</b>  | <u>\$ 23,998</u>       |
| <b>Liabilities</b>   |                        |
| Payroll liabilities  | <u>\$ 23,998</u>       |

The accompanying notes are an integral part of this financial statement.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Beaver Dam, Kentucky (City) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of the Notes.

**(A) Financial Reporting Entity**

The financial statements of City of Beaver Dam, Kentucky, include the funds, agencies, boards, and entities for which the city is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

**(B) Basis of Presentation**

*Government-wide Financial Statements*

The Statement of Net Assets and Statement of Activities display information about reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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 expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. 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 or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(B) Basis of Presentation (Concluded)**

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Funds**

*General Fund*

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

*Special Revenue Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

**Proprietary Funds**

*Enterprise Fund*

Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Sanitation, Water, and Sewer Funds. The Water and Sewer Funds are reported as major funds in the current year.

**Fiduciary Funds (Not included in government-wide statements)**

*Agency Funds*

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes one agency fund – Payroll Revolving Account. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(C) Measurement Focus and Basis of Accounting**

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.

**Measurement Focus**

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 objective of this measurement focus is 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.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

**Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type 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 is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency 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 bond 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.



**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(D) Cash and Investments**

For the purpose of the Statement of Net Assets and the proprietary fund Statement of Cash Flows, cash and cash equivalents includes all demand savings accounts, and certificates of deposit of the City.

Investments are carried at cost.

**(E) 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 interfund receivables and payables. Interfund receivables and payables between funds within governmental and business-type activities are eliminated in the Statement of Net Assets.

**(F) Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. The City uses the direct write-off method for uncollectible accounts receivable. Major receivable balances for the governmental activities consist of property taxes. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes and other intergovernmental revenues, since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. 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.

**(G) Inventories**

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase.

**(H) Restricted Assets**

Restricted assets in the governmental funds consist of cash legally restricted for perpetual care of the cemetery and to meet the requirements of state funding.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(I) 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 Statements*

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, 2012.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. These assets (back to July 1, 1970) have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

|                              |             |
|------------------------------|-------------|
| - Buildings and improvements | 25-50 years |
| - Furniture and fixtures     | 5-7 years   |
| - Vehicles                   | 5-7 years   |
| - Machinery and equipment    | 3-20 years  |
| - Utility system             | 25-50 years |
| - Infrastructure             | 25-50 years |

*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.

**(J) Compensated Absences**

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

**(K) 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.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(K) Long-term Debt (Concluded)**

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of capital lease obligations and notes 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 are reported as expenditures. The accounting for the proprietary funds is the same in the fund statements as it is in the government-wide statements.

**(L) 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 improvements of those assets.
- b. Restricted net assets – Net assets are considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the City's bonds.
- c. Unrestricted net assets – Consists of all other net assets that do not meet the definition of the above two components and are available for general use by the City.

*Fund Statements*

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

*Fund Balance Classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

*Nonspendable*

This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City did not have any nonspendable resources as of June 30, 2012.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(L) Equity Classifications (Concluded)**

*Restricted*

This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City has classified Local Government Economic Assistance (LGEA) resources as being restricted because their use is restricted by state statute for general governmental expenditures. Municipal Road Aid (MRA) resources are restricted by state statute and county laws and are legally segregated for funding of municipal road improvements. Cemetery resources are restricted by trust covenants and state statute for the general care and maintenance of the cemetery.

*Committed*

This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2012.

*Assigned*

This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Commission or through the City Commission delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds for general operating expenses of the Community Pride Fund.

*Unassigned*

This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use restricted fund balance first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**(M) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(N) Property Tax**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and are due and payable at that time. All unpaid taxes levied October 1 become delinquent November 15. All unpaid taxes at that time are subject to a 10% penalty and 12% interest per year. The City bills and collects its own property tax.

**(O) Operating Revenues and Expenses**

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, non-capital financing, or investing activities.

**(P) 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, governmental expenditures are classified as current (further classified by function), debt service, and capital outlay. Proprietary funds are classified as operating and non-operating.

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

**(Q) Nonexchange Transactions**

The recognition of, respectively, assets, liabilities, and expenses/expenditures resulting from nonexchange transactions of the City of Beaver Dam are as follows:

- 1) Imposed nonexchange revenues – Property taxes are assessed January 1 of each year. The City does not have an enforceable legal claim to the taxes until one year from that date. However, tax bills are mailed October of the year they are assessed and collected before the end of that fiscal year; therefore, the asset/revenue is recognized when it is received.

The City imposes a 6.9 percent insurance premium tax on insurance premiums sold within the City limits for casualty, automobile, inland marine and fire and allied perils. The tax is due no later than thirty (30) days after the end of each calendar quarter. The City is unable to accrue taxes due as of the end of the fiscal year because they have no means of knowing how much revenue has been earned; therefore the asset/revenue is recognized when it is received.

- 2) Government-mandated nonexchange transactions – The City receives Municipal Road Aid and Local Government Economic Assistance funds from the state of Kentucky. These funds are required to be spent for specific purposes. Resources are recognized as revenues when received and expenses/expenditures when paid.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

**(Q) Nonexchange Transactions (Concluded)**

- 3) Voluntary nonexchange transactions – The City receives various grants from federal and state agencies. Eligibility requirements have been met at the time the funds are received; therefore, the asset/revenue is recognized when it is received.

**(R) Budgetary Information**

Annual budgets are adopted on an accrual basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The City is required to submit estimated receipts and proposed expenditures to the city commissioners by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the city commission by July 1.

The City may change the original budget by transferring appropriations at the activity level; however, the City may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**(S) Impairment of Long-lived Assets**

The City reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2012.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a local governmental unit, the City is 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.

**(A) Fund Accounting Requirements**

The city complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

| <b>Fund</b> | <b>Required By</b> |
|-------------|--------------------|
| Road Fund   | State Law          |
| LGEA Fund   | State Law          |

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONCLUDED)**

**(B) Deposits and Investments Laws and Regulations**

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain Commonwealth of Kentucky or political subdivision debt obligations, or surety bonds. As required by Kentucky Revised Statutes 66.480(1)(d) and 41.240(4), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

Investments of the City consists of one share of Ohio County Industrial Foundation stock stated at cost.

**(C) Debt Restrictions and Covenants – General Obligation Debt**

Kentucky Revised Statutes limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10 percent of net assessed valuation. For the year ended June 30, 2012, the City incurred no such additional debt.

**(D) Fund Equity Restrictions – Deficit Prohibition**

Kentucky Revised Statutes prohibits the creation of a deficit fund balance in any individual fund. The City complied with this statute in all material respects for the year ended June 30, 2012. However, current year operations resulted in an immaterial fund balance deficit of \$527 in the MRA fund.

**NOTE 3 – CASH**

At year-end, the carrying amount of the City's cash was \$1,962,650 and the bank balance was \$1,717,399. Of the total bank balance, \$574,574 was covered by federal depository insurance and the remaining balance of \$1,142,825 would require collateralization. As of June 30, 2012, \$2,521,076 was pledged with securities held by the pledging banks' trust departments but not in the name of the City.

The deposits in excess of insurance coverage must be fully collateralized. All balances held are considered acceptable and compliant per Kentucky Revised Statutes, however, to be considered fully collateralized by Governmental Accounting Standards, any securities held in a pledging financial institution must be held in the City's name.

*Custodial Credit Risk-Deposits*

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government follows the requirements of KRS 41.240 (4) and does not have a deposit policy for custodial risk.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities and governmental funds consist of property tax receivables.

**NOTE 5 – RESTRICTED ASSETS**

Restricted assets consisted of the following as of June 30, 2012:

| <u>Type of Restricted Assets</u> | <u>Cash and<br/>Cash<br/>Equivalents</u> |
|----------------------------------|--|
| Governmental:                    |  |
| MRA Fund                         | \$ 1,636                                 |
| Cemetery Fund                    | 160,090                                  |
| LGEA Fund                        | 122,243                                  |
| Community Pride Fund             | 484                                      |
|                                  | \$ 284,453                               |

**NOTE 6 – ACCOUNTS PAYABLE**

Payables in the General Fund and nonmajor governmental funds, governmental activities, enterprise funds, and business-type activities are composed of payables to vendors and taxing authorities.

**NOTE 7 – JOINT VENTURE**

The City of Beaver Dam, Kentucky, has entered into a joint venture with the City of Hartford, Kentucky, to form a joint planning and zoning commission. The City of Beaver Dam contributes \$3,500 annually toward the operating expenses of the commission. Complete financial information for the Planning and Zoning Commission can be obtained from Nancy Hoover, Planning and Zoning Administrator at 309 West 2<sup>nd</sup> Street, P.O. Box 408, Beaver Dam, KY 42320. The City does not have an equity interest in this organization.

**NOTE 8 – JOINTLY GOVERNED ORGANIZATION**

The City in conjunction with Ohio County, City of Centertown and City of Hartford, created the Ohio County Regional Wastewater District. The Ohio County Regional Wastewater District is a joint sewer agency created to own, manage, control and operate a comprehensive wastewater treatment facility within Ohio County, Kentucky. The District's board is comprised of two members of each participating municipality. The District completed construction during 2008 and began facility operations at that time.



**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

|   | <b>Primary Government</b>    |                   |                    | <b>Ending<br/>Balance</b> |
|---|------------------------------|-------------------|--------------------|---------------------------|
|   | <b>Beginning<br/>Balance</b> | <b>Increases</b>  | <b>Decreases</b>   |                           |
| <b><u>Governmental Activities</u></b>   |                              |                   |                    |                           |
| <b>Non-Depreciable Assets</b>   |                              |                   |                    |                           |
| Construction in progress  | \$ 389,870                   | \$ 275,509        | \$ (5,900)         | \$ 659,479                |
| Land  | 202,871                      | 140,000           | -                  | 342,871                   |
| <b>Total Non-Depreciable Assets</b>   | <b>592,741</b>               | <b>415,509</b>    | <b>(5,900)</b>     | <b>1,002,350</b>          |
| <b>Capital Assets</b>   |                              |                   |                    |                           |
| Buildings   | 335,673                      | 11,122            | -                  | 346,795                   |
| Furniture and fixtures  | 9,716                        | -                 | -                  | 9,716                     |
| Vehicles  | 471,409                      | 49,921            | (19,358)           | 501,972                   |
| Machinery and equipment   | 505,917                      | 171,369           | -                  | 677,286                   |
| Infrastructure  | 2,461,559                    | 22,801            | -                  | 2,484,360                 |
| <b>Total Capital Assets Being<br/>Depreciated</b>   | <b>3,784,274</b>             | <b>255,213</b>    | <b>(19,358)</b>    | <b>4,020,129</b>          |
| <b>Less Accumulated Depreciation for</b>  |                              |                   |                    |                           |
| Buildings   | (163,833)                    | (9,082)           | -                  | (172,915)                 |
| Furniture and fixtures  | (9,716)                      | -                 | -                  | (9,716)                   |
| Vehicles  | (424,473)                    | (13,166)          | 13,749             | (423,890)                 |
| Machinery and equipment   | (443,724)                    | (20,938)          | -                  | (464,662)                 |
| Infrastructure  | (1,352,685)                  | (99,374)          | -                  | (1,452,059)               |
| <b>Total Accumulated Depreciation<br/>Governmental Activities Capital<br/>Assets, Net</b> | <b>(2,394,431)</b>           | <b>(142,560)</b>  | <b>13,749</b>      | <b>(2,523,242)</b>        |
|   | <b>\$1,982,584</b>           | <b>\$ 528,162</b> | <b>\$ (11,509)</b> | <b>\$ 2,499,237</b>       |
| <b><u>Governmental Activities</u></b>   |                              |                   |                    |                           |
| <b>Depreciation Expense</b>   |                              |                   |                    |                           |
| General government  |                              |                   |                    | \$ 5,571                  |
| Police  |                              |                   |                    | 10,072                    |
| Fire  |                              |                   |                    | 10,166                    |
| Streets   |                              |                   |                    | 103,132                   |
| Cemetery  |                              |                   |                    | 3,661                     |
| Parks and recreation  |                              |                   |                    | 9,958                     |
| <b>Total Depreciation Expense – Governmental Activities</b>                               |                              |                   |                    | <b>\$142,560</b>          |

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 9 – CAPITAL ASSETS (CONCLUDED)**

|  | <b>Primary Government</b>    |                    |                 | <b>Ending<br/>Balance</b> |
|--|------------------------------|--------------------|-----------------|---------------------------|
|  | <b>Beginning<br/>Balance</b> | <b>Increases</b>   | <b>Decrease</b> |                           |
| <b><u>Business-Type Activities</u></b>                       |                              |                    |                 |                           |
| <b>Non-Depreciable Assets</b>                                |                              |                    |                 |                           |
| Construction in progress                                     | \$ -                         | \$ 8,260           | \$ -            | \$ 8,260                  |
| <b>Capital Assets</b>  |                              |                    |                 |                           |
| Utility plants   |                              |                    |                 |                           |
| Waterworks   | 1,619,241                    | -                  | -               | 1,619,241                 |
| Wastewater treatment plant                                   | 1,402,833                    | -                  | -               | 1,402,833                 |
| Sewage disposal system                                       | 1,760,120                    | -                  | -               | 1,760,120                 |
| Land and land improvements                                   | 132,681                      | -                  | -               | 132,681                   |
| Machinery and equipment                                      | 555,587                      | 5,575              | -               | 561,162                   |
| Vehicles   | 210,375                      | -                  | -               | 210,375                   |
| Building improvements  | 62,773                       | -                  | -               | 62,773                    |
| Office equipment   | 48,972                       | -                  | -               | 48,972                    |
| <b>Total Capital Assets Being Depreciated</b>                | <b>5,792,582</b>             | <b>5,575</b>       | <b>-</b>        | <b>5,798,157</b>          |
| <b>Less Accumulated Depreciation for</b>                     |                              |                    |                 |                           |
| Utility plants   |                              |                    |                 |                           |
| Waterworks   | (767,135)                    | (42,616)           | -               | (809,751)                 |
| Wastewater treatment plant                                   | (543,769)                    | (34,457)           | -               | (578,226)                 |
| Sewage disposal system                                       | (286,757)                    | (36,352)           | -               | (323,109)                 |
| Land and land improvements                                   | (3,781)                      | (416)              | -               | (4,197)                   |
| Machinery and equipment                                      | (422,814)                    | (47,478)           | -               | (470,292)                 |
| Vehicles   | (193,314)                    | (9,255)            | -               | (202,569)                 |
| Building improvements  | (24,957)                     | (2,316)            | -               | (27,273)                  |
| Office equipment   | (48,343)                     | (358)              | -               | (48,701)                  |
| <b>Total Accumulated Depreciation</b>                        | <b>(2,290,870)</b>           | <b>(173,248)</b>   | <b>-</b>        | <b>(2,464,118)</b>        |
| <b>Business-Type Activities Capital Assets, Net</b>          | <b>\$3,501,712</b>           | <b>\$(159,413)</b> | <b>\$ -</b>     | <b>\$3,342,299</b>        |
| <b><u>Business-Type Activities</u></b>                       |                              |                    |                 |                           |
| <b>Depreciation Expense</b>                                  |                              |                    |                 |                           |
| Water  |                              |                    |                 | \$ 79,732                 |
| Sewer  |                              |                    |                 | 90,313                    |
| Sanitation   |                              |                    |                 | 3,203                     |
| <b>Total Depreciation Expense – Business-Type Activities</b> |                              |                    |                 | <b>\$ 173,248</b>         |

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 10 – CAPITAL LEASE OBLIGATIONS**

The City has entered into a capital lease agreement under which the related equipment will become the property of the City when all terms of the lease agreement are met.

|                                      | <b>Stated<br/>Interest<br/>Rate</b> | <b>Present Value<br/>of Remaining<br/>Payments as of<br/>June 30, 2012</b> |
|--------------------------------------|-------------------------------------|--|
| <b>Governmental fund activities:</b> |                                     |  |
| City park lights                     | 4.85%                               | \$ 130,000   |
| Total capital lease obligations      |                                     | \$ 130,000   |

Equipment and related accumulated depreciation under the capital lease is as follows:

|                                | <b>Governmental<br/>Activities</b> |
|--------------------------------|------------------------------------|
| Equipment                      | \$ 130,000                         |
| Less: accumulated depreciation | (1,625)                            |
| Net value                      | \$ 128,375                         |

As of June 30, 2012, capital lease annual amortization is as follows:

| <b>Year Ending<br/>June</b>         | <b>Governmental<br/>Activities</b> |
|-------------------------------------|------------------------------------|
| 2013                                | \$ 29,993                          |
| 2014                                | 29,993                             |
| 2015                                | 29,993                             |
| 2016                                | 29,993                             |
| 2017                                | 29,993                             |
| Total                               | 149,965                            |
| Less interest                       | (19,965)                           |
| Present value of remaining payments | \$ 130,000                         |

Amortization of leased equipment under capital assets is included with depreciation expense.

**NOTE 11 – LONG-TERM DEBT**

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

Governmental activities have two notes payable outstanding: 1) Note issued October 23, 2003, for purchase of a fire truck and 2) Note issued March 1, 2008, for the purchase of land for a park. Governmental activities also include a capital lease entered into on February 29, 2012, for the purchase of city park lights.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 11 – LONG-TERM DEBT (CONTINUED)**

Business-type activities have one note payable outstanding.

**Governmental Activities:**

As of June 30, 2012, the governmental long-term debt of the financial reporting entity consisted of the following:

|   | <u>Current<br/>Portion</u> | <u>Noncurrent<br/>Portion</u> | <u>Total</u>      |
|---|----------------------------|-------------------------------|-------------------|
| 1) Kentucky League of Cities – Variable interest rate, maturity date – October 23, 2013 | \$ 17,343                  | \$ -                          | \$ 17,343         |
| 2) Kentucky League of Cities – 3.75% interest rate, maturity date – March 1, 2028       | 9,557                      | 204,161                       | 213,718           |
| Total Notes Payable   | 26,900                     | 204,161                       | 231,061           |
| 3) Musco Finance, LLC – 4.85% interest rate, maturity date – March 19, 2017             | 23,546                     | 106,454                       | 130,000           |
| Total Capital Leases Payable  | 23,546                     | 106,454                       | 130,000           |
| Total Governmental Activities   | <u>\$ 50,446</u>           | <u>\$ 310,615</u>             | <u>\$ 361,061</u> |

**Business-type Activities:**

As of June 30, 2012, the long-term debt payable from proprietary fund resources consisted of the following:

|   | <u>Current<br/>Portion</u> | <u>Noncurrent<br/>Portion</u> | <u>Total</u> |
|---|----------------------------|-------------------------------|--------------|
| 1) Kentucky Infrastructure Authority – 1% interest rate, maturity date – June 1, 2028 | \$ 28,253                  | \$ 459,432                    | \$ 487,685   |

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

|   | <u>Beginning</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---|------------------|------------------|-------------------|---------------------------|--------------------------------|
| <b><u>Governmental Activities:</u></b>  |                  |                  |                   |                           |                                |
| Kentucky League of Cities               | \$ 34,493        | \$ -             | \$17,150          | \$ 17,343                 | \$17,343                       |
| Kentucky League of Cities               | 222,826          | -                | 9,108             | 213,718                   | 9,557                          |
| Musco Finance, LLC                      | -                | 130,000          | -                 | 130,000                   | 23,546                         |
| Total                                   | <u>\$257,319</u> | <u>\$130,000</u> | <u>\$26,258</u>   | <u>\$361,061</u>          | <u>\$50,446</u>                |
| <b><u>Business-type Activities:</u></b> |                  |                  |                   |                           |                                |
| KY Infrastructure Authority             | <u>\$515,658</u> | <u>\$ -</u>      | <u>\$ 27,973</u>  | <u>\$487,685</u>          | <u>\$28,253</u>                |

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 11 – LONG-TERM DEBT (CONCLUDED)**

**Annual Debt Service Requirements**

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2012, are as follows:

**Governmental Activities**

| <u>Fiscal Year<br/>Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|--|------------------|-----------------|------------------|
| 2013                                   | \$ 50,446        | \$11,004        | \$ 61,450        |
| 2014                                   | 34,695           | 9,272           | 43,967           |
| 2015                                   | 36,380           | 7,843           | 44,223           |
| 2016                                   | 38,133           | 6,349           | 44,482           |
| 2017                                   | 40,009           | 4,764           | 44,773           |
| 2018-2022                              | 65,476           | 13,045          | 78,521           |
| 2023-2027                              | 81,962           | 5,718           | 87,680           |
| 2028                                   | 13,960           | 117             | 14,077           |
|  | <u>\$361,061</u> | <u>\$58,112</u> | <u>\$419,173</u> |

**Business-type Activities**

| <u>Fiscal Year<br/>Ending June 30,</u> | <u>Sewer Fund</u> |                  |                  |
|--|-------------------|------------------|------------------|
|  | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>     |
| 2013                                   | \$ 28,253         | \$ 4,806         | \$ 33,059        |
| 2014                                   | 28,537            | 4,523            | 33,060           |
| 2015                                   | 28,823            | 4,237            | 33,060           |
| 2016                                   | 29,112            | 3,948            | 33,060           |
| 2017                                   | 29,403            | 3,656            | 33,059           |
| 2018-2022                              | 151,498           | 13,800           | 165,298          |
| 2023-2027                              | 159,246           | 6,053            | 165,299          |
| 2028                                   | 32,813            | 246              | 33,059           |
|  | <u>\$487,685</u>  | <u>\$ 41,269</u> | <u>\$528,954</u> |

**NOTE 12 – CONTINGENCIES**

In the normal course of operations, the City participates in various federal and state grant programs from year to year. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of such is to ensure compliance with the specific conditions of the grant. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

The City has been awarded a \$500,000 CDBG grant toward the construction of a new fire station. Land was purchased and an architect engaged, but no construction had been started at the date of the financial statements. Land was purchased for \$140,000 and \$659,479 has been spent to date on park construction.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 13 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts: theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The City manages these various risks of loss as follows:

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

For the fiscal year ended June 30, 2012, City of Beaver Dam, Kentucky, was a member of the Kentucky League of Cities Insurance Service (KLCIS). KLCIS is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**NOTE 14 – INTERFUND BALANCES/TRANSFERS OF FUNDS**

The following transfers were made during the year:

| <u>From Fund</u> | <u>To Fund</u>  | <u>Amount</u>   | <u>Purpose</u>      |
|------------------|-----------------|-----------------|---------------------|
| General          | MRA             | \$ 35,000       | Operations          |
| General          | Cemetery        | 20,000          | Operations          |
| General          | Community Pride | 1,250           | Operations          |
| LGEA             | General         | 6,550           | Reimburse equipment |
|                  |                 | <u>\$62,800</u> |                     |

At year-end, the City's interfund balances were as follows:

| <u>From Fund</u> | <u>To Fund</u> | <u>Amount</u> | <u>Purpose</u>         |
|------------------|----------------|---------------|------------------------|
| General          | Payroll        | \$ 9,151      | Payroll                |
| General          | LGEA           | 6,550         | Reimburse equipment    |
| Community Pride  | General        | 1,250         | Advance for operations |
| MRA              | General        | 35,000        | Advance for operations |
| Cemetery         | General        | 20,000        | Reimburse equipment    |
| Sanitation       | Payroll        | 845           | Payroll                |
| Sewer            | Payroll        | 2,098         | Payroll                |
| Water            | Payroll        | 1,982         | Payroll                |
| Water            | Sewer          | 319           | Advance for operations |

**NOTE 15 – BUDGET VIOLATIONS**

During the current fiscal year, the City incurred line item expenditures in excess of budget. These expenditures were within the general fund.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 16 – DEFERRED COMPENSATION**

The commission voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.275 to provide administration of tax shelter supplementary retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

**NOTE 17 – CONCENTRATIONS OF CREDIT RISK**

The City extends credit to all citizens who live within the City limits and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

**NOTE 18 – DEFICIT FUND BALANCES**

The MRA fund had a current year deficit of revenues over expenditures that resulted in a negative unassigned fund balance of \$527 as of June 30, 2012. The General, Cemetery, Community Pride, and Water funds also incurred expenditures in excess of revenues for the current year. The City is making an effort to correct these matters.

**NOTE 19 – SUBSEQUENT EVENTS**

City of Beaver Dam's management has evaluated and considered the need to recognize or disclose subsequent events through October 23, 2012, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2012, have not been evaluated by management.

**NOTE 20 – EMPLOYEE RETIREMENT SYSTEM**

The City of Beaver Dam is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

**CITY OF BEAVER DAM, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 19 – EMPLOYEE RETIREMENT SYSTEM (CONCLUDED)**

Contributions – For the year ended June 30, 2012, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.535(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96% of each employee's wages for non-hazardous classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the City for the current and previous two years are as follows:

| <u>Year</u> | <u>Required<br/>Contribution</u> | <u>Percentage<br/>Contributed</u> |
|-------------|----------------------------------|-----------------------------------|
| 2012        | \$ 128,149                       | 100%                              |
| 2011        | \$ 120,718                       | 100%                              |
| 2010        | \$ 110,742                       | 100%                              |



REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BEAVER DAM, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

|  | <u>Budgeted Amounts</u> |                       | <u>Actual<br/>(Budgetary<br/>Basis)</u> | <u>Variance from<br/>Final Budget<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|-----------------------|---|---|
|  | <u>Original</u>         | <u>Final</u>          |   |   |
| <b>Revenues</b>  |                         |                       |   |   |
| Charges for services                                     | \$ 19,500               | \$ 54,500             | \$ 65,050                               | \$ 10,550   |
| Interest income  | 4,400                   | 4,400                 | 2,811                                   | (1,589)   |
| Intergovernmental revenues                               | 107,600                 | 119,100               | 121,390                                 | 2,290   |
| Licenses and permits                                     | 12,500                  | 12,500                | 14,248                                  | 1,748   |
| Miscellaneous revenues                                   | 10,000                  | 11,000                | 19,038                                  | 8,038   |
| Taxes  | 665,800                 | 709,800               | 702,317                                 | (7,483)   |
| <b>Total Revenues</b>                                    | <u>819,800</u>          | <u>911,300</u>        | <u>924,854</u>                          | <u>13,554</u>   |
| <b>Expenditures</b>                                      |                         |                       |   |   |
| <b>Current:</b>  |                         |                       |   |   |
| Code enforcement   | 22,470                  | 27,470                | 10,158                                  | 17,312  |
| General government                                       | 199,525                 | 232,525               | 163,246                                 | 69,279  |
| Parks and recreation                                     | 87,600                  | 253,200               | 29,326                                  | 223,874   |
| Public safety:   |                         |                       |   |   |
| Fire   | 39,900                  | 39,900                | 20,231                                  | 19,669  |
| Police   | 406,150                 | 421,150               | 394,837                                 | 26,313  |
| <b>Debt Service</b>                                      | 26,800                  | 26,800                | 26,666                                  | 134   |
| <b>Capital Outlay</b>                                    | -                       | 171,000               | 618,921                                 | (447,921)   |
| <b>Total Expenditures</b>                                | <u>782,445</u>          | <u>1,172,045</u>      | <u>1,263,385</u>                        | <u>(91,340)</u>   |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <u>37,355</u>           | <u>(260,745)</u>      | <u>(338,531)</u>                        | <u>(77,786)</u>   |
| <b>Other Financing Sources (Uses)</b>                    |                         |                       |   |   |
| Capital lease proceeds                                   | -                       | -                     | 130,000                                 | 130,000   |
| Proceeds from sale of fixed assets                       | -                       | -                     | 600                                     | 600   |
| Operating transfers in                                   | -                       | -                     | 6,550                                   | 6,550   |
| Operating transfers out                                  | (103,000)               | (103,000)             | (56,250)                                | 46,750  |
| <b>Total Other Financing Sources (Uses)</b>              | <u>(103,000)</u>        | <u>(103,000)</u>      | <u>80,900</u>                           | <u>183,900</u>  |
| <b>Net Changes in Fund Balance</b>                       | <u>(65,645)</u>         | <u>(363,745)</u>      | <u>(257,631)</u>                        | <u>106,114</u>  |
| <b>Fund Balance - July 1, 2011</b>                       | <u>(569,505)</u>        | <u>(654,405)</u>      | <u>544,409</u>                          | <u>1,198,814</u>  |
| <b>Fund Balance - June 30, 2012</b>                      | <u>\$ (635,150)</u>     | <u>\$ (1,018,150)</u> | <u>\$ 286,778</u>                       | <u>\$ 1,304,928</u>   |

See accompanying note to required supplementary information.

**CITY OF BEAVER DAM, KENTUCKY  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – BUDGET**

The City prepares both its financial statements and budget using accounting principles generally accepted in the United States of America (GAAP). Accordingly, there is no difference in revenues, expenditures, and changes in fund balance between the financial statements and its budget presentation.

SUPPLEMENTARY INFORMATION

**CITY OF BEAVER DAM, KENTUCKY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012**

|  | <u>Special Revenue Funds</u> |                                 |                      |                     | <u>Total<br/>Nonmajor<br/>Funds</u> |
|--|------------------------------|---------------------------------|----------------------|---------------------|-------------------------------------|
|  | <u>Cemetery<br/>Fund</u>     | <u>Community<br/>Pride Fund</u> | <u>LGEA<br/>Fund</u> | <u>MRA<br/>Fund</u> |                                     |
| <b>Assets</b>                              |                              |                                 |                      |                     |                                     |
| Restricted cash                            | \$ 160,090                   | \$ 484                          | \$ 122,243           | \$ 1,636            | \$ 284,453                          |
| Investments - noncurrent                   | 1,000                        | -                               | -                    | -                   | 1,000                               |
| <b>Total Assets</b>                        | <u>\$ 161,090</u>            | <u>\$ 484</u>                   | <u>\$ 122,243</u>    | <u>\$ 1,636</u>     | <u>\$ 285,453</u>                   |
| <b>Liabilities</b>                         |                              |                                 |                      |                     |                                     |
| Accounts payable                           | \$ 392                       | \$ -                            | \$ -                 | \$ 1,707            | \$ 2,099                            |
| Accrued liabilities                        | 478                          | -                               | -                    | 456                 | 934                                 |
| <b>Total Liabilities</b>                   | <u>870</u>                   | <u>-</u>                        | <u>-</u>             | <u>2,163</u>        | <u>3,033</u>                        |
| <b>Fund Balance</b>                        |                              |                                 |                      |                     |                                     |
| Restricted for:                            |                              |                                 |                      |                     |                                     |
| Cemetery maintenance                       | 160,090                      | -                               | -                    |                     | 160,090                             |
| Municipal roads                            | -                            | -                               | -                    | -                   | -                                   |
| LGEAS                                      | -                            | -                               | 122,243              | -                   | 122,243                             |
| Assigned to community projects             | -                            | 484                             | -                    | -                   | 484                                 |
| Unassigned                                 | 130                          | -                               | -                    | (527)               | (397)                               |
| <b>Total Fund Balances</b>                 | <u>160,220</u>               | <u>484</u>                      | <u>122,243</u>       | <u>(527)</u>        | <u>282,420</u>                      |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 161,090</u>            | <u>\$ 484</u>                   | <u>\$ 122,243</u>    | <u>\$ 1,636</u>     | <u>\$ 285,453</u>                   |

**CITY OF BEAVER DAM, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

|   | <u>Special Revenue Funds</u> |                                 |                      |                     | <b>Total<br/>Nonmajor<br/>Funds</b> |
|---|------------------------------|---------------------------------|----------------------|---------------------|-------------------------------------|
|   | <b>Cemetery<br/>Fund</b>     | <b>Community<br/>Pride Fund</b> | <b>LGEA<br/>Fund</b> | <b>MRA<br/>Fund</b> |                                     |
| <b>Revenues</b>   |                              |                                 |                      |                     |                                     |
| Charges for services  | \$ 12,500                    | \$ 66                           | \$ -                 | \$ -                | \$ 12,566                           |
| Interest income   | 872                          | -                               | 514                  | 71                  | 1,457                               |
| Intergovernmental revenues                                    | -                            | -                               | 55,030               | 66,655              | 121,685                             |
| Miscellaneous revenue   | 2,450                        | 130                             | -                    | 3,385               | 5,965                               |
| <b>Total Revenues</b>   | <u>15,822</u>                | <u>196</u>                      | <u>55,544</u>        | <u>70,111</u>       | <u>141,673</u>                      |
| <b>Expenditures</b>   |                              |                                 |                      |                     |                                     |
| <b>Current:</b>   |                              |                                 |                      |                     |                                     |
| Cemetery  | 35,315                       | -                               | -                    | -                   | 35,315                              |
| Community Pride project                                       | -                            | 1,543                           | -                    | -                   | 1,543                               |
| Police  | -                            | -                               | 4,688                | -                   | 4,688                               |
| Streets   | -                            | -                               | -                    | 83,377              | 83,377                              |
| <b>Capital outlay</b>   | -                            | -                               | 23,100               | 22,801              | 45,901                              |
| <b>Total Expenditures</b>                                     | <u>35,315</u>                | <u>1,543</u>                    | <u>27,788</u>        | <u>106,178</u>      | <u>170,824</u>                      |
| <b>Excess (Deficiency) of Revenues Over<br/>Expenditures)</b> | <u>(19,493)</u>              | <u>(1,347)</u>                  | <u>27,756</u>        | <u>(36,067)</u>     | <u>(29,151)</u>                     |
| <b>Other Financing Sources (Uses)</b>                         |                              |                                 |                      |                     |                                     |
| Proceeds from sale of fixed assets                            | -                            | -                               | 6,550                | -                   | 6,550                               |
| Operating transfers in  | 20,000                       | 1,250                           | -                    | 35,000              | 56,250                              |
| Operating transfers out                                       | -                            | -                               | (6,550)              | -                   | (6,550)                             |
| <b>Total Other Financing Sources (Uses)</b>                   | <u>20,000</u>                | <u>1,250</u>                    | <u>-</u>             | <u>35,000</u>       | <u>56,250</u>                       |
| <b>Net Change in Fund Balance</b>                             | <u>507</u>                   | <u>(97)</u>                     | <u>27,756</u>        | <u>(1,067)</u>      | <u>27,099</u>                       |
| <b>Fund Balance - July 1, 2011</b>                            | 159,713                      | 581                             | 94,487               | 540                 | 255,321                             |
| <b>Fund Balance (Deficit) - June 30, 2012</b>                 | <u>\$ 160,220</u>            | <u>\$ 484</u>                   | <u>\$ 122,243</u>    | <u>\$ (527)</u>     | <u>\$ 282,420</u>                   |

**CITY OF BEAVER DAM, KENTUCKY  
 SCHEDULE OF CHARGES FOR SERVICES  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012**

|                              | <b>Enterprise Funds</b> |                     |   | <b>Total</b>        |
|------------------------------|-------------------------|---------------------|---|---------------------|
|                              | <b>Water</b>            | <b>Sewer</b>        | <b>Nonmajor<br/>Fund<br/>Sanitation</b> |                     |
| <b>Charges for Services:</b> |                         |                     |   |                     |
| Water collections            | \$ 516,723              | \$ -                | \$ -                                    | \$ 516,723          |
| Sewer collections            | -                       | 1,112,326           | -                                       | 1,112,326           |
| Sanitation collections       | -                       | -                   | 152,260                                 | 152,260             |
| Public fire protection       | 7,890                   | -                   | -                                       | 7,890               |
| Meter charges                | 8,287                   | -                   | -                                       | 8,287               |
| Reconnect fees               | 13,750                  | -                   | -                                       | 13,750              |
| Tapping charges              | -                       | 1,800               | -                                       | 1,800               |
| Lift station maintenance fee | -                       | 4,000               | -                                       | 4,000               |
| Penalties                    | 7,334                   | 4,511               | 2,515                                   | 14,360              |
|                              | <u>\$ 553,984</u>       | <u>\$ 1,122,637</u> | <u>\$ 154,775</u>                       | <u>\$ 1,831,396</u> |

INDEPENDENT AUDITORS' REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS*





# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577  
Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704

FAX (270) 756-5927

## 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

### INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Commissioners  
City of Beaver Dam, Kentucky

We have audited the accompanying financial statements of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information of the City of Beaver Dam, Kentucky (City), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 22, 2013. 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

Management of City of Beaver Dam, Kentucky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 12-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We noted certain matters we reported to the management of City of Beaver Dam, Kentucky in a separate letter dated January 22, 2013.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the city council and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

January 22, 2013

**CITY OF BEAVER DAM, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2012**

**Finding: 12-1**

|                             |   |
|-----------------------------|---|
| <i>Condition:</i>           | While the City is able to provide complete financial statements through an outsourcing arrangement, it does not have the ability to oversee these services or evaluate the adequacy and results of those services and accept responsibility for them.   |
| <i>Criteria:</i>            | A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles applied to the preparation of its financial statements.   |
| <i>Cause:</i>               | Auditing standards have placed a greater expectation on the government to make all material adjustments itself; however, City staff lacks the expertise to make some of the required adjustments. To compensate for the lack of staff with sufficient accounting knowledge, the City outsources its bookkeeping function and relies on outside expertise for the preparation of its financial statements. |
| <i>Effect:</i>              | There is the potential for the financial statements to be misstated and not be detected by City staff.  |
| <i>Recommendation:</i>      | Staff should obtain any necessary training to familiarize themselves with the applicable accounting principles for the preparation of complete governmental financial statements, as well as routinely perform a final review to determine that all known adjustments have been made.   |
| <i>Management Response:</i> | <i>We concur with the recommendation.</i>   |

MANAGEMENT LETTER



# DRANE & COMPANY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

209 East Third Street - P. O. Box 577

Hardinsburg, Kentucky 40143

DANIEL G. DRANE, CPA  
SHEILA A. BRANDENBURG, CPA

Telephone (270) 756-5704

FAX (270) 756-5927

## MANAGEMENT LETTER

Honorable Mayor and Commissioners  
City of Beaver Dam, Kentucky

In planning and performing our audit of the basic financial statements of the City of Beaver Dam, Kentucky (City), as of and for the year ended June 30, 2012, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal control and operating efficiency. The paragraphs below summarize our comments and suggestions regarding the matters. A separate report dated January 22, 2013, contains our report on the City of Beaver Dam, Kentucky's internal control. This letter does not affect our report dated January 22, 2013 on the basic financial statements of the City of Beaver Dam, Kentucky.

### CURRENT YEAR

The City does not utilize purchase orders or receiving reports, and paid invoices are not cancelled or defaced in a manner which would prevent their being processed for payment a second time. Sufficient internal controls include all of these procedures, and we recommend that the City adopt these processes.

Staff time records frequently indicated time worked in excess of the amount paid. This is due to employees "punching in" upon arrival but not starting work immediately. This practice could subject the City to substantial back pay and penalties. Procedures should be changed to match time cards to the actual hours worked.

The City's utility billing system is not set up to charge sales tax on school tax. State law requires that school tax be added to subject utility charges before calculating sales tax. We recommend that the system be updated to make this change.

We will be pleased to discuss any of these matters with you and, if desired, assist you in implementing any of these suggestions. This report is intended for the information of the city commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

*Drane & Company, PLLC*

Drane & Company, PLLC  
Certified Public Accountants

January 22, 2013