

**CITY OF DRAKESBORO, KENTUCKY**

**ANNUAL REPORT**

**JUNE 30, 2018**

# 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, 2018, 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, 2018, 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 of Drakesboro, Kentucky'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 November 26, 2018, 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 effectiveness of the City of Drakesboro, Kentucky's 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  
November 26, 2018

## CITY OF DRAKESBORO, KENTUCKY

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
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, 2018. 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 \$10,301.
- Net assets of the business-type activities decreased \$29,017.
- Total governmental expenditures exceeded its revenue by \$10,301.
- Total business-type activities expenses exceeded its revenues \$29,017.

### 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, 2018  
 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 \$1,251,952.

	Net Position			Net Position		
	Governmental	Business	Total	Governmental	Business	Total
	Activities	Activities	2018	Activities	Activities	2017
<u>Assets</u>						
Current - Assets	\$ 52,634	\$ 461,078	\$ 513,712	\$ 56,475	\$ 445,652	\$ 502,127
Noncurrent Assets	144,044	1,054,303	1,198,347	149,261	1,142,475	1,291,736
Total Assets	\$ 196,678	\$ 1,515,381	\$ 1,712,059	\$ 205,736	\$ 1,588,127	\$ 1,793,863
<u>Liabilities</u>						
Current Liabilities	\$ 11,300	\$ 54,377	\$ 65,677	\$ 4,840	\$ 55,279	\$ 60,119
Noncurrent Liabilities	-	320,377	320,377	-	437,257	437,257
Total Liabilities	\$ 11,300	\$ 374,754	\$ 386,054	\$ 4,840	\$ 492,536	\$ 497,376
<u>Net Position</u>						
Invested in Capital Assets	\$ 144,044	\$ 615,810	\$ 759,854	\$ 149,261	\$ 662,988	\$ 812,249
Net of Related Debt	41,334	450,764	492,098	51,635	432,603	484,238
Unrestricted Fund Balance	\$ 185,378	\$ 1,066,574	\$ 1,251,952	\$ 200,896	\$ 1,095,591	\$ 1,296,487

# CITY OF DRAKESBORO, KENTUCKY

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
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.

	Governmental			Business		
	Activities	Activities	Total	Activities	Activities	Total
	2018	2018	2018	2017	2017	2017
<b>Expenditures:</b>						
General government	\$ 35,458	\$ -	\$ 35,458	\$ 32,386	\$ -	\$ 32,386
Public safety	4,000	-	4,000	4,000	-	4,000
Public works	-	-	-	-	-	-
Culture and recreation	4,690	-	4,690	5,726	-	5,726
Highways and streets	30,517	-	30,517	21,157	-	21,157
Water utility	-	159,842	159,842	-	184,484	184,484
Sewer utility	-	123,473	123,473	-	142,185	142,185
Natural gas utility	-	484,771	484,771	-	437,562	437,562
<b>Total Expenditures</b>	<b>\$ 74,665</b>	<b>\$ 768,086</b>	<b>\$ 842,751</b>	<b>\$ 63,269</b>	<b>\$ 764,231</b>	<b>\$ 827,500</b>
<b>General Revenues:</b>						
Property taxes	\$ 17,595	\$ -	\$ 17,595	\$ 17,569	\$ -	\$ 17,569
Franchise fees	22,889	-	22,889	21,990	-	21,990
Other revenue	3,870	-	3,870	3,861	-	3,861
Operating grants and contributions	14,794	-	14,794	16,506	-	16,506
Transfers	-	-	-	-	-	-
Charges for services	-	739,070	739,070	-	658,182	658,182
<b>Total Revenue</b>	<b>59,148</b>	<b>739,070</b>	<b>798,218</b>	<b>59,926</b>	<b>658,182</b>	<b>718,108</b>
<b>Changes in Net Position</b>	<b>\$ (15,517)</b>	<b>\$ (29,016)</b>	<b>\$ (44,533)</b>	<b>\$ (3,343)</b>	<b>\$ (106,049)</b>	<b>\$ (109,392)</b>

The Natural Gas Utility generated a loss totaling \$2,064 during the year while the Water and Sewer Utility showed a loss of \$26,953.

**CITY OF DRAKESBORO, KENTUCKY**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2018  
 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, 2018, net capital assets of the City are listed below. Depreciation on capital assets is recognized in the government-wide financial statements.

	2018		2017	
	Governmental Activities	Business Activities	Governmental Activities	Business Activities
Nondepreciable Assets:				
Land	\$ 6,300	\$ 10,000	\$ 6,300	\$ 10,000
		\$ 16,300		\$ 16,300
Depreciable Assets Net of Depreciation:				
Buildings and utility plants	126,052	1,007,105	1,133,157	1,210,904
Furniture, machinery and equipment	11,693	37,198	48,891	64,532
Totals	<u>\$ 144,045</u>	<u>\$ 1,054,303</u>	<u>\$ 1,198,348</u>	<u>\$ 1,291,736</u>

**DEBT ADMINISTRATION**

At June 30, 2018, the City had \$293,000 in bond principal outstanding, \$27,000 due within one year.

**OUTSTANDING DEBT, AT YEAR END**

	2018		2017	
	Business-Type Activities	Business-Type Activities	Business-Type Activities	Business-Type Activities
Water and Sewer Revenue Bonds 1982	\$ 86,000	\$ 105,000		
Water and Sewer Revenue Bonds 1997	207,000	214,000		
Total Bonds	<u>293,000</u>	<u>319,000</u>		
Natural Gas Line of Credit	-	160,487		
Natural Gas Installation Loan	145,492	-		
Total Debt	<u>\$ 438,492</u>	<u>\$ 479,487</u>		

# **CITY OF DRAKESBORO, KENTUCKY**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2018  
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 FY2018 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 Activities

For the Year Ended June 30, 2018

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	\$ 35,458	\$ -	\$ -	\$ -	\$ (35,458)	\$ -	\$ (35,458)
Public safety	4,000	-	-	-	(4,000)	-	(4,000)
Highways and streets	30,517	-	14,794	-	(15,723)	-	(15,723)
Public Works	-	-	-	-	-	-	-
Culture and recreation	4,690	-	-	-	(4,690)	-	(4,690)
Total Governmental Activities	<u>74,665</u>	<u>-</u>	<u>14,794</u>	<u>-</u>	<u>(59,871)</u>	<u>-</u>	<u>(59,871)</u>
Business-type activities:							
Utilities	768,084	739,068	-	-	-	(29,016)	(29,016)
Totals	<u>\$ 842,749</u>	<u>\$ 739,068</u>	<u>\$ 14,794</u>	<u>\$ -</u>	<u>(59,871)</u>	<u>(29,016)</u>	<u>(88,887)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					17,595	-	17,595
Franchise taxes					22,889	-	22,889
Miscellaneous					3,870	-	3,870
Transfers					-	-	-
Total General Revenues and Transfers					<u>44,354</u>	<u>-</u>	<u>44,354</u>
Changes in Net Position					<u>(15,517)</u>	<u>(29,016)</u>	<u>(44,533)</u>
Net position - beginning					<u>200,895</u>	<u>1,095,590</u>	<u>1,296,485</u>
Net position - ending					<u>\$ 185,378</u>	<u>\$ 1,066,574</u>	<u>\$ 1,251,952</u>

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

# CITY OF DRAKESBORO, KENTUCKY

## Statement of Net Position

June 30, 2018

ASSETS	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Totals</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 39,748	\$ 116,577	\$ 156,325
Receivables	12,886	243,977	256,863
Total Current Assets	52,634	360,554	413,188
Restricted assets:			
Restricted Cash	-	100,524	100,524
<b>CAPITAL ASSETS</b>			
Land	6,300	10,000	16,300
Other capital assets, net of depreciation	137,744	1,044,303	1,182,047
Total Capital Assets	144,044	1,054,303	1,198,347
<b>TOTAL ASSETS</b>	<b>\$ 196,678</b>	<b>\$ 1,515,381</b>	<b>\$ 1,712,059</b>
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 11,300	\$ 1,227	\$ 12,527
Payable from restricted assets	-	9,087	9,087
Current portion of Installment Loan	-	17,063	17,063
Current portion of bonds payable	-	27,000	27,000
Total Current Liabilities	11,300	54,377	65,677
<b>NONCURRENT LIABILITIES</b>			
Installment loan, less current portion	-	128,430	128,430
Bonds payable	-	266,000	266,000
Total Noncurrent Liabilities	-	394,430	394,430
<b>TOTAL LIABILITIES</b>	<b>\$ 11,300</b>	<b>\$ 448,807</b>	<b>\$ 460,107</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	\$ 144,044	\$ 615,810	\$ 759,854
Unrestricted	41,334	450,764	492,098
<b>TOTAL NET POSITION</b>	<b>\$ 185,378</b>	<b>\$ 1,066,574</b>	<b>\$ 1,251,952</b>

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, 2018

	GOVERNMENTAL FUND TYPES	
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>
<b>ASSETS</b>		
Cash	\$ 27,253	\$ 12,495
Receivables - net		
Property taxes	12,886	-
Grants	-	-
Customer accounts	-	-
Due from other funds	-	-
Restricted cash:		
Community development block grant	-	-
Bond sinking	-	-
Depreciation	-	-
Customer deposits	-	-
Fixed assets - net	-	-
<b>TOTAL ASSETS</b>	<u>\$ 40,139</u>	<u>\$ 12,495</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 4,051	\$ 7,249
Due to other funds	-	-
Notes payable	-	-
Payable from restricted assets:		
Current portion of revenue bonds payable	-	-
Customer deposits	-	-
Revenue bonds payable	-	-
<b>TOTAL LIABILITIES</b>	<u>4,051</u>	<u>7,249</u>
<b>FUND BALANCES</b>		
Investment in general fixed assets	-	-
Contributions in aid of construction	-	-
Retained earnings:		
Appropriated:		
Bond sinking	-	-
Depreciation	-	-
Unappropriated	-	-
Fund balances		
Restricted	-	5,246
Unrestricted	36,088	-
<b>TOTAL FUND BALANCES</b>	<u>36,088</u>	<u>5,246</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 40,139</u>	<u>\$ 12,495</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, 2018					
\$ -	\$ 20,455	\$ 96,122	\$ -	\$ 156,325	
-	-	-	-	12,886	
45,875	42,611	155,490	-	-	
-	37,264	-	-	243,976	
-	-	-	-	37,264	
12,922	12,922	-	-	-	
17,011	35,398	-	-	25,844	
1,954	1,954	18,364	-	52,409	
263,069	373,983	417,251	-	22,272	
<u>\$ 340,831</u>	<u>\$ 524,587</u>	<u>\$ 687,227</u>	<u>\$ 292,657</u>	<u>1,346,960</u>	
			<u>\$ 292,657</u>	<u>\$ 1,897,936</u>	
\$ 77	\$ 77	\$ 1,074	\$ -	\$ 12,528	
37,264	-	-	-	37,264	
-	-	145,492	-	145,492	
13,500	13,500	-	-	27,000	
2,441	2,442	4,204	-	9,087	
133,000	133,000	-	-	<u>266,000</u>	
<u>186,282</u>	<u>149,019</u>	<u>150,770</u>	<u>-</u>	<u>497,371</u>	
-	-	-	292,657	292,657	
241,000	336,786	-	-	577,786	
8,237	8,236	-	-	16,473	
14,019	38,406	-	-	52,425	
(109,707)	(6,860)	536,457	-	419,890	
-	-	-	-	5,246	
-	-	-	-	36,088	
153,549	376,568	536,457	292,657	1,400,565	
<u>\$ 339,831</u>	<u>\$ 525,587</u>	<u>\$ 687,227</u>	<u>\$ 292,657</u>	<u>\$ 1,897,936</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, 2018

<b>Total Fund Balances - Governmental Funds</b>	\$ 41,334
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	<u>(148,613)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ 185,378</u>

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, 2018

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>TOTALS GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>			
Property taxes	\$ 17,595	\$ -	\$ 17,595
Entitlement payments	-	4,405	4,405
Franchise tax	22,889	-	22,889
Road subsidies	-	10,389	10,389
Other	3,545	-	3,545
Interest	7	9	16
Interest and penalties on taxes	309	-	309
<b>TOTAL REVENUES</b>	<u>44,345</u>	<u>14,803</u>	<u>59,148</u>
<b>EXPENDITURES</b>			
General government	26,342	-	26,342
Public safety	4,000	-	4,000
Public works	16,476	17,941	34,417
Parks and recreation	4,690	-	4,690
Capital expenditures	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>51,508</u>	<u>17,941</u>	<u>69,449</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(7,163)</u>	<u>(3,138)</u>	<u>(10,301)</u>
Operating transfers - out	-	(4,400)	(4,400)
Operating transfers - in	4,400	-	4,400
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>4,400</u>	<u>(4,400)</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>(2,763)</u>	<u>(7,538)</u>	<u>(10,301)</u>
<b>FUND BALANCE - BEGINNING</b>	<u>38,851</u>	<u>12,784</u>	<u>51,635</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 36,088</u>	<u>\$ 5,246</u>	<u>\$ 41,334</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, 2018

**Net Change in Fund Balance - Governmental Funds** \$ (10,301)

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.

(5,216)

**Change in Net Position of Governmental Activities**

\$ (15,517)

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Revenue:</b>				
Property taxes	\$ 19,000	\$ 19,000	\$ 17,595	\$ (1,405)
Franchise taxes	20,000	20,000	22,889	2,889
Other	1,400	1,400	3,545	2,145
Interest	-	-	16	16
Penalties and taxes	100	100	309	209
Entitlement payments	6,000	6,000	4,405	(1,595)
Road subsidies	11,500	11,500	10,389	(1,111)
Transfers from Other Funds	-	-	-	-
Total Revenue Before Prior Year Fund Balances	<u>58,000</u>	<u>58,000</u>	<u>59,148</u>	<u>1,148</u>
Prior year fund balance appropriated for current year budget	-	-	-	-
Total Revenue and Prior Year Fund Balance	<u>58,000</u>	<u>58,000</u>	<u>59,148</u>	<u>1,148</u>
<b>Expenditures:</b>				
<b>General Government:</b>				
City clerk compensation	1,450	1,450	1,300	150
Payroll taxes	400	400	383	17
Insurance	-	-	2,153	(2,153)
Audit	1,000	1,000	1,000	-
Accounting	3,000	3,000	3,900	(900)
Other	21,400	21,400	17,606	3,794
<b>Public Safety:</b>				
Fire	4,000	4,000	4,000	-
<b>Public Works:</b>				
Wages	4,000	4,000	3,900	100
Highway maintenance	11,500	11,500	17,941	(6,441)
Streetlights	10,500	10,500	12,576	(2,076)
<b>Parks and Recreation:</b>				
Utilities and other	750	750	4,690	(3,940)
Transfer to Other Funds	-	-	-	-
Total Charges to Appropriations	<u>58,000</u>	<u>58,000</u>	<u>69,449</u>	<u>(11,449)</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,301)</u>	<u>\$ (10,301)</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, 2018

	WATER FUND	SEWER FUND	NATURAL GAS FUND	TOTAL PROPRIETARY FUNDS
Operating revenue:				
Current use charges	\$ 133,303	\$ 114,103	\$ 471,762	\$ 719,168
Reconnect and tap fees	-	-	-	-
Late charges and penalties	2,249	2,269	10,936	15,454
Miscellaneous revenue	14	14	-	28
Gas franchise revenue	-	4,402	-	4,402
Gain on sale of assets	-	-	-	-
Total Operating Revenue	135,566	120,788	482,698	739,053
Operating expenses:				
Contract purchases	81,680	-	210,822	292,502
Payroll costs	14,963	14,963	89,635	119,561
Supplies and materials	6,193	26,748	10,967	43,908
Repair and maintenance	2,131	15,499	16,724	34,354
Utilities	-	25,987	13,692	39,679
Insurance	12,216	12,216	49,934	74,366
Purchased services	1,500	1,500	20,442	23,442
Depreciation expense	32,071	19,237	36,864	88,172
Taxes and licenses	460	-	1,963	2,423
Franchise costs	-	-	8,804	8,804
Seminars and training	188	188	2,542	2,918
Other costs	1,316	12	13,377	14,705
Total Operating Expenses	152,718	116,350	475,766	744,834
Total Operating Income (Loss)	(17,152)	4,438	6,932	(5,781)
Non-operating revenue (expenses):				
Interest revenue	4	4	9	17
Interest expense	(7,124)	(7,123)	(9,005)	(23,252)
Total Non-operating Revenue (Expenses)	(7,120)	(7,119)	(8,996)	(23,235)
Income (Loss) Before Capital Contributions	(24,272)	(2,681)	(2,064)	(29,016)
Capital Contributions:				
Contribution in aid of construction	-	-	-	-
CHANGE IN NET POSITION	(24,272)	(2,681)	(2,064)	(29,016)
NET POSITION - BEGINNING	177,821	379,249	538,521	1,095,591
NET POSITION - ENDING	\$ 153,549	\$ 376,568	\$ 536,457	\$ 1,066,575

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, 2018

#### INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	Business Type Activities - Enterprise Funds			TOTAL
	WATER FUND	SEWER FUND	NATURAL GAS FUND	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 138,900	\$ 121,432	\$ 460,474	\$ 720,806
Cash payments to suppliers	(105,888)	(84,345)	(349,602)	(539,835)
Cash payments to employees	(14,963)	(14,963)	(89,635)	(119,561)
Other income	-	-	-	-
Net Cash Provided by (Used in) Operating Activities	<u>18,049</u>	<u>22,124</u>	<u>21,237</u>	<u>61,410</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
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>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	-	-	-	-
Principal paid on revenue bonds and notes	(13,000)	(13,000)	(14,995)	(40,995)
Net borrowings on line of credit	(7,124)	(7,123)	(9,005)	(23,252)
Interest paid on debt	-	-	-	-
Net Cash Used in Capital and Related Financing Activities	<u>(20,124)</u>	<u>(20,123)</u>	<u>(24,000)</u>	<u>(64,247)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	4	4	9	17
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(2,071)</u>	<u>2,005</u>	<u>(2,754)</u>	<u>(2,820)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>(4,305)</u>	<u>106,987</u>	<u>117,240</u>	<u>219,922</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ (6,376)</u>	<u>\$ 108,992</u>	<u>\$ 114,486</u>	<u>\$ 217,102</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)	\$ (17,152)	\$ 4,438	\$ 6,932	\$ (5,782)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	32,071	19,237	36,864	88,172
(Increase) decrease in accounts receivable	3,334	644	(22,224)	(18,246)
Increase (decrease) in accounts payable	(204)	(2,195)	(335)	(2,734)
(Gain) loss on disposal of property	-	-	-	-
Total Adjustments	<u>35,201</u>	<u>17,686</u>	<u>14,305</u>	<u>67,192</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 18,049</u>	<u>\$ 22,124</u>	<u>\$ 21,237</u>	<u>\$ 61,410</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, 2018, 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, 2018 is \$35,019.

**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. Fund Balances**

Governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- Nonspendable fund balance - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- Restricted fund balance - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by the Library itself, using its decision-making authority to be reported as committed, amounts cannot be used for any other purpose unless the City takes action to remove or change the constraint. A city council resolution is required to commit funds.
- Assigned fund balance - amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Only the City Council has the authority to assign amounts to be used for specific purposes. Assigned fund balance in the General Fund includes amounts that have been appropriated for expenditures in the budget for the City's subsequent fiscal year.
- Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds. Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which resource are considered to be applied. It is the Library's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**G. Net Position**

Net position represents the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

**H. 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.

**I. 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

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

NOTE 2. COMPLIANCE AND ACCOUNTABILITY (Continued)

**B. Deposits and Investments**

At June 30, 2018, the carrying amount of the City's deposits was \$255,157 and the bank balances were \$258,545. 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.

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, 2018, were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
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	34,426	-0-	-0-	34,426
Totals	<u>270,058</u>	<u>-0-</u>	<u>-0-</u>	<u>270,058</u>
PUBLIC WORKS				
Street department – Vehicle	16,300	-0-	-0-	16,300
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>(143,397)</u>	<u>(5,216)</u>	<u>-0-</u>	<u>(148,613)</u>
TOTAL GENERAL FIXED ASSETS	<u>\$ 149,261</u>	<u>\$ (5,216)</u>	<u>\$ -0-</u>	<u>\$ 144,045</u>

# CITY OF DRAKESBORO, KENTUCKY

## Notes to Financial Statements (Continued)

### NOTE 3. CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Ending Deletions	Balance
<b>BUSINESS-TYPE ACTIVITIES:</b>				
<b>WATER &amp; SEWER ENTERPRISE</b>				
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	2,081,028	-0-	-0-	2,081,028
Less Depreciation	(1,392,668)	(51,308)	-0-	(1,443,976)
Total Property, Plant and Equipment	\$ 688,360	\$ (51,308)	\$ -0-	\$ 637,052
<b>NATURAL GAS ENTERPRISE</b>				
Land	\$ 10,000	\$ -0-	\$ -0-	\$ 10,000
Utility Plant	1,195,168	-0-	-0-	1,195,168
Other Equipment	175,035	-0-	-0-	175,035
Transportation Equipment	48,563	-0-	-0-	48,563
Totals	1,428,766	-0-	-0-	1,428,766
Less Depreciation	(974,651)	(36,864)	-0-	(1,011,515)
Total Property, Plant and Equipment	\$ 454,115	\$ (36,864)	\$ -0-	\$ 417,251

The Kentucky Department of Local Government has decided that 5<sup>th</sup> 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, 2018.

#### 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, 2018.

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>
Revenue Bonds				
Enterprise Funds:				
Waterworks revenue				
bonds - 1982	\$ 105,000	\$ -0-	\$ 19,000	\$ 86,000
Revenue Bonds				
Enterprise Funds:				
Water and Sewer revenue				
bonds - 1997	<u>214,000</u>	<u>-0-</u>	<u>7,000</u>	<u>207,000</u>
Totals	319,000	\$ <u>-0-</u>	\$ <u>26,000</u>	293,000
Less:				
Current portion long-term				
debt	<u>26,000</u>			<u>27,000</u>
Balance of Debt	<u>\$ 293,000</u>			<u>\$ 266,000</u>

**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, 2018.

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>
Revenue Bonds				
Enterprise Funds:				
Waterworks revenue				
bonds - 1982	\$ 105,000	\$ -0-	\$ 19,000	\$ 86,000
Revenue Bonds				
Enterprise Funds:				
Water and Sewer revenue				
bonds - 1997	<u>214,000</u>	<u>-0-</u>	<u>7,000</u>	<u>207,000</u>
Totals	319,000	<u>\$ -0-</u>	<u>\$ 26,000</u>	293,000
Less:				
Current portion long-term				
debt	<u>26,000</u>			<u>27,000</u>
Balance of Debt	<u>\$ 293,000</u>			<u>\$ 266,000</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, 2018, is as follows:

FISCAL YEAR	1982 ISSUE	1997 ISSUE	TOTAL REQUIREMENT FOR YEAR
2018-19	\$ 23,800	\$ 16,157	\$ 39,957
2019-20	23,775	16,820	40,595
2020-21	23,700	16,460	40,160
2021-22	23,575	16,100	39,675
2022-23	-0-	16,718	16,718
2023-28	-0-	82,130	82,130
2028-33	-0-	80,688	80,688
2033-37	-0-	<u>61,475</u>	<u>61,475</u>
Total Principal and Interest	94,850	306,548	401,398
Less Interest	<u>8,850</u>	<u>99,548</u>	<u>108,398</u>
Liability as of June 30, 2018	\$ <u>86,000</u>	\$ <u>207,000</u>	\$ <u>293,000</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 August 19, 2016 the City converted its' line of credit into a commercial installment loan for \$175,000 with First Southern National Bank for the gas line extension and the purchase of equipment. The fixed interest rate is 5.0% with monthly payments of principal and interest of \$2,000. The maturity date is August 10, 2019.

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

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

	<u>June 30, 2018</u>
Installment note balance	\$145,493
Current portion	<u>17,063</u>
Long-term debt less current portion	<u>\$128,430</u>

Principal payments on long-term debt are due as follows:

Year ending:	
June 30, 2019	<u>\$128,430</u>

NOTE 5. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two Enterprise Funds. Segment information for the year ended June 30, 2018 is as follows:

	Water Fund	Sewer Fund	Natural Gas Fund	Total Enterprise Fund
Operating revenues	\$ 133,303	\$ 114,103	\$ 471,762	\$ 719,168
Operating expenses	(152,718)	(116,350)	(475,766)	(744,834)
Depreciation	(32,071)	(19,237)	(36,864)	(88,172)
Operating income (loss)	(17,152)	4,438	6,932	(5,781)
Total assets	340,831	524,587	687,227	1,552,645
Long term liabilities	133,000	133,000	128,430	266,000
Short term liabilities	16,018	16,018	22,340	182,806
Net Position – beginning	177,822	379,248	538,521	1,095,591
Net Position – ending	153,549	376,568	536,457	1,066,574
Change in Net Position	(24,273)	(2,680)	(2,064)	(29,017)
Net cash provided (used) by:				
Operating activities	18,049	22,124	21,237	61,410
Non-Capital financing Activities	-0-	-0-	-0-	-0-
Capital and related financing activities	(20,124)	(20,123)	(24,000)	(64,247)
Investing activities	4	4	9	17
Beginning cash and cash equivalents	(4,305)	106,987	117,240	219,922
Ending cash and cash equivalents	(6,376)	108,992	114,486	217,102

NOTE 6. ECONOMIC DEPENDENCY

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

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

**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).

**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 November 26, 2018, which is the date the financial statements were available to be issued.

**SUPPLEMENTARY  
INFORMATION**

## CITY OF DRAKESBORO, KENTUCKY

### Summary of Insurance Coverage

June 30, 2018

The following is a summary of insurance coverage for the City of Drakesboro, Kentucky at June 30, 2018:

**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	3-28-19

**FIDELITY BOND COVERAGE:**

Encroachment Bond	CNA Surety	10,000	1-27-19
Public Employee Dishonesty	CNA Surety	4,000	3-29-19

**LIABILITY COVERAGES:**

General - Liability	KLC Insurance Services	1,000,000	3-28-19
Personal Injury & Advertising	KLC Insurance Services	1,000,000	3-28-19
Employee Benefits	KLC Insurance Services	1,000,000	3-28-19
General - Aggregate	KLC Insurance Services	500,000	3-28-19
General - Fire Legal	KLC Insurance Services	500,000	3-28-19
General - Products Completion	KLC Insurance Services	2,000,000	3-28-19
Auto Liability	KLC Insurance Services	1,000	3-28-19
Auto	KLC Insurance Services	Schedule	3-28-19
Public Officials	KLC Insurance Services	1,000,000	3-28-19
Employment Practices	KLC Insurance Services	1,000,000	3-28-19

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, 2018, 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 November 26, 2018.

**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  
November 26, 2018