

**REPORT OF THE AUDIT OF THE
CITY OF BEAVER DAM, KENTUCKY**

**FOR THE YEAR ENDED
JUNE 30, 2011**

CITY OF BEAVER DAM, KENTUCKY

TABLE OF CONTENTS

PAGE

INTRODUCTORY SECTION

List of Principal Officials 1

FINANCIAL SECTION

Independent Auditors' Report2-3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets4

Statement of Activities5

Fund Financial Statements:

Governmental Funds:

Balance Sheet6

Statement of Revenues, Expenditures and Changes in Fund Balances7

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund

Balances of Governmental Funds to the Statement of Activities8

Proprietary Funds:

Statement of Net Assets9

Statement of Revenues, Expenses and Changes in Fund Net Assets10-11

Statement of Cash Flows12-13

Fiduciary Fund:

Statement of Net Assets14

Notes to Basic Financial Statements15-32

Required Supplementary Information:

Budgetary Comparison Schedule – Major Fund33

Other Supplementary Information:

Combining and Individual Non-Major Governmental Fund Statements:

Combining Balance Sheet34

Combining Statement of Revenues, Expenditures and Changes in Fund Balances35

Independent Auditors' 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 Standards36-37

Schedule of Findings and Responses38

INTRODUCTORY SECTION

**City of Beaver Dam, Kentucky
List of Principal Officials
As of June 30, 2011**

City Commission Members:

Paul Sandefur
Larry Morpew
Sandy Robinson
Keith Dale
Kevin Davis

Mayor
Commissioner
Commissioner
Commissioner
Commissioner

Other Officials:

Mary Wallace
Amy Puckett
Larry Carter
Justin Keown

City Clerk
City Treasurer
City Manager
City Attorney

FINANCIAL SECTION

Buckles, Travis, VanMeter & Hart, PLLC

Certified Public Accountants

DENNIS R. BUCKLES, CPA
BRAD K. TRAVIS, CPA/PFS
KAREN D. VANMETER, CPA
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INDEPENDENT AUDITORS' REPORT

To the Honorable Paul Sandefur, Mayor
and the Board of City Commissioners of the
City of Beaver Dam, Kentucky

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

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

City of Beaver Dam, Kentucky, has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

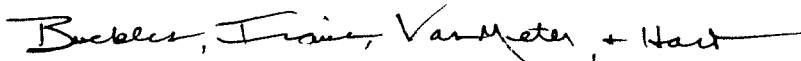
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Beaver Dam, Kentucky, as of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

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2011, on our consideration of the 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



Buckles, Travis, VanMeter and Hart, PLLC

Certified Public Accountants

October 25, 2011

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
 - Governmental funds
 - Proprietary (enterprise) funds
 - Fiduciary fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Beaver Dam, Kentucky
Statement of Net Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 564,657	\$ 1,255,405	\$ 1,820,062
Accounts receivable	20,159	231,353	251,512
Due from other funds	972	5,106	6,078
Unbilled revenue	0	73,617	73,617
TOTAL CURRENT ASSETS	585,788	1,565,481	2,151,269
NONCURRENT ASSETS			
Restricted cash and cash equivalents	267,809	0	267,809
Investments – noncurrent	1,000	0	1,000
Capital assets			
Construction in progress	389,870	0	389,870
Land and land improvements	202,871	132,681	335,552
Buildings	335,673	0	335,673
Building improvements	0	62,773	62,773
Office equipment	0	48,972	48,972
Vehicles	471,409	210,375	681,784
Machinery and equipment	505,917	555,587	1,061,504
Utility plants	0	3,022,074	3,022,074
Sewage disposal system	0	1,760,120	1,760,120
Furniture and fixtures	9,716	0	9,716
Infrastructure	2,461,559	0	2,461,559
Less: Accumulated depreciation	(2,394,431)	(2,290,870)	(4,685,301)
TOTAL NONCURRENT ASSETS	2,251,393	3,501,712	5,753,105
TOTAL ASSETS	2,837,181	5,067,193	7,904,374
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	21,122	38,732	59,854
Accrued liabilities	33,745	35,669	69,414
Due to other funds	0	0	0
Customers' deposits	0	38,525	38,525
Notes payable	26,258	27,973	54,231
TOTAL CURRENT LIABILITIES	81,125	140,899	222,024
NONCURRENT LIABILITIES			
Notes payable	231,061	487,685	718,746
TOTAL NONCURRENT LIABILITIES	231,061	487,685	718,746
TOTAL LIABILITIES	312,186	628,584	940,770
NET ASSETS			
Invested in capital assets, net of related debt	1,725,265	2,986,054	4,711,319
Contributed capital	0	2,535,744	2,535,744
Equity transfer	0	30,169	30,169
Restricted for			
MRA	2,791	0	2,791
Cemetery maintenance	159,973	0	159,973
LGEA	104,464	0	104,464
Community pride	581	0	581
Unrestricted	531,921	(1,113,358)	(581,437)
TOTAL NET ASSETS	\$ 2,524,995	\$ 4,438,609	\$ 6,963,604

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Statement of Activities
Year Ended June 30, 2011

Functions/Programs:	Program Revenues Received			Net (Expense) Revenue Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary government						
Governmental activities						
General government	\$ 162,695	\$ 7,200	\$ 0	\$ 0	\$ (155,495)	\$ (155,495)
Public safety						
Police	398,307	0	36,851	4,060	(357,396)	(357,396)
Fire	43,569	22,455	100	7,750	(13,264)	(13,264)
Parks and recreation	32,739	80	5,750	55,814	28,905	28,905
Streets	186,147	0	0	104,199	(81,948)	(81,948)
Cemetery	35,085	9,950	0	0	(25,135)	(25,135)
Community pride project	600	200	0	0	(400)	(400)
Total governmental activities	859,142	39,885	42,701	171,823	(604,733)	(604,733)
Business-type activities						
Water utilities	685,043	575,907	0	0	(109,136)	(109,136)
Sewer services	1,764,840	1,233,052	0	434,639	(97,149)	(97,149)
Sanitation services	148,115	148,853	0	0	738	738
Total business-type activities	2,597,998	1,957,812	0	434,639	(205,547)	(205,547)
Total primary government	\$ 3,457,140	\$ 1,997,697	\$ 42,701	\$ 606,462	(604,733)	(810,280)
General revenues						
Taxes						
Property taxes					323,253	323,253
Ad-valorem taxes					31,680	31,680
Franchise taxes					136,302	136,302
Insurance premium taxes					203,046	203,046
Occupational licenses					12,036	12,036
Gain/loss on sale of fixed assets					7,400	(745,831)
Miscellaneous					20,963	20,963
Interest income					8,161	27,793
Transfers					2,000	0
Total general revenues					(735,599)	9,242
Change in net assets					(941,146)	(801,038)
Net assets-beginning					2,384,887	7,764,642
Net assets-ending					\$ 2,524,995	\$ 6,963,604

Accompanying notes to the financial statements are an integral part of this statement.
Page 5

FUND FINANCIAL STATEMENTS

City of Beaver Dam, Kentucky
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Other Non-major Funds	Total Funds
ASSETS			
Cash and cash equivalents	\$ 564,657	\$ 0	\$ 564,657
Accounts receivable	20,159	0	20,159
Due from other funds	5,104	652	5,756
Restricted cash and cash equivalents	0	267,809	267,809
Investments – noncurrent	0	1,000	1,000
TOTAL ASSETS	\$ 589,920	\$ 269,461	\$ 859,381
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 8,529	\$ 12,593	\$ 21,122
Accrued liabilities	32,198	1,547	33,745
Due to other funds	4,784	0	4,784
TOTAL LIABILITIES	45,511	14,140	59,651
 FUND BALANCES			
Nonspendable	0	0	0
Restricted for			
Pension trust	36	0	36
Cemetery maintenance	0	159,973	159,973
Municipal roads	0	2,791	2,791
Other purposes – LGEA	0	104,464	104,464
Committed	0	0	0
Assigned to			
Community projects	0	581	581
Land purchase for fire station	150,000	0	150,000
Unassigned	394,373	(12,488)	381,885
TOTAL FUND BALANCES	544,409	255,321	799,730
TOTAL LIABILITIES AND FUND BALANCES	\$ 589,920	\$ 269,461	

Amounts reported for “governmental activities” in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds. 1,982,584

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (257,319)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 2,524,995**

City of Beaver Dam, Kentucky
Statement of Revenues, Expenditures and Changes
In Fund Balances
Governmental Funds
Year End June 30, 2011

	General Fund	Other Non-major Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 694,281	\$ 0	\$ 694,281
Licenses and permits	12,036	0	12,036
Intergovernmental	104,325	104,199	208,524
Charges for services	35,735	10,150	45,885
Miscellaneous	18,193	2,770	20,963
Interest income	6,174	1,987	8,161
TOTAL REVENUES	870,744	119,106	989,850
EXPENDITURES			
General government	158,950	0	158,950
Public safety			
Police	387,263	0	387,263
Fire	33,058	0	33,058
Parks and recreation	25,285	0	25,285
Streets	0	85,588	85,588
Cemetery	0	31,419	31,419
Community pride project	0	600	600
Debt service	25,684	0	25,684
Capital outlay	376,875	63,951	440,826
TOTAL EXPENDITURES	1,007,115	181,558	1,188,673
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(136,371)	(62,452)	(198,823)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	0	0	0
Proceeds from sale of assets	7,000	400	7,400
Transfers from other funds	2,000	70,000	72,000
Transfers to other funds	(70,000)	0	(70,000)
TOTAL OTHER FINANCING SOURCES (USES)	(61,000)	70,400	9,400
NET CHANGE IN FUND BALANCES	(197,371)	7,948	(189,423)
FUND BALANCES – BEGINNING	741,780	247,373	989,153
FUND BALANCES – ENDING	\$ 544,409	\$ 255,321	\$ 799,730

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2011

Net change in fund balances – total governmental funds \$ (189,423)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	440,826
Depreciation	(136,979)

In the statement of activities, only the gain (loss) (\$7,400) on the sale or disposal of capital assets is reported, whereas in the governmental funds, the proceeds (\$7,400) from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the equipment that was sold or disposed of. 0

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

Notes payable	25,684
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Change in net assets of governmental activities \$ 140,108

City of Beaver Dam, Kentucky
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Funds			Total
	Water	Sewer	Other Non- major Fund (Sanitation)	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 472,326	\$ 598,376	\$ 184,703	\$ 1,255,405
Accounts receivable	75,608	141,345	14,400	231,353
Unbilled revenue	24,115	49,502	0	73,617
Due from other funds	2,254	2,379	792	5,425
TOTAL CURRENT ASSETS	<u>574,303</u>	<u>791,602</u>	<u>199,895</u>	<u>1,565,800</u>
NONCURRENT ASSETS				
CAPITAL ASSETS				
Land and land improvements	25,490	106,691	500	132,681
Building improvements	31,918	27,127	3,728	62,773
Office equipment	17,316	26,708	4,948	48,972
Vehicles	49,769	75,997	84,609	210,375
Machinery and equipment	292,861	262,726	0	555,587
Utility plants	1,619,241	1,402,833	0	3,022,074
Sewage disposal system	0	1,760,120	0	1,760,120
Accumulated depreciation	(1,044,479)	(1,157,644)	(88,747)	(2,290,870)
TOTAL NONCURRENT ASSETS	<u>992,116</u>	<u>2,504,558</u>	<u>5,038</u>	<u>3,501,712</u>
TOTAL ASSETS	<u>1,566,419</u>	<u>3,296,160</u>	<u>204,933</u>	<u>5,067,512</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	28,758	5,183	4,791	38,732
Accrued liabilities	26,792	7,703	1,174	35,669
Due to other funds	319	0	0	319
Customers' deposits	38,525	0	0	38,525
Notes payable	0	27,973	0	27,973
Capital lease payable	0	0	0	0
TOTAL CURRENT LIABILITIES	<u>94,394</u>	<u>40,859</u>	<u>5,965</u>	<u>141,218</u>
NONCURRENT LIABILITIES				
Notes payable	0	487,685	0	487,685
TOTAL NONCURRENT LIABILITIES	<u>0</u>	<u>487,685</u>	<u>0</u>	<u>487,685</u>
TOTAL LIABILITIES	<u>94,394</u>	<u>528,544</u>	<u>5,965</u>	<u>628,903</u>
NET ASSETS				
Invested in capital assets, net of related debt	992,116	1,988,900	5,038	2,986,054
Contributed capital	801,529	1,689,349	44,866	2,535,744
Equity transfer	0	0	30,169	30,169
Unrestricted, (deficit)	(321,620)	(910,633)	118,895	(1,113,358)
TOTAL NET ASSETS	<u>\$ 1,472,025</u>	<u>\$ 2,767,616</u>	<u>\$ 198,968</u>	<u>\$ 4,438,609</u>

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2011

	Enterprise Funds			Total
	Water	Sewer	Other Non- major Fund (Sanitation)	
OPERATING REVENUES				
Water collections	\$ 542,698	\$ 0	\$ 0	\$ 542,698
Sewer collections	0	1,212,354	0	1,212,354
Sanitation collections	0	0	143,250	143,250
Public fire protection	8,290	0	0	8,290
Meter charges	750	0	0	750
Reconnect fees	11,382	0	0	11,382
Tapping charges	0	500	0	500
Lift station maintenance fee	0	4,000	0	4,000
Penalties	7,594	4,707	2,340	14,641
Miscellaneous	5,193	11,491	3,263	19,947
TOTAL OPERATING REVENUES	575,907	1,233,052	148,853	1,957,812
OPERATING EXPENSES				
Salaries	112,538	100,868	43,189	256,595
Payroll tax expense	7,896	7,197	3,060	18,153
Employee retirement	23,370	17,676	10,316	51,362
Employee insurance	40,045	22,133	16,076	78,254
Advertising	33	0	49	82
Professional fees	23,515	13,933	1,323	38,771
Maintenance and repairs	9,282	10,983	4,477	24,742
Travel	2,020	609	636	3,265
Utilities	10,716	19,501	0	30,217
Communications and postage	5,642	3,592	1,699	10,933
Insurance and bonds	14,750	12,842	9,017	36,609
Other contractual services	20,434	747,985	29,979	798,398
Water purchased	290,793	107	0	290,900
Technical supplies	18,502	3,310	0	21,812
Uniforms	4,208	1,952	2,076	8,236
Motor fuel and lubricants	10,688	8,118	9,741	28,547
Office supplies	2,967	1,508	1,416	5,891
Other supplies	6,302	4,375	1,066	11,743
Dues and subscription	721	26	0	747
Miscellaneous expense	42	2,640	1,726	4,408
Depreciation expense	80,579	119,040	12,269	211,888
TOTAL OPERATING EXPENSES	685,043	1,098,395	148,115	1,931,553
OPERATING INCOME (LOSS)	(109,136)	134,657	738	26,259

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Statement of Revenues, Expenses and Changes in Fund Net Assets (Concluded)
Proprietary Funds
Year Ended June 30, 2011

	Enterprise Funds			Totals
	Water	Sewer	Other Non- major Fund (Sanitation)	
NON-OPERATING REVENUES (EXPENSES)				
Interest income	\$ 6,961	\$ 11,131	\$ 1,540	\$ 19,632
Interest expense	0	(5,365)	0	(5,365)
Lease executory cost	0	(1,073)	0	(1,073)
Gain/loss on disposal of fixed assets	0	(753,231)	0	(753,231)
Other income	0	434,639	0	434,639
Lagoon closure	0	(660,007)	0	(660,007)
TOTAL NON-OPERATING REVENUES (EXPENSES)	6,961	(973,906)	1,540	(965,405)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(102,175)	(839,249)	2,278	(939,146)
Transfers from other funds	0	0	0	0
Transfers to other funds	0	(2,000)	0	(2,000)
CHANGES IN NET ASSETS	(102,175)	(841,249)	2,278	(941,146)
NET ASSETS – BEGINNING	1,574,200	3,608,865	196,690	5,379,755
NET ASSETS – ENDING	\$ 1,472,025	\$ 2,767,616	\$ 198,968	\$ 4,438,609

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Enterprise Funds			Total
	Water	Sewer	Other Non- major Fund (Sanitation)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 577,907	\$ 1,248,288	\$ 148,537	\$ 1,974,732
Cash payments to employees for services	(181,426)	(146,875)	(72,569)	(400,870)
Cash payments to suppliers	(421,939)	(837,230)	(62,031)	(1,321,200)
Internal activity – payments to other funds	(295)	(413)	80	(628)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(25,753)	263,770	14,017	252,034
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Operating subsidies and transfers from other funds	0	0	0	0
Operating subsidies and transfers to other funds	0	(2,000)	0	(2,000)
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	0	(2,000)	0	(2,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	0	(4,500)	0	(4,500)
Repayment of debt	0	(27,695)	0	(27,695)
Interest paid on debt	0	(5,365)	0	(5,365)
Lease executory cost	0	(1,073)	0	(1,073)
Other receipts	0	434,639	0	434,639
Lagoon closure	0	(660,007)	0	(660,007)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	0	(264,001)	0	(264,001)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	6,961	11,131	1,540	19,632
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	6,961	11,131	1,540	19,632
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,792)	8,900	15,557	5,665
BALANCES – BEGINNING July 1, 2010	491,118	589,476	169,146	1,249,740
BALANCES – ENDING June 30, 2011	<u>\$ 472,326</u>	<u>\$ 598,376</u>	<u>\$ 184,703</u>	<u>\$ 1,255,405</u>

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Statement of Cash Flows (Concluded)
Proprietary Funds
Year Ended June 30, 2011

	<u>Enterprise Funds</u>			<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	<u>Other Non- major Fund (Sanitation)</u>	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Net operating income (loss)	\$ (109,136)	\$ 134,657	\$ 738	\$ 26,259
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:				
Depreciation expense	80,579	119,040	12,269	211,888
Changes in assets and liabilities				
Accounts receivable	(799)	10,318	(316)	9,203
Unbilled revenue	1,134	4,918	0	6,052
Accounts payable	(1,324)	(5,749)	1,174	(5,899)
Accrued liabilities	2,423	999	72	3,494
Customers' deposits	1,665	0	0	1,665
Due to other funds	0	0	0	0
Due from other funds	(295)	(413)	80	(628)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (25,753)</u>	<u>\$ 263,770</u>	<u>\$ 14,017</u>	<u>\$ 252,034</u>

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Statement of Net Assets
Fiduciary Fund
June 30, 2011

	<u>Agency Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 16,955
Due from other funds	4,784
	<hr/>
TOTAL CURRENT ASSETS	21,739
 LIABILITIES	
Current liabilities	
Payroll liabilities	10,877
Due to other funds	10,862
	<hr/>
TOTAL CURRENT LIABILITIES	21,739
	<hr/>
TOTAL NET ASSETS	<u>\$ 0</u>

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) Financial Reporting Entity

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

(B) Basis of Presentation

Government-wide Financial Statements

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

Fund Financial Statements

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

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objective of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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

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

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) Cash and Investments

For the purpose of the Statement of Net Assets and the proprietary fund Statement of Cash Flows, “cash, including time deposits” includes all demand savings accounts, and certificates of deposit of the City.

Investments are carried at cost.

(E) Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

(F) Receivables

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

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

(G) Inventories

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

(H) Restricted Assets

Restricted assets in the governmental funds consist of cash legally restricted for perpetual care of the cemetery. Proprietary fund restricted assets include cash and investments that are legally restricted as to their use. The proprietary restricted assets are related to debt retirement and utility water deposits.

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) Fixed Assets

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

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2011.

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

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

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

Fund Financial Statements

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

(J) Compensated Absences

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

(K) Long-term Debt

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

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) Long-term Debt (Continued)

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, notes payable, and accrued compensated absences.

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 reported as expenditures. The accounting for the proprietary funds is the same in the fund statements as it is in the government-wide statements.

(L) Equity Classifications

Government-wide Statements

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

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

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

Fund Balance Classification

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

Nonspendable

This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City did not have any nonspendable resources as of June 30, 2011.

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) Equity Classifications (Continued)

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, 2011.

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. The City has also assigned funds for the purchase of land for the construction of a new fire station.

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.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) 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.

(N) 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.

(O) Expenditures/ Expenses

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

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

Government Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund – By 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.

(P) Nonexchange Transactions

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

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

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

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

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) Nonexchange Transactions (Continued)

- 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.

(Q) 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

(A) Fund Accounting Requirements

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

Fund	Required By
Road Fund	State Law
LGEA Fund	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 consists of one share of Ohio County Industrial Foundation stock stated at cost.

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

(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, 2011, 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, 2011.

NOTE 3 – CASH AND INVESTMENTS

At year-end, the carrying amount of the City's cash and investments was \$2,104,826 and the bank balance was \$2,115,977. Of the total bank balance, \$574,616 was covered by federal depository insurance and the remaining balance of \$1,541,361 would require collateralization. As of June 30, 2011, \$2,510,469 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, 2011:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>
Governmental:	
MRA Fund	\$ 2,791
Cemetery Fund	159,973
LGEA Fund	104,464
Community Pride Fund	581
	<u>\$ 267,809</u>

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 5 – RISK MANAGEMENT

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

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

- 1) For the fiscal year ended June 30, 2011, City of Beaver Dam, Kentucky, was a member of the Kentucky League of Cities Insurance Service (KLCIS). KLCIS is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NOTE 6 – ACCOUNTS RECEIVABLE

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

NOTE 7 – ACCOUNTS PAYABLE

Payables in the general fund and other major governmental funds are composed of payables to vendors.

Payables of business-type activities are composed of payables to vendors and taxing authorities.

NOTE 8 – 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.

NOTE 9 – JOINTLY GOVERNED ORGANIZATION

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

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 10 – CAPITAL ASSETS

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Governmental Activities</u>				
Non-Depreciable Assets				
Construction in progress	\$ 91,604	\$ 365,875	\$ (67,609)	\$ 389,870
Land	202,871	0	0	202,871
Total Non-Depreciable Assets	294,475	365,875	(67,609)	592,741
Capital Assets				
Buildings	268,064	67,609	0	335,673
Furniture and fixtures	9,716	0	0	9,716
Vehicles	511,611	28,530	(68,732)	471,409
Machinery and equipment	497,417	11,000	(2,500)	505,917
Infrastructure	2,426,138	35,421	0	2,461,559
Total Capital Assets Being Depreciated	3,712,946	142,560	(71,232)	3,784,274
Less Accumulated Depreciation for				
Buildings	(155,480)	(8,353)	0	(163,833)
Furniture and fixtures	(9,716)	0	0	(9,716)
Vehicles	(481,520)	(11,685)	68,732	(424,473)
Machinery and equipment	(426,413)	(19,811)	2,500	(443,724)
Infrastructure	(1,255,555)	(97,130)	0	(1,352,685)
Total Accumulated Depreciation	(2,328,684)	(136,979)	71,232	(2,394,431)
Governmental Activities Capital Assets, Net	<u>\$ 1,678,737</u>	<u>\$ 371,456</u>	<u>\$ (67,609)</u>	<u>\$ 1,982,584</u>
<u>Governmental Activities</u>				
Depreciation Expense				
General government				\$ 3,745
Police				11,044
Fire				10,511
Streets				100,559
Cemetery				3,666
Parks and recreation				7,454
Total Depreciation Expense – Governmental Activities				<u>\$ 136,979</u>

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 10 – CAPITAL ASSETS (CONTINUED)

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Business-Type Activities</u>				
Non-Depreciable Assets				
Construction in progress	\$ 0	\$ 0	\$ 0	\$ 0
Capital Assets				
Utility plants				
Waterworks	1,619,241	0	0	1,619,241
Wastewater treatment plant	2,228,959	0	(826,126)	1,402,833
Sewage disposal system	2,362,594	0	(602,474)	1,760,120
Land and land improvements	132,681	0	0	132,681
Machinery and equipment	551,087	4,500	0	555,587
Vehicles	210,375	0	0	210,375
Building improvements	62,773	0	0	62,773
Office equipment	48,972	0	0	48,972
Total Capital Assets Being Depreciated	<u>7,216,682</u>	<u>4,500</u>	<u>(1,428,600)</u>	<u>5,792,582</u>
Less Accumulated Depreciation for				
Utility plants				
Waterworks	(724,519)	(42,616)	0	(767,135)
Wastewater treatment plant	(806,388)	(51,069)	313,688	(543,769)
Sewage disposal system	(600,036)	(48,402)	361,681	(286,757)
Land and land improvements	(3,365)	(416)	0	(3,781)
Machinery and equipment	(375,456)	(47,358)	0	(422,814)
Vehicles	(174,181)	(19,133)	0	(193,314)
Building improvements	(22,641)	(2,316)	0	(24,957)
Office equipment	(47,765)	(578)	0	(48,343)
Total Accumulated Depreciation	<u>(2,754,351)</u>	<u>(211,888)</u>	<u>675,369</u>	<u>(2,290,870)</u>
Business-type Activities Capital Assets, Net	<u>\$ 4,462,331</u>	<u>\$ (207,388)</u>	<u>\$ (753,231)</u>	<u>\$ 3,501,712</u>
<u>Business-Type Activities</u>				
Depreciation Expense				
Water				\$ 80,579
Sewer				119,040
Sanitation				12,269
Total Depreciation Expense – Business-Type Activities				<u>\$ 211,888</u>

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 11 – LONG-TERM DEBT

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

Governmental activities have two notes payable outstanding: 1) Note issued October 23, 2003, for purchase of a fire truck and 2) Note issued March 1, 2008, for the purchase of land for a park.

Business-type activities have one note payable outstanding.

Governmental Activities:

As of June 30, 2011, 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>
1) Kentucky League of Cities – Variable interest rate, maturity date – October 23, 2013	\$ 17,150	\$ 17,343	\$ 34,493
2) Kentucky League of Cities – 3.75% interest rate, maturity date – March 1, 2028	9,108	213,718	222,826
Total notes payable	<u>\$ 26,258</u>	<u>\$ 231,061</u>	<u>\$ 257,319</u>

Business-type Activities:

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

	<u>Current Portion</u>	<u>Noncurrent Portion</u>	<u>Total</u>
1) Kentucky Infrastructure Authority – 1% interest rate, maturity date – June 1, 2028	\$ 27,973	\$ 487,685	\$ 515,658
Total notes payable	<u>\$ 27,973</u>	<u>\$ 487,685</u>	<u>\$ 515,658</u>

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 11 – LONG-TERM DEBT (CONTINUED)

Changes in Long-term Debt

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

	<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 League of Cities	\$ 51,452	\$ 0	\$ 16,959	\$ 34,493	\$ 17,150
Kentucky League of Cities	231,551	0	8,725	222,826	9,108
Governmental activities					
Long-term liabilities	<u>\$ 283,003</u>	<u>\$ 0</u>	<u>\$ 25,684</u>	<u>\$ 257,319</u>	<u>\$ 26,258</u>
<u>Business-type Activities:</u>					
KY Infrastructure Authority	\$ 543,353	\$ 0	\$ 27,695	\$ 515,658	\$ 27,973
Business-type activities					
Long-term liabilities	<u>\$ 543,353</u>	<u>\$ 0</u>	<u>\$ 27,695</u>	<u>\$ 515,658</u>	<u>\$ 27,973</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2011, are as follows:

Governmental Activities

Notes Payable: Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 26,258	\$ 5,398	\$ 31,656
2013	26,900	4,557	31,457
2014	9,982	3,993	13,975
2015	10,441	3,789	14,230
2016	10,907	3,582	14,489
2017-2021	62,611	14,317	76,928
2022-2026	78,362	7,318	85,680
2027-2028	31,858	591	32,449
	<u>\$ 257,319</u>	<u>\$ 43,545</u>	<u>\$ 300,864</u>

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 11 – LONG-TERM DEBT (CONTINUED)

Business-type Activities

Note Payable: Fiscal Year Ending June 30,	Sewer Fund		
	Principal	Interest	Total
2012	\$ 27,973	\$ 5,087	\$ 33,060
2013	28,253	4,806	33,059
2014	28,537	4,523	33,060
2015	28,823	4,237	33,060
2016	29,112	3,948	33,060
2017-2021	149,994	15,304	165,298
2022-2026	157,665	7,633	165,298
2027-2028	65,301	818	66,119
	<u>\$ 515,658</u>	<u>\$ 46,356</u>	<u>\$ 562,014</u>

NOTE 12 – INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers and Interfund Receivables and Payable

	Interfund Debits	Interfund Credits
General Fund	\$ 75,104	\$ 6,784
Cemetery Fund	346	14,000
MRA Fund	306	56,000
Payroll Fund	4,784	10,862
Sanitation Fund	792	0
Sewer Fund	4,379	0
Water Fund	2,254	319
	<u>\$ 87,965</u>	<u>\$ 87,965</u>

NOTE 13 – 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.

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 14 – EMPLOYEE RETIREMENT SYSTEM

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

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

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

Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.535(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's wages for non-hazardous classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 120,718	100%
2010	\$ 110,742	100%
2009	\$ 87,181	100%

NOTE 15 – 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.

City of Beaver Dam, Kentucky
Notes to Basic Financial Statements (Concluded)
June 30, 2011

NOTE 16 – SUBSEQUENT EVENTS

City of Beaver Dam's management has evaluated and considered the need to recognize or disclose subsequent events through October 25, 2011, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2011, have not been evaluated by management.

NOTE 17 – BUDGET VIOLATIONS

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

NOTE 18 – 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 19 – DEFICIT FUND BALANCES

The MRA, LGEA, and Cemetery funds (nonmajor funds) had operations that resulted in current year deficits of revenues over expenditures that resulted in negative unassigned fund balances of \$2,251, \$9,977, and \$260, respectively, as of June 30, 2011. The General and Community Pride funds also incurred expenditures in excess of revenues for the current year. The City is making an effort to correct these matters.

REQUIRED SUPPLEMENTARY INFORMATION

City of Beaver Dam, Kentucky
Budgetary Comparison Schedule – Major Fund
Required Supplementary Information
Year Ended June 30, 2011

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 631,900	\$ 656,100	\$ 694,281	\$ 38,181
Licenses and permits	12,500	12,500	12,036	(464)
Intergovernmental revenue	59,100	91,100	104,325	13,225
Charges for services	20,500	22,500	35,735	13,235
Miscellaneous	10,000	23,000	18,193	(4,807)
Interest	9,000	9,000	6,174	(2,826)
TOTAL REVENUES	<u>743,000</u>	<u>814,200</u>	<u>870,744</u>	<u>56,544</u>
EXPENDITURES				
General government	234,125	234,125	158,950	75,175
Public safety				
Police	372,900	387,800	387,263	537
Fire	31,300	40,000	33,058	6,942
Parks and recreation	251,545	384,045	25,285	358,760
Debt service	25,600	25,600	25,684	(84)
Capital outlay	0	0	376,875	(376,875)
TOTAL EXPENDITURES	<u>915,470</u>	<u>1,071,570</u>	<u>1,007,115</u>	<u>64,455</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(172,470)	(257,370)	(136,371)	120,999
OTHER FINANCING SOURCES (USES)				
Loan proceeds	0	0	0	0
Proceeds from sale of asset	0	0	7,000	7,000
Transfers from other funds	0	0	2,000	2,000
Transfers to other funds	(95,050)	(95,050)	(70,000)	25,050
TOTAL OTHER FINANCING SOURCES (USES)	<u>(95,050)</u>	<u>(95,050)</u>	<u>(61,000)</u>	<u>34,050</u>
NET CHANGE IN FUND BALANCE	(267,520)	(352,420)	(197,371)	155,049
FUND BALANCE – BEGINNING	(301,985)	(301,985)	741,780	1,043,765
FUND BALANCE – ENDING	<u>\$(569,505)</u>	<u>\$(654,405)</u>	<u>\$ 544,409</u>	<u>\$ 1,198,814</u>

Accompanying notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTARY INFORMATION

**City of Beaver Dam, Kentucky
Combining Balance Sheet
Governmental Funds
Year Ended June 30, 2011**

	<u>Special Revenue Funds</u>				<u>Total Non-major Funds</u>
	<u>MRA Fund</u>	<u>Cemetery Fund</u>	<u>LGEA Fund</u>	<u>Community Pride Fund</u>	
ASSETS					
Due from other funds	\$ 306	\$ 346	\$ 0	\$ 0	\$ 652
Restricted cash and cash equivalents	2,791	159,973	104,464	581	267,809
Investments – noncurrent	0	1,000	0	0	1,000
TOTAL ASSETS	<u>\$ 3,097</u>	<u>\$ 161,319</u>	<u>\$104,464</u>	<u>\$ 581</u>	<u>\$ 269,461</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,847	\$ 769	\$ 9,977	\$ 0	\$ 12,593
Accrued liabilities	710	837	0	0	1,547
TOTAL LIABILITIES	<u>2,557</u>	<u>1,606</u>	<u>9,977</u>	<u>0</u>	<u>14,140</u>
FUND BALANCES					
Nonspendable	0	0	0	0	0
Restricted for					
Cemetery maintenance	0	159,973	0	0	159,973
Municipal roads	2,791	0	0	0	2,791
Other purposes – LGEA	0	0	104,464	0	104,464
Committed	0	0	0	0	0
Assigned to					
Community projects	0	0	0	581	581
Unassigned	(2,251)	(260)	(9,977)	0	(12,488)
TOTAL FUND BALANCES	<u>540</u>	<u>159,713</u>	<u>94,487</u>	<u>581</u>	<u>255,321</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,097</u>	<u>\$ 161,319</u>	<u>\$104,464</u>	<u>\$ 581</u>	<u>\$ 269,461</u>

Accompanying notes to the financial statements are an integral part of this statement.

City of Beaver Dam, Kentucky
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	<u>Special Revenue Funds</u>				<u>Total Non-major Funds</u>
	<u>MRA Fund</u>	<u>Cemetery Fund</u>	<u>LGEA Fund</u>	<u>Community Pride Fund</u>	
REVENUES					
Intergovernmental	\$ 58,845	\$ 0	\$ 45,354	\$ 0	\$ 104,199
Charges for services	0	9,950	0	200	10,150
Miscellaneous	207	2,404	0	159	2,770
Interest income	106	1,340	540	1	1,987
TOTAL REVENUES	<u>59,158</u>	<u>13,694</u>	<u>45,894</u>	<u>360</u>	<u>119,106</u>
EXPENDITURES					
Streets	85,588	0	0	0	85,588
Police	0	0	0	0	0
Cemetery	0	31,419	0	0	31,419
Community pride project	0	0	0	600	600
Capital outlay	32,344	0	31,607	0	63,951
TOTAL EXPENDITURES	<u>117,932</u>	<u>31,419</u>	<u>31,607</u>	<u>600</u>	<u>181,558</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(58,774)	(17,725)	14,287	(240)	(62,452)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	400	0	0	0	400
Transfers from other funds	56,000	14,000	0	0	70,000
Transfers to other funds	0	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	<u>56,400</u>	<u>14,000</u>	<u>0</u>	<u>0</u>	<u>70,400</u>
NET CHANGE IN FUND BALANCES	(2,374)	(3,725)	14,287	(240)	7,948
FUND BALANCES – BEGINNING	<u>2,914</u>	<u>163,438</u>	<u>80,200</u>	<u>821</u>	<u>247,373</u>
FUND BALANCES – ENDING	<u>\$ 540</u>	<u>\$ 159,713</u>	<u>\$ 94,487</u>	<u>\$ 581</u>	<u>\$ 255,321</u>

Accompanying notes to the financial statements are an integral part of this statement.

OTHER REPORTS

**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**

To the Honorable Paul Sandefur, Mayor
and the Board of City Commissioners of the
City of Beaver Dam, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Beaver Dam, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 11-01 that we consider to be a significant deficiency in internal control over financial reporting. *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.

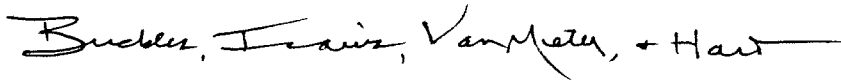
Compliance and Other Matters

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

City of Beaver Dam, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Beaver Dam, Kentucky's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



Buckles, Travis, VanMeter and Hart, PLLC
Certified Public Accountants
October 25, 2011

City of Beaver Dam, Kentucky
 Schedule of Findings and Responses
 Year Ended June 30, 2011

FINDINGS – FINANCIAL STATEMENT AUDIT

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
Significant Deficiencies		
11-01	<p>Condition: Accounting personnel responsible for the accounting and reporting function lacks the professional training and professional experience to apply generally accepted accounting principles in preparing the City's financial statements.</p> <p>Criteria: Deficiencies in the design of controls include the above mentioned condition.</p> <p>Effect: The City is unable to prepare and present properly adjusted financial statements with full note disclosures throughout the fiscal year and at year-end.</p> <p>Cause: The City has chosen not to have the expertise to properly prepare their financial statements and disclosures.</p> <p>Recommendation: The City should consider obtaining the professional training and expertise to apply generally accepted accounting principles in preparing the City's financial statements.</p> <p>Response: We concur with the recommendation.</p>	None
Noncompliance		
None		