

CITY OF DRAKESBORO, KENTUCKY

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CITY OF DRAKESBORO, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Drakesboro, Kentucky

Report on the Financial Statements

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 Drakesboro, Kentucky 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.

To the Honorable Mayor and
Members of the City Council
City of Drakesboro, Kentucky

Auditor's Responsibility (continued)

An audit includes 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 entity'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 entity'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 estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Drakesboro, Kentucky as of June 30, 2016, and the respective changes in financial position and where applicable, cash flows 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 management's discussion and analysis and budgetary comparison information on pages 7 through 11 and page 19 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

To the Honorable Mayor
Members of the City Council
City of Drakesboro, Kentucky

Other Matters (continued)

Required Supplementary Information (continued)

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 any opinion or provide any assurance.

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 combining nonmajor fund financial statements and additional information are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, and additional information 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 combining nonmajor fund financial statements and additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Honorable Mayor
Members of the City Council
City of Drakesboro, Kentucky

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the City of Drakesboro'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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Drakesboro's internal control over financial reporting and compliance.

Amick & Company

Louisville, Kentucky
December 16, 2016

CITY OF DRAKESBORO, KENTUCKY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

As management of the City of Drakesboro, Kentucky, we offer readers of the city's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- Total net position for the primary government decreased \$8,854.
- Net assets of the business-type activities decreased \$36,250.
- Total governmental expenditures exceeded its revenue by \$8,854.
- Total business-type activities expenses exceeded its revenues \$36,250.

OVERVIEW OF FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: 1) government-wide financial statements 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The statements within the first section are government-wide financial statements as required by Governmental Accounting Standards Board Statement Number 34 (GASB 34) and provide both long-term and short-term information about the City's financial condition. Subsequent statements provide more detailed information regarding current year activity.

Government-wide Statements. The statement of Net Position presents information on all City assets and liabilities, with the difference between the two reported as net assets. Changes in this statement may be a useful indicator of improvements or deterioration of the financial position of the City. The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. Most of the City's programs and services are reported here including General Government and Special Revenue activities.

The government-wide statements distinguish functions of the City that are principally supported by taxes, grants and other functions that are included to recover all or a significant portion of their costs through usage fees and charges (business-type activities).

Fund Financial Statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the city can be divided into two categories: Governmental Funds and Proprietary Funds.

Governmental Funds

Most of the City's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using an accounting method called modified cash accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance programs. The relationship, or differences, between governmental activities reported in the statement of net position and the statement of activities and the governmental funds is reconciled in the financial statements.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

CITY OF DRAKESBORO, KENTUCKY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Unaudited

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In this case the City's assets exceeded its liabilities by \$1,406,107.

	Net Position			Net Position		
	Governmental	Business	Total	Governmental	Business	Total
	Activities	Activities		Activities	Activities	
	2016	2016	2016	2015	2015	2015
<u>Assets</u>						
Current - Assets	\$ 51,163	\$ 506,287	\$ 557,450	\$ 51,376	\$ 568,388	\$ 619,764
Noncurrent Assets	156,448	1,213,267	1,369,715	165,446	1,050,130	1,215,576
Total Assets	\$ 207,611	\$ 1,719,554	\$ 1,927,165	\$ 216,822	\$ 1,618,518	\$ 1,835,340
<u>Liabilities</u>						
Current Liabilities	\$ 3,145	\$ 198,913	\$ 202,058	\$ 3,502	\$ 36,627	\$ 40,129
Noncurrent Liabilities	-	319,000	319,000	-	344,000	344,000
Total Liabilities	\$ 3,145	\$ 517,913	\$ 521,058	\$ 3,502	\$ 380,627	\$ 384,129
<u>Net Position</u>						
Invested in Capital Assets	\$ 156,448	\$ 710,709	\$ 867,157	\$ 165,446	\$ 683,130	\$ 848,576
Net of Related Debt	48,018	490,932	538,950	47,874	554,761	602,635
Unrestricted Fund Balance	\$ 204,466	\$ 1,201,641	\$ 1,406,107	\$ 213,320	\$ 1,237,891	\$ 1,451,211
Total Net Position						

CITY OF DRAKESBORO, KENTUCKY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Government-wide Financial Analysis (Continued)

The City's governmental activity programs include General Government, Public Safety, Public Works, Culture and Recreation and Public Services. The City's business-type activity programs include Water, Sewer, and Natural Gas Utilities. Each program's net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the financial burden that was placed on the City's taxpayers and utility customers by each of these functions.

	2016			2015		
	Governmental Activities	Business Activities	Total	Governmental Activities	Business Activities	Total
Expenditures:						
General government	\$ 33,505	\$ -	\$ 33,505	\$ 42,414	\$ -	\$ 42,414
Public safety	4,000	-	4,000	4,000	-	4,000
Public works	-	-	-	0	-	-
Culture and recreation	2,709	-	2,709	506	-	506
Highways and streets	29,143	-	29,143	14,839	-	14,839
Water utility	-	175,930	175,930	-	171,357	171,357
Sewer utility	-	142,405	142,405	-	163,524	163,524
Natural gas utility	-	410,319	410,319	-	509,337	509,337
Total Expenditures	\$ 69,357	\$ 728,654	\$ 798,011	\$ 61,759	\$ 844,218	\$ 905,977
Program Revenues:						
Property taxes	\$ 19,543	\$ -	\$ 19,543	\$ 25,606	\$ -	\$ 25,606
Franchise fees	20,716	-	20,716	21,058	-	21,058
Other revenue	3,738	-	3,738	2,953	-	2,953
Operating grants and contributions	16,506	-	16,506	16,314	-	16,314
Transfers	-	-	-	-	-	-
Charges for services	-	692,404	692,404	-	824,632	824,632
Total Revenue	60,503	692,404	752,907	65,931	824,632	890,563
Changes in Net Position	\$ (8,854)	\$ (36,250)	\$ (45,104)	\$ 4,172	\$ (19,586)	\$ (15,414)

The Natural Gas Utility generated a profit totaling \$24,980 during the year while the Water and Sewer Utility showed a loss of \$61,230.

CITY OF DRAKESBORO, KENTUCKY
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2016
 Unaudited

CAPITAL ASSETS
 Net of Accumulated Depreciation

The capital assets of the City are those assets which are used in the performance of the City's functions. At June 30, 2016, net capital assets of the City are listed below. Depreciation on capital assets is recognized in the government-wide financial statements.

	Governmental Activities 2016	Business Activities 2016	Total 2016	Governmental Activities 2015	Business Activities 2015	Total 2015
Nondepreciable Assets:						
Land	\$ 6,300	\$ 10,000	\$ 16,300	\$ 6,300	\$ 10,000	\$ 16,300
Depreciable Assets Net of Depreciation:						
Buildings and utility plants	132,679	1,140,670	1,273,349	136,870	1,020,587	1,157,457
Furniture, machinery and equipment	17,469	62,597	80,066	22,276	19,542	41,818
Totals	<u>\$ 156,448</u>	<u>\$ 1,213,267</u>	<u>\$ 1,369,715</u>	<u>\$ 165,446</u>	<u>\$ 1,050,129</u>	<u>\$ 1,215,575</u>

DEBT ADMINISTRATION

At June 30, 2016, the City had \$344,000 in bond principal outstanding, \$25,000 due within one year.

OUTSTANDING DEBT, AT YEAR END

	Business-Type Activities 2016	Business-Type Activities 2015
Water and Sewer Revenue Bonds 1982	\$ 123,000	\$ 140,000
Water and Sewer Revenue Bonds 1997	<u>221,000</u>	<u>227,000</u>
Total Bonds	<u>344,000</u>	<u>367,000</u>
Natural Gas Line of Credit	158,558	-
Total Debt	<u>\$ 502,558</u>	<u>\$ 367,000</u>

CITY OF DRAKESBORO, KENTUCKY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

BUDGETS AND BUDGETARY ACCOUNTING

The City uses the following procedures in establishing the budgetary data reflected in the financial statements.

1. Before the beginning of the fiscal year the City Clerk and Mayor submits to the City Council a proposed budget for the year commencing July 1.
2. A public hearing is conducted to obtain public comment.
3. The budget is subsequently adopted by final council approval.

BUDGETARY IMPLICATIONS

The City has approved and adopted an Ordinance for the FY2016 Budget Appropriations. The ordinance was approved in accordance with Kentucky Revised Statutes. Due to aggressive cost containment measures, the tax rate will remain the same and the utility rates are expected to remain stable.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's administrator at P. O. Box 129, Drakesboro, Kentucky 40601. Telephone number (270) 476-8986.

CITY OF DRAKESBORO, KENTUCKY

Statement of Net Position

June 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 41,696	\$ 158,857	\$ 200,553
Receivables	9,467	244,619	254,086
Total Current Assets	51,163	403,476	454,639
Restricted assets:			
Restricted Cash	-	102,811	102,811
CAPITAL ASSETS			
Land	6,300	10,000	16,300
Other capital assets, net of depreciation	150,148	1,203,267	1,353,415
Total Capital Assets	156,448	1,213,267	1,369,715
TOTAL ASSETS	\$ 207,611	\$ 1,719,554	\$ 1,927,165
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 3,145	\$ 5,218	\$ 8,363
Payable from restricted assets	-	10,137	10,137
Line of Credit	-	158,558	158,558
Current portion of bonds payable	-	25,000	25,000
Total Current Liabilities	3,145	198,913	202,058
NONCURRENT LIABILITIES			
Bonds payable	-	319,000	319,000
TOTAL LIABILITIES	\$ 3,145	\$ 517,913	\$ 521,058
NET POSITION			
Invested in capital assets, net of related debt	\$ 156,448	\$ 710,709	\$ 867,157
Unrestricted	48,018	490,932	538,950
TOTAL NET POSITION	\$ 204,466	\$ 1,201,641	\$ 1,406,107

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY

Statement of Activities

For the Year Ended June 30, 2016

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
	\$	\$	\$	\$	\$	\$	\$
Governmental activities:							
General government	33,505	-	-	-	(33,505)	-	(33,505)
Public safety	4,000	-	-	-	(4,000)	-	(4,000)
Highways and street	29,143	-	16,506	-	(12,637)	-	(12,637)
Public Works	-	-	-	-	(2,709)	-	(2,709)
Culture and recreation	2,709	-	-	-	(52,851)	-	(52,851)
<u>Total Governmental Activities</u>	<u>69,357</u>	<u>-</u>	<u>16,506</u>	<u>-</u>	<u>(52,851)</u>	<u>-</u>	<u>(36,250)</u>
Business-type activities:							
Utilities	728,654	692,404	-	-	(36,250)	-	(36,250)
<u>Totals</u>	<u>\$ 798,011</u>	<u>\$ 692,404</u>	<u>\$ 16,506</u>	<u>\$ -</u>	<u>(52,851)</u>	<u>(36,250)</u>	<u>(89,101)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes	19,543				-	-	19,543
Franchise taxes	20,716				-	-	20,716
Miscellaneous	3,738				-	-	3,738
Transfers	43,997				-	-	43,997
<u>Total General Revenues and Transfers</u>	<u>(8,854)</u>				<u>(36,250)</u>	<u>(36,250)</u>	<u>(45,104)</u>
Changes in Net Position							
Net position - beginning	213,320				1,237,891	-	1,451,211
Net position - ending	<u>\$ 204,466</u>				<u>\$ 1,201,641</u>	<u>(89,101)</u>	<u>\$ 1,406,107</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY
 Combined Balance Sheet - All Fund Types and Account Groups
 June 30, 2016

	GOVERNMENTAL FUND TYPES	
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>
ASSETS	29,218	\$ 12,478
Cash		
Receivables - net	8,651	-
Property taxes	-	-
Grants	-	-
Customer accounts	816	-
Due from other funds		
Restricted cash:		
Community development block grant	-	-
Bond sinking	-	-
Depreciation	-	-
Customer deposits	-	-
Fixed assets - net	<u>\$ 38,685</u>	<u>\$ 12,478</u>
TOTAL ASSETS		
LIABILITIES	\$ 3,145	\$ -
Accounts payable	-	-
Due to other funds	-	-
Notes payable		
Payable from restricted assets:		
Current portion of revenue bonds payable	-	-
Customer deposits	-	-
Revenue bonds payable	<u>3,145</u>	<u>-</u>
TOTAL LIABILITIES		
FUND BALANCES		
Investment in general fixed assets		
Contributions in aid of construction		
Retained earnings:		
Appropriated:		
Bond sinking		
Depreciation		
Unappropriated		
Fund balances		12,478
Restricted	<u>35,540</u>	<u>-</u>
Unrestricted		
TOTAL FUND BALANCES	<u>35,540</u>	<u>12,478</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 38,685</u>	<u>\$ 12,478</u>

The accompanying notes are an integral part of these financial statements.

		PROPRIETARY FUND TYPES			ACCOUNT GROUP	TOTALS
		WATER	SEWER	NATURAL GAS	FIXED ASSET	(MEMO ONLY)
		June 30, 2016				
\$	-	\$ 35,265	\$ 123,591	\$ -	\$ -	\$ 200,552
	-	-	-	-	-	8,651
	44,180	37,197	163,243	-	-	244,620
	-	16,799	-	-	-	17,615
	-	-	-	-	-	-
	11,887	11,887	-	-	-	23,774
	23,327	32,393	-	-	-	55,720
	1,979	1,979	19,360	-	-	23,318
	327,211	412,457	473,599	292,657	-	1,505,924
\$	<u>408,584</u>	<u>\$ 547,977</u>	<u>\$ 779,793</u>	<u>\$ 292,657</u>		<u>\$ 2,080,174</u>
\$	96	\$ 1,722	\$ 3,381	\$ -	\$ -	\$ 8,344
	16,809	10	-	-	-	16,819
	-	-	158,558	-	-	158,558
	12,500	12,500	-	-	-	25,000
	2,466	2,467	5,204	-	-	10,137
	159,500	159,500	-	-	-	319,000
	<u>191,371</u>	<u>176,199</u>	<u>167,143</u>	<u>-</u>	<u>-</u>	<u>537,858</u>
	-	-	-	292,657	-	292,657
	241,000	336,786	-	-	-	577,786
	7,201	7,201	-	-	-	14,402
	23,336	32,401	-	-	-	55,737
	(54,324)	(4,610)	612,650	-	-	553,716
	-	-	-	-	-	12,478
	-	-	-	-	-	35,540
	<u>217,213</u>	<u>371,778</u>	<u>612,650</u>	<u>292,657</u>		<u>1,542,316</u>
\$	<u>408,584</u>	<u>\$ 547,977</u>	<u>\$ 779,793</u>	<u>\$ 292,657</u>		<u>\$ 2,080,174</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2016

Total Fund Balances - Governmental Funds \$ 48,018

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

Capital assets are not reported in this fund financial statement
because they are not current financial resources, but they are
reported in the statement of net assets.

Total cost of capital assets 292,657
Accumulated depreciation (136,209)

Net Position of Governmental Activities \$ 204,466

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY
Statement of Revenue, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2016

	GENERAL	SPECIAL REVENUE	TOTALS GOVERNMENTAL FUNDS
REVENUES	\$ 19,543	\$ -	\$ 19,543
Property taxes	-	5,001	5,001
Entitlement payments	20,716	-	20,716
Franchise tax	-	11,505	11,505
Road subsidies	-	-	-
Federal Grants	3,721	-	3,721
Other	7	10	17
Interest	-	-	-
Interest and penalties on taxes	-	-	-
TOTAL REVENUES	<u>43,987</u>	<u>16,516</u>	<u>60,503</u>
EXPENDITURES	20,396	-	20,396
General government	4,000	-	4,000
Public safety	16,093	17,161	33,254
Public works	2,709	-	2,709
Parks and recreation	-	-	-
Capital expenditures	-	-	-
TOTAL EXPENDITURES	<u>43,198</u>	<u>17,161</u>	<u>60,359</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>789</u>	<u>(645)</u>	<u>144</u>
OTHER FINANCING SOURCES (USES)	-	(5,000)	(5,000)
Operating transfers - out	5,000	-	5,000
Operating transfers - in	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,000</u>	<u>(5,000)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>5,789</u>	<u>(5,645)</u>	<u>144</u>
FUND BALANCE - BEGINNING	<u>29,751</u>	<u>18,123</u>	<u>47,874</u>
FUND BALANCE - ENDING	<u>\$ 35,540</u>	<u>\$ 12,478</u>	<u>\$ 48,018</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY

Reconciliation of the Statement of Revenue,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2016

Net Change in Fund Balance - Governmental Funds	\$	144
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlay as expenditures.

However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the period.

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.

(8,998)

Change in Net Position of Governmental Activities	\$	<u>(8,854)</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY
Statement of Revenue and Expenditures - Budget and Actual
General and Special Revenue Funds
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenue:				
Property taxes	\$ 19,000	\$ 19,000	\$ 19,543	\$ 543
Franchise taxes	20,000	20,000	20,716	716
Other	1,400	1,400	3,721	2,321
Interest	-	-	17	17
Penalties and taxes	100	100	-	(100)
Entitlement payments	6,000	6,000	5,001	(1,000)
Road subsidies	13,000	13,000	11,505	(1,495)
Transfers from Other Funds	-	-	-	-
Total Revenue Before Prior Year Fund Balances	<u>59,500</u>	<u>59,500</u>	<u>60,503</u>	<u>1,003</u>
Prior year fund balance appropriated for current year budget	-	-	-	-
Total Revenue and Prior Year Fund Balance	<u>59,500</u>	<u>59,500</u>	<u>60,503</u>	<u>1,003</u>
Expenditures:				
General Government:				
City clerk compensation	1,450	1,450	1,200	250
Payroll taxes	400	400	362	38
Insurance	2,000	2,000	1,901	99
Audit	1,000	1,000	1,000	-
Accounting	3,000	3,000	3,000	-
Other	19,400	19,400	12,932	6,468
Public Safety:				
Fire	4,000	4,000	4,000	-
Public Works:				
Wages	4,000	4,000	4,111	(111)
Highway maintenance	13,000	13,000	17,161	(4,161)
Streetlights	10,500	10,500	11,982	(1,482)
Parks and Recreation:				
Utilities and other	750	750	2,709	(1,959)
Transfer to Other Funds	-	-	-	-
Total Charges to Appropriations	<u>59,500</u>	<u>59,500</u>	<u>60,358</u>	<u>(858)</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144</u>	<u>\$ 144</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY

Statement of Revenue, Expenses, And Changes in Net Position - Proprietary Funds For the Year Ended June 30, 2016

	WATER FUND	SEWER FUND	NATURAL GAS FUND	TOTAL PROPRIETARY FUNDS
Operating revenue:				
Current use charges	\$ 134,202	\$ 113,064	\$ 431,083	\$ 678,349
Reconnect and tap fees	-	-	-	-
Late charges and penalties	6,519	-	4,200	10,719
Miscellaneous revenue	5	-	-	5
Gas franchise revenue	-	3,307	-	3,307
Gain on sale of assets	-	-	-	-
Total Operating Revenue	140,726	116,371	435,283	692,380
Operating expenses:				
Contract purchases	91,153	-	137,861	229,014
Payroll costs	15,288	15,288	92,097	122,673
Supplies and materials	6,604	29,826	17,876	54,306
Repair and maintenance	6,004	23,189	23,696	52,889
Utilities	-	31,413	12,260	43,673
Insurance	13,431	13,431	49,263	76,125
Purchased services	1,500	1,500	20,356	23,356
Depreciation expense	32,071	19,237	33,647	84,955
Taxes and licenses	827	-	1,432	2,259
Franchise costs	-	-	6,614	6,614
Seminars and training	45	45	-	90
Other costs	679	149	10,336	11,164
Total Operating Expenses	167,602	134,078	405,438	707,118
Total Operating Income (Loss)	(26,876)	(17,707)	29,845	(14,738)
Non-operating revenue (expenses):				
Interest revenue	4	4	16	24
Interest expense	(8,328)	(8,327)	(4,881)	(21,536)
Total Non-operating Revenue (Expenses)	(8,324)	(8,323)	(4,865)	(21,512)
Income (Loss) Before Capital Contributions	(35,200)	(26,030)	24,980	(36,250)
Capital Contributions:				
Contribution in aid of construction	-	-	-	-
CHANGE IN NET POSITION	(35,200)	(26,030)	24,980	(36,250)
NET POSITION - BEGINNING	252,413	397,808	587,670	1,237,891
NET POSITION - ENDING	\$ 217,213	\$ 371,778	\$ 612,650	\$ 1,201,641

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2016

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	Business Type Activities - Enterprise Funds			
	WATER FUND	SEWER FUND	NATURAL GAS FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 137,569	\$ 115,824	\$ 377,601	\$ 630,994
Cash payments to suppliers	(119,896)	(101,239)	(276,626)	(497,761)
Cash payments to employees	(15,288)	(15,288)	(92,097)	(122,673)
Other income	-	-	-	-
Net Cash Provided by (Used in) Operating Activities	<u>2,385</u>	<u>(703)</u>	<u>8,878</u>	<u>10,560</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers to Other Funds	-	-	-	-
Transfers from Other Funds	-	-	-	-
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	-	(248,093)	(248,093)
Principal paid on revenue bonds and notes	(11,500)	(11,500)	-	(23,000)
Net borrowings on line of credit	-	-	158,558	158,558
Interest paid on debt	(8,328)	(8,327)	(4,881)	(21,536)
Net Cash Used in Capital and Related Financing Activities	<u>(19,828)</u>	<u>(19,827)</u>	<u>(94,416)</u>	<u>(134,071)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	4	4	16	24
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,439)	(20,526)	(85,522)	(123,487)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>37,823</u>	<u>118,859</u>	<u>228,473</u>	<u>385,155</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 20,384</u>	<u>\$ 98,333</u>	<u>\$ 142,951</u>	<u>\$ 261,668</u>

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES

	Business Type Activities - Enterprise Funds			TOTAL
	WATER FUND	SEWER FUND	NATURAL GAS FUND	
NET INCOME (LOSS)	\$ (26,876)	\$ (17,707)	\$ 29,845	\$ (14,738)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	32,071	19,237	33,647	84,955
(Increase) decrease in accounts receivable	(3,157)	(547)	(57,682)	(61,386)
Increase (decrease) in accounts payable	347	(1,686)	3,068	1,729
(Gain) loss on disposal of property	-	-	-	-
Total Adjustments	<u>29,261</u>	<u>17,004</u>	<u>(20,967)</u>	<u>25,298</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,385</u>	<u>\$ (703)</u>	<u>\$ 8,878</u>	<u>\$ 10,560</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DRAKESBORO, KENTUCKY

Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Drakesboro, Kentucky have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the acceptable standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the City of Drakesboro, Kentucky, is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management who is responsible for their integrity and objectivity. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures 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.

A. Reporting Entity

The City is governed by local laws and ordinances and other laws of the State of Kentucky. The City operates under a Mayor-Council form of government and provides the following services: public safety, public improvements, streets, general and administrative services, and utilities (water, sewer and natural gas). The City, for financial purposes, includes all of the funds and account groups relevant to the operation of the City of Drakesboro. The City's Council is the governing body for all funds. Management considered all potential component units utilizing the following criteria: ability of the City's Council to exercise oversight responsibility, financial interdependency, control over the selection of units governing authority or management, ability to significantly influence operations and accountability for fiscal matters, and the existence, if any, of special financial relationships.

B. Basis of Presentation, Basis of Accounting

i Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements are required to distinguish between the City's governmental and business-type activities. Governmental activities generally are financed through taxes and franchise fees, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part with fees charged to external customers.

CITY OF DRAKESBORO, KENTUCKY

Notes to Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

i. Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The accounts of the City are organized on the basis of funds and account groups. Each fund or group is considered a separate accounting entity - each with a separate set of self-balancing accounts including assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements of this report, into two generic fund types and one fund category as follows:

The City reports the following governmental funds:

The General Fund is the primary operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered resources available for use.

The Special Revenue Fund accounts for proceeds of specific revenue sources that are legally restricted to disbursements for specified purposes. The City maintains two special revenue funds - Municipal Aid Fund, Coal Severance and Mineral Tax Fund.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

i. Basis of Presentation (Continued)

The City reports the following business-type fund category:

The Natural Gas, Water and Sewer Proprietary Funds are used to account for operations financed and operated in a manner similar to a private business enterprise. In these funds, it is the intent that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred and net income is required by the governing body.

ii. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements:

These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, franchise fees, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements:

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 90 days after the year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, Basis of Accounting (Continued)

ii. Measurement Focus, Basis of Accounting (Continued)

The City's financial statements are prepared in accordance with generally accepted accounting standards (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

C. Encumbrance Accounting

Under Kentucky law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget.

D. Financial Statement Amounts

i. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Council considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

ii. Property Taxes

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Muhlenberg County as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of Muhlenberg County, and the annual increase in the property tax levy cannot exceed 4%. Property taxes are levied October 1 on the assessed value listed as of the prior January 1 for all real and business personal property. Taxes are due on receipt of the tax bill and are delinquent if not paid before January 1 of the following year in which the tax is imposed. For the period ending June 30, 2016, the tax rate was 27.0 cents per \$100 of assessed valuation of real property and 30.7 cents for personal property. City property tax revenues are recognized when billed. Property tax receivable is stated at their contractual outstanding balances, net of any allowance for doubtful accounts. The allowance for doubtful property tax receivables at June 30, 2016 is \$23,422.

CITY OF DRAKESBORO, KENTUCKY

Notes to Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Financial Statements Amounts (Continued)

iii. Capital Assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Historically, the City maintained infrastructure asset records consistent with all other capital assets. The City generally capitalizes assets with cost of one thousand dollars (\$1,000.00) or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years, for depreciable assets are as follows:

Building and grounds	10 - 30
Improvements (includes infrastructure)	10 - 50
Furniture, fixtures, and equipment	5 - 15

E. Budgetary Process

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP),

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The budget is presented to the council, subjected to public hearings, and then formally adopted by final council approval as the annual appropriated budget.

Once the budget is approved, it can be amended. Amendments are presented to the City Council at their regular meetings. Amendments are reflected in the official minutes of the City Council, and are not made after fiscal year-end as directed by law.

All budget appropriations lapse at year-end.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Contributions in Aid of Construction

In the years prior to December 31, 1980, contributions in aid of construction were not recorded in accordance with U. S. generally accepted accounting principles which stipulate all donations, grants, or contributions of cash, services or property from states, the federal government, or others are to be recorded and accounted for separately from retained earnings. Contributions received in aid of construction post January 1, 1980, complied with U. S. generally accepted accounting principles and are reflected in the financial statements.

G. Memorandum Columns on Combined Statements

Total columns on the Combined Statements are captioned Memo Only to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with U. S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. COMPLIANCE AND ACCOUNTABILITY

A. Finance Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38 "*Certain Financial Statement Note Disclosures*" violations of financial related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

B. Deposits and Investments

At June 30, 2016, the carrying amount of the City's deposits was \$302,570 and the bank balances were \$303,444. The City's cash deposits were entirely covered by FDIC insurance and by pledged collateral held in the City's name at agent bank trust department.

At times, some account balances may exceed Federal Deposit Insurance Corporation limits. The City has not experienced any losses in these accounts, and management believes the City is not exposed to any significant risks on these bank deposits.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements (Continued)

NOTE 2. COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Deposit and Investments (Continued)

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 Cash and cash equivalents that are insured or registered or securities held by the City or its agent in the City's name.
- Category 2 Cash and cash equivalents that are uninsured or unregistered, with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Cash and cash equivalents that are uninsured and unregistered with securities held by the pledging financial institution's trust department or agent but not in the City's name.

All of the City's deposits are category 2 risk level.

NOTE 3. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 6,300	\$ -0-	\$ -0-	\$ 6,300
Capital Assets that are depreciated:				
Buildings & improvements	174,117	-0-	-0-	174,117
Equipment	56,134	-0-	-0-	56,134
Furniture and fixtures	5,381	-0-	-0-	5,381
Parks and recreation	<u>34,426</u>	<u>-0-</u>	<u>-0-</u>	<u>34,426</u>
Totals	<u>270,058</u>	<u>-0-</u>	<u>-0-</u>	<u>270,058</u>
 PUBLIC WORKS				
Street department - Vehicles	<u>16,300</u>	<u>-0-</u>	<u>-0-</u>	<u>16,300</u>
Total Public Works	<u>16,300</u>	<u>-0-</u>	<u>-0-</u>	<u>16,300</u>
 Totals	292,658	-0-	-0-	292,658
Total Accumulated Depreciation	<u>(127,212)</u>	<u>(8,998)</u>	<u>-0-</u>	<u>(136,209)</u>
 TOTAL GENERAL FIXED ASSETS	<u>\$ 165,446</u>	<u>\$ (8,998)</u>	<u>\$ -0-</u>	<u>\$ 156,449</u>

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements (Continued)

NOTE 3. CAPITAL ASSETS (Continued)

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
BUSINESS-TYPE ACTIVITIES:				
WATER & SEWER ENTERPRISE				
Utility Plant	\$ 2,041,025	\$ -0-	\$ -0-	\$ 2,041,025
Construction in progress	-0-	-0-	-0-	-0-
Other Equipment	40,003	-0-	-0-	40,003
Transportation Equipment	-0-	-0-	-0-	-0-
Totals	<u>2,081,028</u>	<u>-0-</u>	<u>-0-</u>	<u>2,081,028</u>
Less Depreciation	<u>(1,290,052)</u>	<u>(51,308)</u>	<u>-0-</u>	<u>(1,341,360)</u>
Total Property, Plant and Equipment	<u>\$ 790,976</u>	<u>\$ (51,308)</u>	<u>\$ -0-</u>	<u>\$ 739,668</u>
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
NATURAL GAS ENTERPRISE				
Land	\$ 10,000	\$ -0-	\$ -0-	\$ 10,000
Utility Plant	990,928	188,565	-0-	1,179,493
Other Equipment	112,007	59,528	-0-	171,535
Transportation Equipment	48,563	-0-	-0-	48,563
Totals	<u>1,161,498</u>	<u>248,093</u>	<u>-0-</u>	<u>1,409,591</u>
Less Depreciation	<u>(902,344)</u>	<u>(33,647)</u>	<u>-0-</u>	<u>(935,991)</u>
Total Property, Plant and Equipment	<u>\$ 259,154</u>	<u>\$ 214,446</u>	<u>\$ -0-</u>	<u>\$ 473,600</u>

The Kentucky Department of Local Government has decided that 5th class cities are not required to place values on infrastructure as explained in GASB 34.

NOTE 4. PROPRIETARY FUND CHANGES IN LONG-TERM DEBT

The Water and Sewer Enterprise Fund has the following Bond Issues outstanding at June 30, 2016.

BONDHOLDER - RURAL ECONOMIC AND COMMUNITY DEVELOPMENT
DATE OF ISSUE - JUNE 21, 1983
AMOUNT OF ISSUE - \$ 412,000
RATE - 5%
DATE OF BONDS DUE - January 1
DATE OF INTEREST DUE - July 1 and January 1

CALL PROVISION - On any interest payment date falling on or after January 1, 1995, the entire principal amount of this bond then remaining unpaid or such lesser portion thereof, in multiple of one thousand dollars (\$1,000), as the City may determine, at a price in an amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium.

CITY OF DRAKESBORO, KENTUCKY

Notes to Financial Statements (Continued)

NOTE 4. PROPRIETARY FUND CHANGES IN LONG-TERM DEBT (Continued)

BOND HOLDER - RURAL ECONOMIC AND COMMUNITY DEVELOPMENT

DATE OF ISSUE - FEBRUARY 9, 1998

AMOUNT OF ISSUE - \$ 300,000

RATE - 4.5%

DATE OF BONDS DUE - January 1

DATE OF INTEREST DUE - July 1 and January 1

CALL PROVISION - On any interest payment date falling on or after January 1, 2008, the entire principal amount of this bond then remaining unpaid or such lesser portion thereof, in multiple of one thousand dollars (\$1,000), as the City may determine, at a price in an amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium.

The following is a summary of enterprise revenue bonds transactions for the City for the year ended June 30, 2016.

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
				<u>June 30, 2016</u>
Revenue Bonds				
Enterprise Funds:				
Waterworks revenue				
bonds - 1982	\$ 140,000	\$ -0-	\$ 17,000	\$ 123,000
Revenue Bonds				
Enterprise Funds:				
Water and Sewer revenue				
bonds - 1997	<u>227,000</u>	<u>-0-</u>	<u>6,000</u>	<u>221,000</u>
Totals	<u>390,000</u>	<u>\$ -0-</u>	<u>\$ 23,000</u>	<u>344,000</u>
Less:				
Current portion long-term				
debt	<u>23,000</u>			<u>25,000</u>
Balance of Debt	<u>\$ 344,000</u>			<u>\$ 319,000</u>

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements (Continued)

NOTE 4. PROPRIETARY FUND CHANGES IN LONG-TERM DEBT (Continued)

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

FISCAL YEAR	1982 ISSUE	1997 ISSUE	TOTAL REQUIREMENT FOR YEAR
2016-17	\$ 23,700	\$ 16,788	\$ 40,488
2017-18	23,775	16,472	40,247
2018-19	23,800	16,157	39,957
2019-20	23,775	16,820	40,595
2020-21	47,275	82,475	129,750
2021-30	-0-	81,450	81,450
2030-35	-0-	79,018	79,018
2035-37	<u>-0-</u>	<u>30,327</u>	<u>30,327</u>
Total Principal and Interest	142,325	339,507	481,832
Less Interest	<u>19,325</u>	<u>118,507</u>	<u>137,832</u>
Liability as of June 30, 2016	\$ <u>123,000</u>	\$ <u>221,000</u>	\$ <u>344,000</u>

Under the bond resolution of the Water and Sewer Revenue Bonds of 1982 and 1997, the Water and Sewer Enterprise Fund is required to deposit all receipts of the system into a revenue account and transfer funds to the following segregated accounts:

Bond Sinking Fund - Prorated monthly transfer of an amount equal to the next principal and/or interest payment.

Depreciation Fund - Monthly transfers of \$345 are required until \$41,400 is accumulated. Also required to be deposited into this fund - the net proceeds of all property damage insurance maintained in connection with the system, cash proceeds of any disposals of properties of the system, and any fees received for the privilege of connecting to the system net of actual costs. Withdrawals may be made from the depreciation fund for renewals, replacements, new construction, and contingencies in the operation of the water works system, and to meet the payment of bond principal or interest in order to avoid default in connection with any bonds payable.

Operation and Maintenance Fund - Monthly transfer of sufficient funds to meet the current expenses of operating and maintaining the system.

Excess Funds - Under present bond ordinances, no transfers may be made from the Water and Sewer Enterprise Fund to any other fund until the bonds have been redeemed in full.

On July 10, 2015 the City entered into a line of credit with First Southern National Bank County for a gas line extension and the purchase of equipment. The line of credit is for \$175,000 with an interest rate of 5.0%. The maturity current date is July 10, 2016. The balance at June 30, 2016 was \$158,558.

CITY OF DRAKESBORO, KENTUCKY

Notes to Financial Statements (Continued)

NOTE 5. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two Enterprise Funds. Segment information for the year ended June 30, 2016 is as follows:

	Water Fund	Sewer Fund	Natural Gas Fund	Total Enterprise Fund
Operating revenues	\$ 134,202	\$ 113,064	\$ 431,083	\$ 678,349
Operating expenses	(167,602)	(134,078)	(405,438)	(707,118)
Depreciation	(32,071)	(19,237)	(33,647)	(84,955)
Operating income (loss)	(26,876)	(17,707)	29,845	(14,738)
Total assets	408,584	547,977	779,793	1,736,354
Long term liabilities	159,500	159,500	-0-	319,000
Short term liabilities	31,871	16,699	167,143	215,713
Net Position - beginning	252,412	397,808	587,670	1,237,890
Net Position - ending	217,213	371,778	612,650	1,201,641
Change in Net Position	(35,199)	(26,030)	24,980	(36,249)
Net cash provided (used) by:				62,843
Operating activities	26,635	(2,833)	39,041	
Non-Capital financing Activities	-0-	-0-	-0-	-0-
Capital and related financing activities	(20,388)	(20,388)	(11,167)	(51,943)
Investing activities	8	8	36	50
Beginning cash and cash equivalents	31,568	142,072	200,562	374,202
Ending cash and cash equivalents	37,823	118,859	228,472	385,154

NOTE 6. ECONOMIC DEPENDENCY

The City depends on one supplier for its waterworks system. All water is purchased from the Muhlenberg County Water District.

NOTE 7. COMMITMENTS AND CONTINGENCIES

The City receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the City at risk for a substantial loss (contingency).

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements (Continued)

NOTE 8. INSURANCE AND RELATED ACTIVITIES

The City is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibilities, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated which included Worker's Compensation Insurance.

NOTE 9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 16, 2016, which is the date the financial statements were available to be issued.

SUPPLEMENTARY

INFORMATION

CITY OF DRAKESBORO, KENTUCKY

Summary of Insurance Coverage

June 30, 2016

The following is a summary of insurance coverage for the City of Drakesboro, Kentucky at June 30, 2016:

PROPERTY INSURANCE:

<u>Property Description</u>	<u>Insurance Company</u>	<u>Amount of Coverage</u>	<u>Date of Expiration</u>
Building and Personal Property	KLC Insurance Services	1,572,300	3-28-17

FIDELITY BOND COVERAGE:

Encroachment Bond	CNA Surety	10,000	1-27-17
Public Employee Dishonesty	CNA Surety	4,000	3-29-18

LIABILITY COVERAGES:

General - Liability	KLC Insurance Services	1,000,000	3-28-17
Personal Injury & Advertising	KLC Insurance Services	1,000,000	3-28-17
Employee Benefits	KLC Insurance Services	1,000,000	3-28-17
General - Aggregate	KLC Insurance Services	500,000	3-28-17
General - Fire Legal	KLC Insurance Services	500,000	3-28-17
General - Products Completion	KLC Insurance Services	2,000,000	3-28-17
Auto Liability	KLC Insurance Services	1,000	3-28-17
Auto	KLC Insurance Services	Schedule	3-28-17
Public Officials	KLC Insurance Services	1,000,000	3-28-17
Employment Practices	KLC Insurance Services	1,000,000	3-28-17

The City maintains Workman's Compensation coverage through Kentucky Employers' Mutual Insurance. The City is covered under the full extent of the Kentucky Workers' Compensation Law.



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INDEPENDENT AUDITOR'S 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 Mayor and
Members of the City Council
City of Drakesboro, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Drakesboro, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Drakesboro, Kentucky's basic financial statements and have issued our report thereon dated December 16, 2016.

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 of Drakesboro, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Drakesboro, Kentucky's internal control.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

To the Honorable Mayor and
Members of the City Council
City of Drakesboro, Kentucky

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Drakesboro, 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*.

Purpose of this Report

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

Amick & Company

Louisville, Kentucky
December 16, 2016