

CITY OF BEAVER DAM, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING
INFORMATION

For the Year Ended June 30, 2016
and
REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Commissioners
City of Beaver Dam, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the aggregate remaining fund information of the City of Beaver Dam, Kentucky (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. However, because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component unit.

Basis for Disclaimer of Opinion

As discussed in item 16-2 in the Schedule of Findings and Responses on page 46, the City of Beaver Dam Tourism Commission lacked support for material cash receipts and disbursements. As a result, there was insufficient evidence upon which to base an audit opinion for the aggregate discretely presented component unit.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component unit, the City of Beaver Dam Tourism Commission. Accordingly, we do not express an opinion on the financial statements of the aggregate discretely presented component unit, the City of Beaver Dam Tourism Commission, as of and for the year ended June 30, 2016.

Unqualified 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 (City), as of and for the year ended June 30, 2016, and the respective changes in its financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 36 and 37 and the pension schedules and notes on pages 38 through 40 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.

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information shown on pages 41 through 43 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information shown on pages 41 through 43 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information shown on pages 41 through 43 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Beaver Dam, Kentucky's internal control over financial reporting and compliance.

Drane & Company, PLLC

Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, Kentucky

April 3, 2017

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,080,318	\$ 1,195,694	\$ 2,276,012	\$ -
Accounts receivable	153,622	283,341	436,963	-
Interfund receivables	1,232	1,604	2,836	-
Due from component unit	75,139	-	75,139	-
Due from primary government	-	-	-	91,074
Unbilled revenue	-	88,877	88,877	-
Total Current Assets	<u>1,310,311</u>	<u>1,569,516</u>	<u>2,879,827</u>	<u>91,074</u>
Noncurrent Assets				
Restricted cash	577,700	-	577,700	24,711
Investments - noncurrent	1,000	-	1,000	-
Capital assets not being depreciated	441,186	31,635	472,821	-
Capital assets, net of depreciation	4,846,113	3,178,753	8,024,866	-
Total Noncurrent Assets	<u>5,865,999</u>	<u>3,210,388</u>	<u>9,076,387</u>	<u>24,711</u>
Total Assets	<u>7,176,310</u>	<u>4,779,904</u>	<u>11,956,214</u>	<u>115,785</u>
Deferred Outflows of Resources				
County Employees Retirement pension	102,700	116,864	219,564	-
Liabilities				
Current Liabilities				
Accounts payable	20,864	42,858	63,722	7,499
Accrued liabilities	82,214	50,994	133,208	-
Interfund payables	352	-	352	-
Due to component unit	91,074	-	91,074	-
Due to primary government	-	-	-	75,139
Customer deposits	-	66,225	66,225	-
Current portion of long-term debt	66,391	29,403	95,794	-
Total Current Liabilities	<u>260,895</u>	<u>189,480</u>	<u>450,375</u>	<u>82,638</u>
Noncurrent Liabilities				
Net pension liability	506,911	560,271	1,067,182	-
Notes and leases payable	2,157,359	343,557	2,500,916	-
Total Noncurrent Liabilities	<u>2,664,270</u>	<u>903,828</u>	<u>3,568,098</u>	<u>-</u>
Total Liabilities	<u>2,925,165</u>	<u>1,093,308</u>	<u>4,018,473</u>	<u>82,638</u>
Net Position				
Net investment in capital assets	3,063,549	2,837,428	5,900,977	-
Restricted for:				
Municipal roads	11,482	-	11,482	-
Cemetery maintenance	171,714	-	171,714	-
Economic assistance	275,395	-	275,395	-
Community pride	197	-	197	-
Tourism/amphitheater	118,912	-	118,912	33,147
Unrestricted, expendable	712,596	966,032	1,678,628	-
Total Net Position	<u>\$ 4,353,845</u>	<u>\$ 3,803,460</u>	<u>\$ 8,157,305</u>	<u>\$ 33,147</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, 2016**

Functions/Programs	Program Revenues				Net (Expense)/Revenue Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Tourism Commission
Governmental Activities								
Cemetery	\$ 39,819	\$ 17,850	\$ -	\$ -	\$ (21,969)	\$ -	\$ (21,969)	\$ -
Code enforcement	9,245	-	-	-	(9,245)	-	(9,245)	-
Community pride project	-	30	-	-	30	-	30	-
General government	168,331	4,950	5,000	-	(158,381)	-	(158,381)	-
Parks and recreation	249,228	320	11,705	-	(237,203)	-	(237,203)	-
Public safety:								
Fire	73,434	16,990	23,300	15,000	(18,144)	-	(18,144)	-
Police	463,969	-	28,714	-	(435,255)	-	(435,255)	-
Streets	167,438	-	-	131,433	(36,005)	-	(36,005)	-
Tourism	510,602	-	-	-	(510,602)	-	(510,602)	-
Total Governmental Activities	1,682,066	40,140	68,719	146,433	(1,426,774)	-	(1,426,774)	-
Business-Type Activities								
Water utilities	668,952	654,402	-	-	-	(14,550)	(14,550)	-
Sewer services	1,180,647	1,138,565	-	78,728	-	36,646	36,646	-
Sanitation services	178,537	167,179	-	-	-	(11,358)	(11,358)	-
Total Business-Type Activities	2,028,136	1,960,146	-	78,728	-	10,738	10,738	-
Total Primary Government	\$3,710,202	\$2,000,286	\$ 68,719	\$ 225,161	\$ (1,426,774)	\$ 10,738	\$ (1,416,036)	-
Component Unit								
Tourism Commission	\$ 604,408	\$ -	\$ -	\$ -				\$ (604,408)
General Revenues:								
Taxes:								
Ad valorem taxes					\$ 37,976	\$ -	\$ 37,976	\$ -
Franchise taxes					156,475	-	156,475	-
Insurance premium taxes					258,690	-	258,690	-
Property taxes					407,703	-	407,703	-
Restaurant and transient room taxes					567,336	-	567,336	-
Occupational licenses					13,654	-	13,654	-
Loss on disposition of fixed assets					(3,683)	-	(3,683)	-
Interest income					3,981	5,185	9,166	-
Other revenue					13,659	-	13,659	90,465
Payment from component unit					279,178	-	279,178	-
Payment from primary government					-	-	-	510,602
Total					1,734,969	5,185	1,740,154	601,067
Changes in Net Position					308,195	15,923	324,118	(3,341)
Net Position - July 1, 2015 (Restated)					4,045,650	3,787,537	7,833,187	36,488
Net Position - June 30, 2016					\$ 4,353,845	\$ 3,803,460	\$ 8,157,305	\$ 33,147

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

CITY OF BEAVER DAM, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,080,318	\$ -	\$ 1,080,318
Receivables, net	153,622	-	153,622
Due from component unit	75,139	-	75,139
Due from other funds	-	1,232	1,232
Restricted cash	118,912	458,788	577,700
Investments - noncurrent	-	1,000	1,000
Total Assets	<u>\$ 1,427,991</u>	<u>\$ 461,020</u>	<u>\$ 1,889,011</u>
Liabilities			
Accounts payable	\$ 13,586	\$ 7,278	\$ 20,864
Accrued liabilities	79,943	2,271	82,214
Due to component unit	91,074	-	91,074
Interfund payables	352	-	352
Total Liabilities	<u>184,955</u>	<u>9,549</u>	<u>194,504</u>
Fund Balance			
Restricted for:			
Cemetery maintenance	-	171,557	171,557
Economic assistance	-	275,395	275,395
Pension trust	36	-	36
Municipal roads	-	4,322	4,322
Tourism/amphitheater	118,912	-	118,912
Assigned to community projects	-	197	197
Unassigned	1,124,088	-	1,124,088
Total Fund Balance	<u>1,243,036</u>	<u>451,471</u>	<u>1,694,507</u>
Total Liabilities and Fund Balance	<u>\$ 1,427,991</u>	<u>\$ 461,020</u>	<u>\$ 1,889,011</u>

Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities

Total Governmental Fund Balance	\$ 1,694,507
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	5,287,299
Deferred outflows of resources for County Employees Retirement System pension is not reported in the governmental funds.	102,700
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(2,730,661)</u>
Net Position of Governmental Activities	<u>\$ 4,353,845</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 BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenues			
Charges for services	\$ 33,810	\$ 17,880	\$ 51,690
Interest income	3,030	951	3,981
Intergovernmental revenues	72,170	131,433	203,603
Licenses and permits	13,654	-	13,654
Miscellaneous revenues	6,599	7,059	13,658
Payments from component unit	279,178	-	279,178
Taxes	1,428,180	-	1,428,180
Total Revenues	<u>1,836,621</u>	<u>157,323</u>	<u>1,993,944</u>
Expenditures			
Current:			
Cemetery	-	38,643	38,643
Code enforcement	9,245	-	9,245
General government	164,361	-	164,361
Public safety:			
Fire	38,944	-	38,944
Police	403,240	-	403,240
Parks and recreation	60,702	-	60,702
Streets	-	112,800	112,800
Tourism - payment to component unit	510,602	-	510,602
Debt Service:			
Principal	84,988	-	84,988
Interest	69,970	-	69,970
Capital Outlay	<u>124,551</u>	<u>26,965</u>	<u>151,516</u>
Total Expenditures	<u>1,466,603</u>	<u>178,408</u>	<u>1,645,011</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>370,018</u>	<u>(21,085)</u>	<u>348,933</u>
Other Financing Sources (Uses)			
Proceeds from sale of assets	842	-	842
Operating transfers in	-	50,000	50,000
Operating transfers out	(50,000)	-	(50,000)
Total Other Financing Sources (Uses)	<u>(49,158)</u>	<u>50,000</u>	<u>842</u>
Net Change in Fund Balance	320,860	28,915	349,775
Fund Balance - July 1, 2015	922,176	422,556	1,344,732
Fund Balance - June 30, 2016	<u>\$ 1,243,036</u>	<u>\$ 451,471</u>	<u>\$ 1,694,507</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 BALANCES - GOVERNMENTAL FUND WITH THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016

Net Changes in Fund Balances - Governmental Funds \$ 349,775

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 depreciation (\$243,852) exceeded capital outlays (\$151,516). (92,336)

In the Statement of Activities, only the change in net pension liability is reported, whereas the change in this liability is not reported in the governmental funds. Thus, the change in net position differs from the change in net position differs from the change in fund balance by the net book value of the equipment that was sold or disposed of. (4,525)

In the Statement of Activities, the change in net pension liability and deferred inflows and outflows is reported. Whereas the change in this liability is not reported in the governmental funds. Thus the change in net position differs from the change in fund balance by the amount of the increase or decrease in this account. (29,707)

Debt repayments are expensed in the governmental funds as a use of current financial resources. 84,988

Changes in Net Position of Governmental Activities \$ 308,195

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

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Assets				
Current Assets				
Cash and cash equivalents	\$ 570,762	\$ 480,192	\$ 144,740	\$ 1,195,694
Trade accounts receivable - net	87,709	180,394	15,238	283,341
Interfund receivables	469	1,183	271	1,923
Unbilled revenue	28,352	60,525	-	88,877
Total Current Assets	687,292	722,294	160,249	1,569,835
Noncurrent Assets				
Construction in progress	31,635	-	-	31,635
Land and land improvements	25,490	124,943	500	150,933
Building improvements	31,918	27,127	3,728	62,773
Office equipment	17,316	26,708	4,948	48,972
Vehicles	52,332	78,560	217,400	348,292
Machinery and equipment	319,894	272,747	-	592,641
Utility plants	1,619,241	1,402,833	-	3,022,074
Sewage disposal system	-	2,003,439	-	2,003,439
Less: accumulated depreciation	(1,363,128)	(1,577,276)	(109,967)	(3,050,371)
Total Noncurrent Assets	734,698	2,359,081	116,609	3,210,388
Total Assets	1,421,990	3,081,375	276,858	4,780,223
Deferred Outflows of Resources				
County Employees Retirement pension	49,810	47,649	19,405	116,864
Liabilities				
Current Liabilities				
Accounts payable	30,611	6,630	5,617	42,858
Accrued liabilities	35,200	12,232	3,562	50,994
Interfund payables	319	-	-	319
Customer deposits	66,225	-	-	66,225
Current portion of long-term debt	-	29,403	-	29,403
Total Current Liabilities	132,355	48,265	9,179	189,799
Noncurrent Liabilities				
Net pension liability	244,384	230,405	85,482	560,271
Notes and leases payable	-	343,557	-	343,557
Total Noncurrent Liabilities	244,384	573,962	85,482	903,828
Total Liabilities	376,739	622,227	94,661	1,093,627
Net Position				
Net investment in capital assets	734,698	1,986,121	116,609	2,837,428
Unrestricted	360,363	520,676	84,993	966,032
Total Net Position	\$ 1,095,061	\$ 2,506,797	\$ 201,602	\$ 3,803,460

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

CITY OF BEAVER DAM, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Operating Revenues				
Charges for services	\$ 646,539	\$ 1,125,392	\$ 164,526	\$ 1,936,457
Miscellaneous	7,863	13,173	2,653	23,689
Total Operating Revenues	<u>654,402</u>	<u>1,138,565</u>	<u>167,179</u>	<u>1,960,146</u>
Operating Expenses				
Advertising	197	270	133	600
Communications and postage	5,786	4,332	1,702	11,820
Depreciation	51,278	84,161	17,472	152,911
Dues and subscriptions	878	-	-	878
Employee insurance	35,126	28,152	23,220	86,498
Employee retirement	36,371	34,593	13,581	84,545
Insurance and bonds	14,600	18,463	12,391	45,454
Miscellaneous	-	-	2,690	2,690
Motor fuel and lubricants	7,628	5,056	6,515	19,199
Office supplies	3,565	985	215	4,765
Other contractual services	68,265	-	39,132	107,397
Other supplies	3,814	1,721	1,418	6,953
Payroll tax expense	7,979	8,426	3,514	19,919
Professional fees	18,933	8,422	2,722	30,077
Repairs and maintenance	9,328	15,363	3,162	27,853
Salaries	111,789	118,436	47,049	277,274
Sewage treatment	-	813,844	-	813,844
Technical supplies	7,958	8,843	-	16,801
Travel	1,276	359	-	1,635
Uniforms	4,353	2,849	3,621	10,823
Utilities	12,865	21,658	-	34,523
Water purchases	266,963	-	-	266,963
Total Operating Expenses	<u>668,952</u>	<u>1,175,933</u>	<u>178,537</u>	<u>2,023,422</u>
Operating Income (Loss)	<u>(14,550)</u>	<u>(37,368)</u>	<u>(11,358)</u>	<u>(63,276)</u>
Non-Operating Revenues (Expenses)				
Grant revenue	-	78,728	-	78,728
Interest income	2,170	2,545	470	5,185
Interest expense	-	(3,924)	-	(3,924)
Lease executory cost	-	(790)	-	(790)
Total Non-Operating Revenues (Expenses)	<u>2,170</u>	<u>76,559</u>	<u>470</u>	<u>79,199</u>
Changes in Net Position	<u>(12,380)</u>	<u>39,191</u>	<u>(10,888)</u>	<u>15,923</u>
Net Position - July 1, 2015 (Restated)	<u>1,107,441</u>	<u>2,467,606</u>	<u>212,490</u>	<u>3,787,537</u>
Net Position - June 30, 2016	<u>\$ 1,095,061</u>	<u>\$ 2,506,797</u>	<u>\$ 201,602</u>	<u>\$ 3,803,460</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, 2016

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Cash Flows from Operating Activities:				
Receipts from customers	\$ 663,372	\$ 1,110,554	\$ 167,159	\$ 1,941,085
Payments to employees for services	(175,959)	(175,830)	(84,214)	(436,003)
Payments to suppliers	(426,485)	(906,775)	(72,343)	(1,405,603)
Internal activity - payments to other funds	(2,368)	(2,559)	(579)	(5,506)
Net Cash Provided by Operating Activities	<u>58,560</u>	<u>25,390</u>	<u>10,023</u>	<u>93,973</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(23,375)	(171,295)	(132,791)	(327,461)
Principal payments	-	(29,112)	-	(29,112)
Interest payments	-	(3,948)	-	(3,948)
Grant revenue	-	78,728	-	78,728
Lease executory cost	-	(790)	-	(790)
Net Cash Used by Capital and Related Financing Activities	<u>(23,375)</u>	<u>(126,417)</u>	<u>(132,791)</u>	<u>(282,583)</u>
Cash Flows from Investing Activities:				
Interest income	2,170	2,545	470	5,185
Net Increase in Cash and Cash Equivalents	<u>37,355</u>	<u>(98,482)</u>	<u>(122,298)</u>	<u>(183,425)</u>
Cash and Cash Equivalents - July 1, 2015	<u>533,407</u>	<u>578,674</u>	<u>267,038</u>	<u>1,379,119</u>
Cash and Cash Equivalents - June 30, 2016	<u>\$ 570,762</u>	<u>\$ 480,192</u>	<u>\$ 144,740</u>	<u>\$ 1,195,694</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (14,550)	\$ (37,368)	\$ (11,358)	\$ (63,276)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	51,278	84,161	17,472	152,911
Change in assets and liabilities:				
Net receivables	2,383	(12,405)	(20)	(10,042)
Interfund receivables	(469)	(864)	(271)	(1,604)
Unbilled revenue	(2,933)	(15,606)	-	(18,539)
Deferred outflows of resources	(26,387)	(25,552)	(11,207)	(63,146)
Accounts payable	(76)	(4,610)	1,358	(3,328)
Accrued liabilities	1,281	1,242	227	2,750
Customer deposits	9,520	-	-	9,520
Net pension liability	60,327	56,873	21,100	138,300
Deferred inflows of resources	(19,915)	(18,786)	(6,970)	(45,671)
Due to other funds	(1,899)	(1,695)	(308)	(3,902)
Net Cash Provided by Operating Activities	<u>\$ 58,560</u>	<u>\$ 25,390</u>	<u>\$ 10,023</u>	<u>\$ 93,973</u>

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

CITY OF BEAVER DAM, KENTUCKY
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 JUNE 30, 2016

	Agency Fund
Assets	
Due from other funds	\$ 352
Restricted cash	21,080
Total Assets	21,432
Liabilities	
Due to other funds	2,836
Payroll liabilities	18,596
Total Liabilities	21,432
Net Position	\$ -

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, 2016**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Beaver Dam, Kentucky's primary government (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. As required by GAAP, these financial statements present the City and its component unit, an entity for which the City is financially accountable. The more significant of the government's accounting policies are described below.

(A) Financial Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. There are two methods of presentation of component units:

- a. Blended component units, although legally separate entities from the City, are in substance, part of the City's operations and so data from this component unit is combined with data of the City. As of June 30, 2016, there were not any entities that met this criteria.
- b. Discretely presented component units are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the City. Only the discretely presented component unit disclosures considered essential to the fair presentation of the reporting entity's financial statements are presented in these notes. The following entity is reported as a discretely presented component unit.

The City of Beaver Dam Tourism Commission – The City of Beaver Dam Tourism Commission (Tourism Commission) is a separate component unit of the City, as it is governed by its own seven-member commission, members of which are appointed by the mayor. The Tourism Commission prepares its own financial statements, a summary of which is included in the City's Statements of Net Position and Activities. The Tourism Commission's separately issued financial statements may be obtained at Beaver Dam City Hall, 309 West Second Street, Beaver Dam, Kentucky 42320.

(B) Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the financial activities of the primary government (the City) and its component unit. 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.

CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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.

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.

CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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 Position 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 position (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 position.
- 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 Position 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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Concluded)

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.

(D) Cash and Investments

For the purpose of the Statement of Net Position and the proprietary fund Statement of Cash Flows, cash and cash equivalents include 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 Position.

(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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) Due from/to Component Unit

Amounts owed between the primary government (City) and its component unit are classified as "due to/from primary government" and "due to/from component unit" on the Statement of Net Position. At year-end, the City reported \$91,074 due to the Tourism Commission for restaurant/transient room taxes collected by the City. This amount is expected to be settled within the next fiscal year.

(H) 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.

(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 acquisition value. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2016.

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 Position. 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.

CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 position and displayed in three components:

- a. Net investment in capital assets - 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 position - Net position is considered restricted if its 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 position - Consists of all other net position that does 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.

CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) Equity Classifications (Continued)

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, 2016.

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, 2016.

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.

CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) Equity Classifications (Concluded)

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.

(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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) Nonexchange Transactions (Concluded)

- 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 does not accrue taxes due as of the end of the fiscal year, but the 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.
- 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, 2016.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

(T) Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the deferred amounts related to pensions in the Statement of Net Position in this category. Deferred amounts related to pensions include pension contributions made during the current fiscal year but applicable to a future measurement period of the net pension liability.

(U) Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The City reports the deferred charge on refunding and deferred amount related to pensions in the Statement of Net Position in this category.

(V) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 Road and LGEA Funds restricted by state law.

(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 consist of one share of Ohio County Industrial Foundation stock stated at cost.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONCLUDED)

(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, 2016, 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, 2016.

NOTE 3 - CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the City's cash was \$2,874,792 and the bank balance was \$2,946,290. Of the total bank balance, \$573,614 was covered by federal depository insurance, \$118,912 was covered by federally guaranteed securities, and the remaining balance of \$2,253,764 would require collateralization. As of June 30, 2016, \$3,221,183 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.

NOTE 4 - RESTRICTED ASSETS

Restricted assets consisted of the following as of June 30, 2016:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>
Governmental:	
MRA Fund	\$ 11,482
Cemetery Fund	171,714
LGEA Fund	275,395
Community Pride Fund	197
General Fund - Amphitheater	118,912
	\$ 577,700

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Primary Government</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	
<u>Governmental Activities</u>				
Non-Depreciable Assets				
Land	\$ 376,028	\$ 65,158	\$ -	\$ 441,186
Total Non-Depreciable Assets	376,028	65,158	-	441,186
Capital Assets				
Buildings	3,250,131	19,795	-	3,269,926
Land improvements	724,967	8,000	-	732,967
Furniture and fixtures	9,716	-	-	9,716
Vehicles	638,937	32,553	(25,343)	646,147
Machinery and equipment	834,948	24,510	(14,000)	845,458
Infrastructure	2,653,271	1,500	-	2,654,771
Total Capital Assets Being Depreciated	8,111,970	86,358	(39,343)	8,158,985
Less Accumulated Depreciation for				
Buildings	(261,905)	(84,162)	-	(346,067)
Land improvements	(80,127)	(33,261)	-	(113,388)
Furniture and fixtures	(9,716)	-	-	(9,716)
Vehicles	(492,881)	(37,356)	24,398	(505,839)
Machinery and equipment	(549,254)	(33,475)	10,421	(572,308)
Infrastructure	(1,709,956)	(55,598)	-	(1,765,554)
Total Accumulated Depreciation Governmental Activities Capital Assets, Net	(3,103,839)	(243,852)	34,819	(3,312,872)
	<u>\$ 5,384,159</u>	<u>\$(92,336)</u>	<u>\$ (4,524)</u>	<u>\$ 5,287,299</u>
<u>Governmental Activities</u>				
Depreciation Expense				
General government				\$ 9,067
Public safety				60,415
Streets				54,638
Cemetery				1,176
Parks and recreation				118,556
Total Depreciation Expense – Governmental Activities				<u>\$243,852</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 5 - CAPITAL ASSETS (CONCLUDED)

	<u>Primary Government</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	
<u>Business-Type Activities</u>				
Non-Depreciable Assets				
Construction in progress	\$ 53,674	\$170,052	\$(192,091)	\$ 31,635
Capital Assets				
Utility plants				
Waterworks	1,619,241	-	-	1,619,241
Wastewater treatment plant	1,402,833	-	-	1,402,833
Sewage disposal system	1,789,561	213,877	-	2,003,438
Land and land improvements	150,933	-	-	150,933
Machinery and equipment	589,810	2,832	-	592,642
Vehicles	227,901	132,791	(12,400)	348,292
Building improvements	62,773	-	-	62,773
Office equipment	48,972	-	-	48,972
Total Capital Assets Being Depreciated	<u>5,892,024</u>	<u>349,500</u>	<u>(12,400)</u>	<u>6,229,124</u>
Less Accumulated Depreciation for				
Utility plants				
Waterworks	(937,599)	(42,616)	-	(980,215)
Wastewater treatment plant	(681,034)	(34,264)	-	(715,298)
Sewage disposal system	(435,615)	(42,315)	-	(477,930)
Land and land improvements	(6,055)	(1,633)	-	(7,688)
Machinery and equipment	(551,938)	(9,929)	-	(561,867)
Vehicles	(215,338)	(20,895)	12,400	(223,833)
Building improvements	(33,309)	(1,259)	-	(34,568)
Office equipment	(48,972)	-	-	(48,972)
Total Accumulated Depreciation	<u>(2,909,860)</u>	<u>(152,911)</u>	<u>12,400</u>	<u>(3,050,371)</u>
Business-Type Activities Capital Assets, Net	<u>\$3,035,838</u>	<u>\$366,641</u>	<u>\$(192,091)</u>	<u>\$3,210,388</u>
<u>Business-Type Activities</u>				
Depreciation Expense				
Water				\$ 51,278
Sewer				84,161
Sanitation				17,472
Total Depreciation Expense - Business-Type Activities				<u>\$ 152,911</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 6 - LONG-TERM DEBT

Governmental Activities

As of June 30, 2016, the governmental long-term debt of the financial reporting entity consisted of the following:

	<u>Current Portion</u>	<u>Noncurrent Portion</u>	<u>Total</u>
Kentucky League of Cities – 3.75% interest rate, maturity date – March 1, 2028	\$ 11,391	\$ 162,359	\$ 173,750
Kentucky Bond Corporation – 2.00%–4.00% variable interest rate, maturity date – February 1, 2041	55,000	1,995,000	2,050,000
Total Long-Term Debt	<u>\$ 66,391</u>	<u>\$2,157,359</u>	<u>\$2,223,750</u>

Governmental activities include a note payable issued March 1, 2008, for the purchase of land for a park, a bonded lease agreement issued May 2, 2014 for the construction of an amphitheater, and a note issued June 25, 2014 for a 1999 Pierce Rescue Pumper.

Business-type Activities

As of June 30, 2016, the long-term debt payable from proprietary fund resources consisted of the following:

	<u>Current Portion</u>	<u>Noncurrent Portion</u>	<u>Total</u>
Kentucky Infrastructure Authority – 1% interest rate, maturity date – June 1, 2028	<u>\$ 29,403</u>	<u>\$ 343,557</u>	<u>\$372,960</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Kentucky Bond Corporation	\$2,105,000	\$ -	\$55,000	\$2,050,000	\$55,000
Darby Township	20,000	-	20,000	-	-
Kentucky League of Cities	183,738	-	9,988	173,750	11,391
Net Pension Liability	368,634	138,277	-	506,911	-
Total	<u>\$2,677,372</u>	<u>\$138,277</u>	<u>\$84,988</u>	<u>\$2,730,661</u>	<u>\$66,391</u>
<u>Business-Type Activities</u>					
KY Infrastructure Authority	\$402,072	\$ -	\$29,112	\$372,960	\$29,403
Net Pension Liability	407,366	152,905	-	560,271	-
Total	<u>\$809,438</u>	<u>\$152,905</u>	<u>\$29,112</u>	<u>\$933,231</u>	<u>\$29,403</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Capital Lease Obligations

The City has entered into a capital lease agreement under which the related asset (amphitheater) will become the property of the City when all terms of the lease agreement are met. The interest rate varies from 2% to 4%. The schedule of future minimum lease payments on the capital lease as of June 30, 2016 is as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2017	\$ 122,881
2018	121,781
2019	120,681
2020	124,581
2021	123,381
Thereafter	2,510,069
Future Minimum Payments	<u>3,123,374</u>
Less Interest	<u>(1,073,374)</u>
Present Value of Future Minimum Payments	<u>\$2,050,000</u>

Property and related accumulated depreciation under the capital lease are as follows:

	<u>Governmental Activities</u>
Amphitheater	<u>\$2,029,107</u>
Less: accumulated depreciation	<u>(88,773)</u>
Net Value	<u>\$1,940,334</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2016, are as follows:

Governmental Activities

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 66,391	\$ 71,247	\$ 137,638
2018	66,901	69,921	136,822
2019	67,448	68,578	136,026
2020	73,009	67,229	140,238
2021	73,626	65,753	139,379
2022-2026	408,064	296,307	704,371
2027-2031	428,311	235,124	663,435
2032-2036	495,000	160,813	655,813
2037-2041	545,000	60,925	605,925
	<u>\$2,223,750</u>	<u>\$1,095,897</u>	<u>\$3,319,647</u>

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 6 - LONG-TERM DEBT (CONCLUDED)

Business-type Activities

<u>Fiscal Year Ending June 30,</u>	<u>Sewer Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 29,403	\$ 3,656	\$ 33,059
2018	29,698	3,362	33,060
2019	29,996	3,064	33,060
2020	30,297	2,763	33,060
2021	30,600	2,459	33,059
2022-2026	157,665	7,633	165,298
2027-2028	65,301	818	66,119
	<u>\$372,960</u>	<u>\$ 23,755</u>	<u>\$396,715</u>

NOTE 7 - 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 8 - 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 9 - RESTAURANT AND TRANSIENT ROOM TAX

Effective April 1, 2013, the City established The City of Beaver Dam Tourism Commission for the purpose of promoting and developing tourist activities and facilities. Pursuant to KRS 91A.350 through KRS 91A.390, the City imposed a 3% restaurant and 1% transient room tax on entities doing business within the city limits to fund the operations of the Commission. All monies collected from the taxes are to be turned over to the Tourism Commission, as required by state statute. The City receives an administrative fee of 10% of the funds collected for the costs of collecting and processing the transient room tax and the restaurant tax. At year-end, the City owed the Tourism Commission \$89,989 for taxes collected and accrued.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM

General Information about the County Employees Retirement System

Plan Description – Full-time employees are covered by the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or from the KRS website at www.kyret.ky.gov.

Benefits Provided – CERS provides retirement, health insurance, death, and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1 – Defined Benefit

Participation date	Before September 1, 2008
Unreduced retirement	27 years service or 65 years old with 4 years service
Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age

Tier 2 – Defined Benefit

Participation date	September 1, 2008 – December 31, 2013
Unreduced retirement	At least 5 years service and 65 years old Age 57+ and sum of service years plus age = 87
Reduced retirement	At least 10 years service and 60 years old

Tier 3 – Cash Balance

Participation date	After December 31, 2013
Unreduced retirement	At least 5 years service and 65 years old Age 57+ and sum of service years plus age = 87
Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and the hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Employees in all tiers contribute 5% of their salaries, and those in Tiers 2 and 3 also contribute an additional 1% of their salaries for insurance. Participating employers contributed 17.06% (12.42% pension, 4.64% insurance) of members' non-hazardous compensation for the year ended June 30, 2016.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 61.702 requires CERS to provide post-retirement healthcare benefits to eligible members and dependents. Changes made to the medical plan may be made by the Kentucky Retirement Systems' Board of Trustees and the General Assembly. Additional information can be obtained in the aforementioned financial statements and required supplementary information for CERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$1,067,182 for its proportionate share of the net pension liability for CERS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the actual contributions of the City relative to the total contributions of all participating members of CERS during the measurement period July 1, 2014 through June 30, 2015. At June 30, 2015, the City's proportion was 0.024826%, an increase of 0.0009% from its proportion measured at June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$129,365 for CERS. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual experience	\$ 8,869	\$ -
Changes of assumptions	107,613	-
Net difference between projected and actual earnings on pension plan investments	9,566	-
Changes in proportion and differences between City contributions and proportionate share of contributions	23,341	-
City contributions subsequent to the measurement date	70,175	-
	<u>\$219,564</u>	<u>\$ -</u>

\$101,859 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows related to pensions will be recognized in pension expense as follows:

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$52,660
2018	\$52,660
2019	\$25,365
2020	\$18,704

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation
Projected Salary Increases	4%, average, including inflation
Inflation Rate	3.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2009 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM (CONCLUDED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining twenty-eight year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of Proportionate Share of Net Pension Liability to Changes in the Discount Rate – The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
	<u>6.5%</u>	<u>7.5%</u>	<u>8.5%</u>
City's proportionate share of the net pension liability	\$1,362,388	\$1,067,182	\$814,361

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE 11 - 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 2nd Street, P.O. Box 408, Beaver Dam, KY 42320. The City does not have an equity interest in this organization.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 12 - 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.

NOTE 13 - 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	15,000	Operations
		<u>\$50,000</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>
Payroll	Cemetery	\$ 533	Payroll
General	Payroll	352	Payroll
Payroll	MRA	699	Payroll
Payroll	Sanitation	271	Payroll
Payroll	Sewer	865	Payroll
Payroll	Water	468	Payroll
Water	Sewer	319	Advance for operations

NOTE 14 - BUDGET VIOLATIONS

During the current fiscal year, the City's general fund incurred line item expenditures in excess of budget. The General, Cemetery and MRA Funds experienced a reduction in fund balance, and the Water and Sanitation Funds had declines in net position for the fiscal year.

NOTE 15 - 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. For the fiscal year ended June 30, 2016, 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, members are responsible for payment of the excess losses. 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.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 16 - 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.

NOTE 18 - RELATED PARTY TRANSACTIONS

As explained in Note 1, The City of Beaver Dam Tourism Commission is a component unit of the City of Beaver Dam, Kentucky. The City paid \$510,602 to the Commission during the current year for the restaurant and transient room taxes that were collected. The City received \$279,178 from the Tourism Commission for park maintenance and development and various capital projects.

Per Note 11, the City is a member of the Ohio County Regional Wastewater District (District). During the year ended June 30, 2016, the City paid the District \$813,844 for sewer disposal.

NOTE 19 - RESTATEMENT

Information related to the implementation of GASB Statements No. 68 and 71 not available at the time of the prior year audit resulted in the restatement of the beginning net position of the governmental and business-type activities in the government-wide financial statements and of the Proprietary Fund.

	Governmental Activities	Business-Type Activities		
		Water Fund	Sewer Fund	Sanitation Fund
Net Position at June 30, 2015, Previously Reported	\$4,058,800	\$1,113,869	\$2,473,570	\$214,701
Deferred outflows at June 30, 2015, Restated	(13,150)	(6,428)	(5,964)	(2,211)
Net Position at June 30, 2015, Restated	<u>\$4,045,650</u>	<u>\$1,107,441</u>	<u>\$2,467,606</u>	<u>\$212,490</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BEAVER DAM, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>			Variance from Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charges for services	\$ 65,200	\$ 65,200	\$ 33,810	\$ (31,390)
Interest income	2,000	2,000	3,030	1,030
Intergovernmental revenues	84,100	84,100	72,170	(11,930)
Licenses and permits	14,000	14,000	13,654	(346)
Miscellaneous revenues	50,000	50,000	6,599	(43,401)
Payments from component unit	150,000	150,000	279,178	129,178
Taxes	1,286,100	1,286,100	1,428,180	142,080
Total Revenues	<u>1,651,400</u>	<u>1,651,400</u>	<u>1,836,621</u>	<u>185,221</u>
Expenditures				
Current:				
Code enforcement	18,775	18,775	9,245	9,530
General government	229,925	229,925	164,361	65,564
Parks and recreation	108,375	108,375	60,702	47,673
Public safety:				
Fire	62,625	78,625	38,944	39,681
Police	455,950	455,950	403,240	52,710
Tourism-payment to component unit	450,000	450,000	510,602	(60,602)
Debt Service:				
Principal	11,000	11,000	84,988	(73,988)
Interest	2,800	2,800	69,970	(67,170)
Capital Outlay	70,000	70,000	124,551	(54,551)
Total Expenditures	<u>1,409,450</u>	<u>1,425,450</u>	<u>1,466,603</u>	<u>(41,153)</u>
Excess of Revenues over Expenditures	<u>241,950</u>	<u>225,950</u>	<u>370,018</u>	<u>144,068</u>
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	842	842
Operating transfers out	(123,275)	(123,275)	(50,000)	73,275
Total Other Financing Sources (Uses)	<u>(123,275)</u>	<u>(123,275)</u>	<u>(49,158)</u>	<u>74,117</u>
Net Changes in Fund Balance	118,675	102,675	320,860	218,185
Fund Balance - July 1, 2015	922,176	922,176	922,176	-
Fund Balance - June 30, 2016	<u>\$ 1,040,851</u>	<u>\$ 1,024,851</u>	<u>\$ 1,243,036</u>	<u>\$ 218,185</u>

See accompanying note to required supplementary information.

**CITY OF BEAVER DAM, KENTUCKY
NOTE TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

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.

**CITY OF BEAVER DAM, KENTUCKY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY**

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>
City's proportion of the net pension liability	0.023916%	0.024282%
City's proportionate share of the net pension liability	\$ 776,000	\$ 1,067,182
City's covered-employee payroll	\$ 585,123	\$ 579,100
City's proportionate share of the net pension liability as a percentage of its covered payroll	132.62%	184.28%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%

Note: The data provided in this schedule is based on the measurement date of the CERS net pension liability, which is as of June 30th of the prior fiscal year.

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to pension schedules.

**CITY OF BEAVER DAM, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

Last 10 Fiscal Years*

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 102,327	\$ 100,522
Contributions in relation to the contractually required contribution	<u>(102,327)</u>	<u>(100,522)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 579,100	\$ 589,228
Contributions as a percentage of covered payroll	17.67%	17.06%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes to pension schedules.

**CITY OF BEAVER DAM, KENTUCKY
NOTES TO PENSION SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A - CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

NOTE B - CHANGES OF ASSUMPTIONS

The Board of Trustees for CERS adopted the following changes in assumptions, which were reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members was RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used was the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) was used for the period after disability retirement. There was some margin in the current mortality tables for possible future improvement in mortality rates, and that margin will be reviewed again when the next experience investigation is conducted.
- Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

NOTE C - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 82, Pension Issues. The statement changed the measure of payroll that is required to be presented in the required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for the prior period have been restated.

NOTE D - RESTATEMENT

Information related to the implementation of GASB Statements No. 68 and 71 not available at the time of the prior year audit resulted in the restatement of the contractually required contribution, contributions in relation to the contractually required contribution, and the contributions as a percentage of covered payroll to reflect the June 30, 2015 portion of contributions related to pension only. The amounts reported in the prior year included the health insurance component of the employer contribution.

SUPPLEMENTARY INFORMATION

**CITY OF BEAVER DAM, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>Special Revenue Funds</u>				Total Nonmajor Funds
	Cemetery Fund	Community Pride Fund	LGEA Fund	MRA Fund	
Assets					
Interfund receivables	\$ 533	\$ -	\$ -	\$ 699	\$ 1,232
Restricted cash	171,714	197	275,395	11,482	458,788
Investments - noncurrent	1,000	-	-	-	1,000
Total Assets	<u>\$ 173,247</u>	<u>\$ 197</u>	<u>\$275,395</u>	<u>\$ 12,181</u>	<u>\$ 461,020</u>
Liabilities					
Accounts payable	\$ 398	\$ -	\$ -	\$ 6,880	\$ 7,278
Accrued liabilities	1,292	-	-	979	2,271
Total Liabilities	<u>1,690</u>	<u>-</u>	<u>-</u>	<u>7,859</u>	<u>9,549</u>
Fund Balance					
Restricted for:					
Cemetery maintenance	171,557	-	-	-	171,557
Economic assistance	-	-	275,395	-	275,395
Municipal roads	-	-	-	4,322	4,322
Assigned to community projects	-	197	-	-	197
Total Fund Balances	<u>171,557</u>	<u>197</u>	<u>275,395</u>	<u>4,322</u>	<u>451,471</u>
Total Liabilities and Fund Balances	<u>\$ 173,247</u>	<u>\$ 197</u>	<u>\$275,395</u>	<u>\$ 12,181</u>	<u>\$ 461,020</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, 2016**

	<u>Special Revenue Funds</u>				<u>Total Nonmajor Funds</u>
	<u>Cemetery Fund</u>	<u>Community Pride Fund</u>	<u>LGEA Fund</u>	<u>MRA Fund</u>	
Revenues					
Charges for services	\$ 17,850	\$ 30	\$ -	\$ -	\$ 17,880
Interest income	683	-	251	17	951
Intergovernmental revenues	-	-	61,494	69,939	131,433
Miscellaneous revenue	3,600	-	-	3,459	7,059
Total Revenues	<u>22,133</u>	<u>30</u>	<u>61,745</u>	<u>73,415</u>	<u>157,323</u>
Expenditures					
Current:					
Cemetery	38,643	-	-	-	38,643
Streets	-	-	-	112,800	112,800
Capital Outlay	-	-	25,465	1,500	26,965
Total Expenditures	<u>38,643</u>	<u>-</u>	<u>25,465</u>	<u>114,300</u>	<u>178,408</u>
Excess (Deficiency) of Revenues Over Expenditures	(16,510)	30	36,280	(40,885)	(21,085)
Other Financing Sources					
Operating transfers in	15,000	-	-	35,000	50,000
Net Change in Fund Balance	(1,510)	30	36,280	(5,885)	28,915
Fund Balance - July 1, 2015	173,067	167	239,115	10,207	422,556
Fund Balance - June 29, 2016	<u>\$ 171,557</u>	<u>\$ 197</u>	<u>\$ 275,395</u>	<u>\$ 4,322</u>	<u>\$ 451,471</u>

**CITY OF BEAVER DAM, KENTUCKY
 SCHEDULE OF CHARGES FOR SERVICES
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016**

	Enterprise Funds			Total
	Water	Sewer	Nonmajor Fund Sanitation	
Charges for Services:				
Water collections	\$ 559,482	\$ -	\$ -	\$ 559,482
Sewer collections	-	1,098,826	-	1,098,826
Sanitation collections	-	-	160,759	160,759
Public fire protection	8,190	-	-	8,190
Meter charges	4,100	-	-	4,100
Reconnect fees	20,025	-	-	20,025
Tapping charges	-	500	-	500
Lift station maintenance fee	-	4,000	-	4,000
Penalties	13,592	22,066	3,767	39,425
Aqualine billing	41,150	-	-	41,150
	<u>\$ 646,539</u>	<u>\$ 1,125,392</u>	<u>\$ 164,526</u>	<u>\$ 1,936,457</u>

INDEPENDENT AUDITOR'S REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



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**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 AUDITOR'S REPORT

Honorable Mayor and Commissioners
City of Beaver Dam, Kentucky

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Beaver Dam, Kentucky (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 3, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 deficiencies described in the accompanying Schedule of Findings and Responses as items 16-1 and 16-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City of Beaver Dam, Kentucky's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Drane & Company, PLLC
Certified Public Accountants

Hardinsburg, Kentucky

April 3, 2017

**CITY OF BEAVER DAM, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

Finding: 16-1 (Repeat)

<i>Condition:</i>	The Tourism Commission Clerk's responsibilities include the cash receipts and cash disbursement functions, collections and deposits, preparing bank reconciliations, and general accounting.
<i>Criteria:</i>	Inadequate segregation of duties is an example of a material weakness in the design of controls.
<i>Cause:</i>	Budgetary constraints allow only a limited office staff.
<i>Effect:</i>	Significant controls over transaction processing were absent.
<i>Recommendation:</i>	The Tourism Commission should utilize other City office staff members where possible to segregate incompatible duties.
<i>Management Response:</i>	<i>While not all segregation goals have been achieved, greater review is being made by the Mayor subsequent to deposits having been made and checks issued in conjunction with his preparation of a report to the Commission. Two additional signatures have been added to the checking account. A Tourism Director was recently added who will also have check signing authority and will oversee the financial transactions of the District.</i>

Finding: 16-2 (Repeat)

<i>Condition:</i>	Limited support was provided for material Tourism Commission cash receipts and disbursements.
<i>Criteria:</i>	Effective internal controls require that cash receipts be processed with supporting documentation indicating the source and nature of the transaction and cash disbursements be made only from approved original vendor invoices supported by a purchase order and receiving report if applicable.
<i>Cause:</i>	The system in place does not specify adequate supporting documentation to properly account for cash received and disbursed.
<i>Effect:</i>	Financial statement amounts may be misstated. Failure to implement effective processes and procedures could increase the risks of fraud, violations of appropriation laws, and mismanagement of funds.
<i>Recommendation:</i>	A purchase order system should be initiated to approve purchases in advance where possible. Cash disbursements should be paid only from a vendor invoice and proof of receipt. Controls should be established to support all special event receipts.
<i>Management Response:</i>	<i>On the disbursement side, we are completing implementation of the PO [purchase order] system to track all checks written on the Commission's account. The PO will include the date of disbursement, check number, payee, purpose of payment and a line for a signature or initial of City/Tourism personnel. An invoice will be required to be attached to the PO or, in absence of an invoice, a receipt listing the payee, the amount of payment, purpose of payment and a signature of the payee will be required to be attached.</i> <i>On the receipt side, a voucher will be required to accompany each deposit other than those from the City forwarding the proceeds of the restaurant tax. The voucher will include pertinent information as to where receipts [were] generated and purpose of the receipt. In the case of local ticket sales, the voucher will include the number of tickets provided to the local vendor and upon receipt by the Tourism Commission, the number of unsold tickets being returned plus the amount of funds being returned from sales of tickets. A signature of local ticket vendors will also be required.</i>