

City of Drakesboro, Kentucky

Financial Statements

June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities of the City of Drakesboro, Kentucky as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Drakesboro, Kentucky'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 from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis for Disclaimer of Opinion on the Governmental Activities" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Disclaimer
Business Type Activities	Unmodified

Basis for Disclaimer of Opinion on the Governmental Activities

The financial statements of the governmental activities have not been audited. We were engaged to audit the Governmental Activities as part of our audit of the City's basic financial statements. During the course of our audit, we were unable to satisfy ourselves by alternative means accounts receivable in the Governmental Funds as they relate to property taxes. The Governmental Activities are included in the City's basic financial statements represent 7 percent, 4 percent, and 10 percent of the assets, net position, and revenues, respectively, of the City's financial statements.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Governmental Activities" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities of the City of Drakesboro, Kentucky. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the City of Drakesboro, Kentucky, as of June 30, 2020, and the respective changes in financial position, and 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 the management's discussion and analysis and budgetary comparison information on pages 4-8 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 supplementary information on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2021, on our consideration of the City of Drakesboro, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Drakesboro, Kentucky's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
June 7, 2021

**City of Drakesboro, Kentucky
212 W Mose Rager Blvd
Drakesboro, KY 42337
270-476-8986**

Management's Discussion and Analysis

The financial management team of the City of Drakesboro, Kentucky: Mayor Mike Jones and presents this narrative to help those who review these financial statements to better understand them, their schedules and notes. It is our intent that this discussion will provide all parties interested in the City's financial condition, especially the citizens of Drakesboro, a better understanding of the City's operations and financial status.

The City reports its annual financial statements in a required model format issued by the Governmental Accounting Standards Board.

Should any reader of these statements have questions or desire additional information, please contact the Mayor Mike Jones at the address and/or phone number above.

Financial Highlights

- As of June 30, 2020, the City's assets (\$1,564,092) exceeded liabilities (\$559,628) by \$1,009,004.
- Unrestricted cash and investment balances as of June 30, 2020 were \$143,707 and current liabilities payable from those funds were \$175,448.
- Net position increased this year by \$156,267. Net position of the governmental activities decreased by \$69,750 and those of the City's business type activities (utilities) increased by \$226,017.
- Fund balances, a measure of current financial resources, decreased in the governmental funds by \$96,933 to a June 30, 2020 balance of \$(88,023).

Overview of the Financial Statements

The City provides two major categories of services and thus reports on two major activities: 1) Governmental activities, which are primarily funded by taxes and intergovernmental revenues, and 2) Business-type activities, which are funded with user fees and charges. Governmental activities include services such as police, fire, streets and street lighting, prevention of drug and alcohol abuse, and maintenance, industrial development, and the administrative and oversight functions necessary to provide all of the above. Business-type activities include water, sewer and natural gas services.

The first two financial statements report on both service categories combined. Subsequent statements report separately on governmental services and business-type activities. The financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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The first two statements, the government-wide statement of net position and government-wide statement of activities present an overview of the City's governmental and business-type services. The former reports the financial condition of the City as of June 30. It reports all of the City's short-term and long-term assets and liabilities. The latter statement reports how the City's net position changed during the fiscal year. It summarizes the revenues and expenditures of the past year.

Analysis of the City as a Whole

The following two statements, Summary of Government Wide Net Position and Summary of the Statement of Activities – Government Wide, are presented for comparative purposes to prior year information.

Summary of Government Wide Net Position
June 30, 2020 and 2019

	June 30, 2020	June 30, 2019
Current assets	\$ 393,982	\$ 265,425
Noncurrent assets	1,170,110	1,150,494
Total assets	1,564,092	1,415,919
Current liabilities	175,448	217,665
Noncurrent liabilities	392,180	347,774
Total liabilities	567,628	565,439
Net position:		
Invested in capital assets, net of related debt	938,589	974,348
Restricted	124,555	4,123
Unrestricted	(66,680)	(127,991)
Total net position	\$ 996,464	\$ 850,480

The net position of the City's governmental and business-type activities is approximately \$1 million at June 30, 2020 an increase of \$156,267 from prior year. Of this net position, \$938,589 or 93% is invested in capital assets, approximately \$124,555 is restricted and the remaining net position \$(58,680) is unrestricted, an increase of approximately \$153,984 as compared to the prior year.

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Summary of the Statement of Activities – Government - Wide
For the Year Ended June 30, 2020 and 2019

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,024,958	\$ 745,568
Grants and contributions	17,211	7,431
General revenues:		
Property taxes	26,206	10,393
License fee and permits	51,816	24,820
Other revenues	<u>75,574</u>	<u>15,871</u>
Total revenues	<u>1,195,765</u>	<u>804,083</u>
Program expenses		
General government	107,307	51,054
Public safety	4,000	4,000
Parks and recreation	76,159	33,613
Capital expenditures	5,508	4,961
Water	182,771	216,777
Sewer	174,592	168,274
Natural gas	<u>505,646</u>	<u>726,887</u>
Total expenses	<u>1,055,983</u>	<u>1,205,566</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	139,782	(401,483)
Other income/(expenses)		
Gain/(loss) on disposal of assets	6,200	-
Interest	<u>2</u>	<u>11</u>
Total other income/(expense)	<u>6,202</u>	<u>11</u>
Increase (decrease) in net position	145,984	(401,472)
Net position, beginning of year	<u>850,480</u>	<u>1,251,952</u>
Net position, end of year	<u>\$ 996,464</u>	<u>\$ 850,480</u>

Current year revenues have increased by approximately \$400,000, an increase of 56% due to a greater amount of collections for services. Also, total expenses decreased approximately \$160,000 due to fewer street and utility repairs and payroll. The City continues to aggressively pursue enforcement of occupational tax and license fees. Also, the City is active and persistent in collection of utility accounts and the prevention of bad debt expenses.

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The next two financial statements report on governmental services. They are the balance sheet/governmental funds and the statement of revenues, expenditures, and changes in fund balances/governmental funds.

The balance sheet lists the resources available as of June 30, 2020, to pay current liabilities and to continue governmental operations in to the following fiscal year. Capital assets are not included in this report, because it is already in the government-wide statement of net position. The balance sheet is intended to demonstrate current, as opposed to long-term, financial strength and/or weakness.

The statement of revenues, expenditures and changes in fund balances provides some of the most important data necessary to choose the level of governmental service. It also provides insight into the level of taxation needed for those services.

Management has reviewed the balance sheet and the statement of revenues, expenditures, and changes in fund balance and presents the following observations, primarily related to the general fund.

- The June 30, 2020 fund balance was \$(88,023). The total fund balance was broken down into non-spendable, restricted, committed, assigned, and unassigned. Committed had a balance of \$0 at June 30, 2020. Fund balance decreased by \$99,216.
- The statement of revenues and expenditures shows that the general fund expenditures exceeded revenues by \$99,216.

Proprietary Fund Statements

The three primary statements reporting on the proprietary or business-type activities are:

- Statement of net position – proprietary funds,
- Statement of revenues, expenses, and changes in fund net position – proprietary funds,
- Statement of cash flows – proprietary funds

The three proprietary fund statements demonstrate that the utility operations continue to grow and to be financially sound.

The proprietary fund assets exceed liabilities by \$926,221. Current year operating expenses decreased by approximately \$260,000 due to a decrease in utility repairs, utilities, and supplies purchased.

The proprietary fund operations are producing sufficient revenue to fund payments for past capital improvements, maintenance and operating expenses, minor on-going expansions to the infrastructure, and a portion of the governmental services.

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Capital Assets

At June 30, 2020, the City had invested \$1,057,089 in capital assets, net of depreciation. The change in capital assets represents purchases of equipment and other improvements for a net increase of \$29,413 and depreciation expense of \$89,472 for the year ended June 30, 2020.

Budgetary Comparison

Actual funds were less than budgeted funds by approximately \$86,267 primarily due to the anticipation of capital projects. Accordingly, actual revenues were more than budgeted revenues.

If you have questions about this report or need additional financial information, Contact the City of Drakesboro, Kentucky at 212 West Mose Rager Blvd, Drakesboro, Kentucky 42337 or 270-476-8986.

CITY OF DRAKESBORO, KENTUCKY
Statement of Net Position
June 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash	\$ 28,761	\$ 114,946	\$ 143,707
Receivables (net of allowances for uncollectibles)	15,663	234,612	250,275
Total current assets	<u>44,424</u>	<u>349,558</u>	<u>393,982</u>
Noncurrent Assets:			
Restricted cash	-	113,021	113,021
Internal balances	(72,153)	72,153	-
Plant, property, equipment and infrastructure	315,548	3,516,316	3,831,864
Accumulated depreciation	(149,282)	(2,625,493)	(2,774,775)
Capital assets (net of accumulated depreciation)	<u>166,266</u>	<u>890,823</u>	<u>1,057,089</u>
Total noncurrent assets	<u>94,113</u>	<u>1,075,997</u>	<u>1,170,110</u>
Total assets	<u>\$ 138,537</u>	<u>\$ 1,425,555</u>	<u>\$ 1,564,092</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 60,294	\$ 47,619	\$ 107,913
Current portion of bond obligations	-	67,535	67,535
Total current liabilities	<u>60,294</u>	<u>115,154</u>	<u>175,448</u>
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	-	392,180	392,180
Total noncurrent liabilities	<u>-</u>	<u>392,180</u>	<u>392,180</u>
Total liabilities	<u>60,294</u>	<u>507,334</u>	<u>567,628</u>
NET POSITION			
Invested in capital assets, net of related debt	166,266	772,323	938,589
Restricted	11,534	113,021	124,555
Unrestricted	(99,557)	32,877	(66,680)
Total net position	<u>\$ 78,243</u>	<u>\$ 918,221</u>	<u>\$ 996,464</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRAKESBORO, KENTUCKY
Statement of Activities
For the Year Ended June 30, 2020

Program Activities	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ (107,307)	\$ -	\$ -	\$ -	\$ (107,307)	\$ -	\$ (107,307)
Fire	(4,000)	-	-	-	(4,000)	-	(4,000)
Streets	(76,159)	-	-	17,211	(58,948)	-	(58,948)
Depreciation (unallocated)	(5,508)	-	-	-	(5,508)	-	(5,508)
Total Governmental Activities	(192,974)	-	-	17,211	(175,763)	-	(175,763)
Business-Type Activities							
Water	(182,771)	190,672	-	-	-	7,901	7,901
Sewer	(174,592)	160,524	-	-	-	(14,068)	(14,068)
Garbage	(505,646)	673,762	-	-	-	168,116	168,116
Total Business-Type Activities	(863,009)	1,024,958	-	-	-	161,949	161,949
Total Government	(1,055,983)	1,024,958	-	17,211	(175,763)	161,949	(13,814)
General Revenues:							
Property taxes, levied for general purposes					26,206	-	26,206
License fee and permits, levied for general purposes					51,816	-	51,816
Interest and investment earnings					2	-	2
Gain / (loss) on disposal of capital assets					6,200	-	6,200
Miscellaneous					19,506	56,068	75,574
Total General Revenues					103,730	56,068	159,798
Change in Net Position					(72,033)	218,017	145,984
Net Position, Beginning of Year					150,276	700,204	850,480
Net Position, End of Year					\$ 78,243	\$ 918,221	\$ 996,464

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRAKESBORO, KENTUCKY
Balance Sheet – Governmental Funds
June 30, 2020

	General	Municipal Road Aid	Total
ASSETS			
Cash	\$ 17,227	\$ 11,534	\$ 28,761
Receivables (net of allowances for uncollectibles)	15,663	-	15,663
Total assets	\$ 32,890	\$ 11,534	\$ 44,424
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 60,294	\$ -	\$ 60,294
Due to proprietary funds	72,153	-	72,153
Total liabilities	132,447	-	132,447
Fund Balances:			
Restricted	-	11,534	11,534
Unassigned	(99,557)	-	(99,557)
Total fund balances	(99,557)	11,534	(88,023)
Total Liabilities and Fund Balances	\$ 32,890	\$ 11,534	\$ 44,424

CITY OF DRAKESBORO, KENTUCKY
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2020

Total governmental fund balances \$ (88,023)

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

Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds.

166,266

Net position of governmental activities \$ 78,243

CITY OF DRAKESBORO, KENTUCKY
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2020

	<u>General</u>	<u>Municipal Road Aid</u>	<u>Total</u>
Revenues:			
Property taxes	\$ 26,206	\$ -	\$ 26,206
License and fees	51,816	-	51,816
LGEAF	-	17,211	17,211
Miscellaneous	19,506	-	19,506
Total Revenues	<u>97,528</u>	<u>17,211</u>	<u>114,739</u>
Expenditures:			
Current:			
General government	107,307	-	107,307
Fire department	4,000	-	4,000
Street department	66,359	9,800	76,159
Capital outlay	32,691	-	32,691
Total expenditures	<u>210,357</u>	<u>9,800</u>	<u>220,157</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(112,829)</u>	<u>7,411</u>	<u>(105,418)</u>
Other Financing Sources (Uses)			
Sale of Assets	6,200	-	6,200
Interest income	2	-	2
Total Other Financing Sources (Uses)	<u>6,202</u>	<u>-</u>	<u>6,202</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(106,627)	7,411	(99,216)
Fund Balances, Beginning of Year	<u>7,070</u>	<u>4,123</u>	<u>\$ 11,193</u>
Fund Balances, End of Year	<u>\$ (99,557)</u>	<u>\$ 11,534</u>	<u>\$ (88,023)</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRAKESBORO, KENTUCKY
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds	\$ (99,216)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Depreciation expense reported in statement of activities	(5,508)
Capital outlay reported in governmental expenditures	<u>32,691</u>
Change in net position of governmental activities	<u>\$ (72,033)</u>

CITY OF DRAKESBORO, KENTUCKY
Statement of Net Position – Proprietary Funds
June 30, 2020

	Water	Sewer	Gas	Total
ASSETS				
Current assets:				
Cash	\$ 65,357	\$ -	\$ 49,589	\$ 114,946
Receivables (net of allowances for uncollectibles)	<u>53,831</u>	<u>55,052</u>	<u>125,729</u>	<u>234,612</u>
Total current assets	<u>119,188</u>	<u>55,052</u>	<u>175,318</u>	<u>349,558</u>
Noncurrent assets:				
Restricted cash	89,267	-	23,754	113,021
Due (to) from other funds	(211,844)	123,639	160,358	72,153
Plant and equipment	1,194,160	893,393	1,428,763	3,516,316
Accumulated depreciation	<u>(994,614)</u>	<u>(551,986)</u>	<u>(1,078,893)</u>	<u>(2,625,493)</u>
Total capital assets (net of accumulated depreciation)	<u>199,546</u>	<u>341,407</u>	<u>349,870</u>	<u>890,823</u>
Total noncurrent assets	<u>76,969</u>	<u>465,046</u>	<u>533,982</u>	<u>1,075,997</u>
Total assets	<u>\$ 196,157</u>	<u>\$ 520,098</u>	<u>\$ 709,300</u>	<u>\$ 1,425,555</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 29,872	\$ 2,442	\$ 15,305	\$ 47,619
Bonds and notes payable, current portion	<u>15,000</u>	<u>15,000</u>	<u>37,535</u>	<u>67,535</u>
Total current liabilities	<u>44,872</u>	<u>17,442</u>	<u>52,840</u>	<u>115,154</u>
Noncurrent liabilities				
Bonds and notes payable, net of current portion	<u>103,500</u>	<u>103,500</u>	<u>185,180</u>	<u>392,180</u>
Total noncurrent liabilities	<u>103,500</u>	<u>103,500</u>	<u>185,180</u>	<u>392,180</u>
Total liabilities	<u>148,372</u>	<u>120,942</u>	<u>238,020</u>	<u>507,334</u>
NET POSITION				
Invested in capital assets, net of related debt	199,546	222,907	349,870	772,323
Restricted	89,267	-	23,754	113,021
Unrestricted (deficit)	<u>(241,028)</u>	<u>176,249</u>	<u>97,656</u>	<u>32,877</u>
Total net position	<u>\$ 47,785</u>	<u>\$ 399,156</u>	<u>\$ 471,280</u>	<u>\$ 918,221</u>

CITY OF DRAKESBORO, KENTUCKY
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
For the Year Ended June 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Gas</u>	<u>Total</u>
Operating revenues:				
Total operating revenues	<u>\$ 190,672</u>	<u>\$ 160,524</u>	<u>\$ 673,762</u>	<u>\$ 1,024,958</u>
Operating expenses:				
Purchased water	86,986	-	-	86,986
Purchased gas	-	-	132,132	132,132
Utilities	426	24,878	13,012	38,316
Maintenance	7,198	44,449	212,629	264,276
Salaries and wages	28,850	41,731	64,902	135,483
Legal and accounting	11,738	-	15,827	27,565
Insurance	4,571	3,847	8,005	16,423
Payroll taxes	1,789	2,337	4,018	8,144
Office expense	581	(293)	2,979	3,267
Depreciation	31,484	19,860	32,620	83,964
Supplies	6,006	-	2,703	8,709
Training	51	50	4,460	4,561
Miscellaneous	<u>3,091</u>	<u>11,300</u>	<u>12,359</u>	<u>26,750</u>
Total operating expenses	<u>182,771</u>	<u>148,159</u>	<u>505,646</u>	<u>836,576</u>
Operating income (loss)	<u>7,901</u>	<u>12,365</u>	<u>168,116</u>	<u>188,382</u>
Non-operating revenues (expenses)				
Other revenue	-	56,068	-	56,068
Interest expense	<u>(10,208)</u>	<u>(5,798)</u>	<u>(10,427)</u>	<u>(26,433)</u>
Total non-operating revenues (expenses)	<u>(10,208)</u>	<u>50,270</u>	<u>(10,427)</u>	<u>29,635</u>
Increase/(Decrease) in net position	(2,307)	62,635	157,689	218,017
Net position, beginning of year	<u>50,092</u>	<u>336,521</u>	<u>313,591</u>	<u>700,204</u>
Net position, end of year	<u>\$ 47,785</u>	<u>\$ 399,156</u>	<u>\$ 471,280</u>	<u>\$ 918,221</u>

CITY OF DRAKESBORO, KENTUCKY
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2020

Cash Flows from Operating Activities

Cash received from customers	\$ 1,001,167
Cash payments to suppliers for goods and services	(736,957)
Cash payments to employees for services	<u>(135,483)</u>
Net Cash Provided (Used) by Operating Activities	<u>128,727</u>

Cash Flows from Noncapital Financing Activities

Transfers to/from general fund	<u>(72,153)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(72,153)</u>

Cash Flows from Capital and Related Financing Activities

Proceeds from issuance of long term debt	122,267
Payments on long term debt	(35,644)
Interest paid on long term debt	(26,433)
Acquisition of capital assets	<u>(6,522)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>53,668</u>

Net Increase (Decrease) in Cash and Cash Equivalents 166,310

Cash and Cash Equivalents, Beginning of Year 61,657

Cash and Cash Equivalents, End of Year \$ 227,967

Reconciliation of Income (Loss) from Operations to Net Cash Provided (Used) by Operating Activities

Income (loss) from operations	\$ 188,382
Adjustments to reconcile operating income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	83,964
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(23,791)
Increase (decrease) in accounts payable	<u>(119,828)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 128,727</u></u>

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 1 - Description of Entity and Summary of Significant Accounting Policies

Organization

City of Drakesboro, Kentucky, operates under a Mayor-Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, public improvements, planning and zoning, and general administrative services. The City is designated as a "Home Rule" city under House Bill 331, enacted January 1, 2015.

Financial Statement Presentation

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial principles. The City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The statement of net position presents the financial condition of the governmental and business-type activities of the City. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 1 - Description of Entity and Summary of Significant Accounting Policies, Continued

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The City has two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - This fund is used to account for the Municipal Road Aid Funds from the Commonwealth of Kentucky that is legally restricted to expenditure for specific purposes.

Proprietary Funds – Proprietary fund reporting focuses on changes in net position, financial position and cash flows. The City's proprietary funds are classified as enterprise funds.

Water, Sewer and Natural Gas – These funds are used to account for the receipt and disbursement of the water, sewer, and natural gas operations of the City.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 1 - Description of Entity and Summary of Significant Accounting Policies, Continued

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales tax collected and held by vendors at year end on behalf of the City is also recognized as revenue if collected within 30 days after year end. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Fund Balance Classification: The City adopted GASB Statement No. 54. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has a due to/from other funds that are for capital projects and equipment in proprietary funds financed through the general fund.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the other resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The City had restricted resources as of June 30, 2020 in the Municipal Road Aid Fund for future repair and reconstruction of roadways.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City had no committed resources as of June 30, 2020.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The city did not have any assigned resources as of June 30, 2020.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 1-Description of Entity and Summary of Significant Accounting Policies, Continued

- Unassigned: This classification includes all amounts not included in other spendable classifications.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Net Position

Net position classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Cash and Investments

The City considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Investments are reported at fair market value.

Receivables

The City uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided, as no material write-offs are expected for receivables as of June 30, 2020. The direct write-off method does not significantly depart from generally accepted accounting principles.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the applicable governmental or business type activities columns in the government-wide financial statements. The cost of additions to capital assets and major replacements of retired units of property is capitalized. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 1 - Description of Entity and Summary of Significant Accounting Policies, Continued

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method.

The estimated useful lives of capital assets are as follows:

Utility plant	50 years
Infrastructure	50 years
Equipment	5 - 10 years
Other	10 - 20 years

Extraordinary and Special Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are held to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 1 - Description of Entity and Summary of Significant Accounting Policies, Concluded

Use of Estimates

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

Risks and Uncertainties

In March 2020, the World Health Organization declared the global novel coronavirus disease (COVID-19) outbreak a pandemic. Consequently, governments have encouraged self-isolation to curtail the spread. Many industries are experiencing disruptions and the City's operations could be adversely affected, but the impact is not known at this point. Accordingly, management believes that a material impact on the City's financial position and results of operations is reasonably possible.

Note 2 - Cash and Investments

Deposits

At year end, the carrying amount of the City's cash deposits were \$256,728 and the bank balance was \$221,733. The difference between book and bank balances primarily represents checks that have been issued and deposits that have been received, but have not cleared the bank as of June 30, 2020. All of these funds are covered by federal insurance or by other assets pledged by the financial institution.

Note 3 - Interfund Transactions

Due to/from other funds are for capital projects and equipment in proprietary funds financed through the general fund. These amounts are not expected to be repaid within the next year.

Due to	Due From				
	General	Water	Sewer	Gas	Total
General	\$ -	\$ 32,270	\$ -	\$ -	\$ 32,270
Sewer	-	123,639	-	-	123,639
Gas	104,423	55,935	-	-	160,358
Total	<u>\$ 104,423</u>	<u>\$ 211,844</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,267</u>

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Governmental Activities				
<i>Capital assets, not being depreciated</i>				
Land	\$ 6,300	\$ 10,291	\$ -	\$ 16,591
Total capital assets, not being depreciated	<u>6,300</u>	<u>10,291</u>	<u>-</u>	<u>16,591</u>
<i>Capital assets, being depreciated</i>				
Buildings and improvements	174,116	-	-	174,116
Equipment	72,434	22,400	(9,800)	85,034
Furniture and fixtures	5,381	-	-	5,381
Park	34,426	-	-	34,426
Total capital assets, being depreciated	<u>286,357</u>	<u>22,400</u>	<u>(9,800)</u>	<u>298,957</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(81,246)	(3,100)	-	(84,346)
Equipment	(62,521)	(2,408)	9,800	(55,129)
Furniture and fixtures	(5,381)	-	-	(5,381)
Park	(4,426)	-	-	(4,426)
Total accumulated depreciation	<u>(153,574)</u>	<u>(5,508)</u>	<u>9,800</u>	<u>(149,282)</u>
Total capital assets, being depreciated net	<u>132,783</u>	<u>16,892</u>	<u>-</u>	<u>149,675</u>
Governmental activities capital assets, net	<u>\$ 139,083</u>	<u>\$ 27,183</u>	<u>\$ -</u>	<u>\$ 166,266</u>
	Balance			Balance
	July 1, 2019	Additions	Deletions	June 30, 2020
Business-Type Activities				
<i>Capital assets, not being depreciated</i>				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Total capital assets, not being depreciated	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
<i>Capital assets, being depreciated</i>				
Plant	3,236,193	-	-	3,236,193
Equipment	263,601	6,522	-	270,123
Total capital assets, being depreciated	<u>3,499,794</u>	<u>6,522</u>	<u>-</u>	<u>3,506,316</u>
<i>Less: accumulated depreciation</i>				
Plant	(2,303,662)	(72,734)	-	(2,376,396)
Equipment	(237,867)	(11,230)	-	(249,097)
Total accumulated depreciation	<u>(2,541,529)</u>	<u>(83,964)</u>	<u>-</u>	<u>(2,625,493)</u>
Total capital assets, being depreciated net	<u>958,265</u>	<u>(77,442)</u>	<u>-</u>	<u>880,823</u>
Business-type activities capital assets, net	<u>\$ 968,265</u>	<u>\$ (77,442)</u>	<u>\$ -</u>	<u>\$ 890,823</u>

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 5 – Bonds Payable

The original amount of each issue, the issue date, interest rates, and maturity are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rate</u>	<u>Maturity Date</u>
1982	\$412,000	5.00%	January 1, 2022
1997	\$ 300,000	4.50%	January 1, 2037

Long-term debt activities for the year ended June 30, 2020, are as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Debt Payments</u> <u>and Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Amount Due</u> <u>Within One Year</u>
Bond 1982	\$ 66,000	\$ -	\$ 21,000	\$ 45,000	\$ 22,000
Bond 1997	200,000	-	8,000	192,000	8,000
FSB Loan	128,718	-	128,718	-	-
FSB Loan	-	246,601	23,886	222,715	37,535
	<u>\$ 394,718</u>	<u>\$ 246,601</u>	<u>\$ 181,604</u>	<u>\$ 459,715</u>	<u>\$ 67,535</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the City at June 30, 2020 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 67,535	\$ 10,160	\$ 77,695
2022	70,455	8,675	79,130
2023	50,473	7,718	58,191
2024	52,595	7,312	59,907
2025	55,826	6,885	62,711
2026-2030	68,831	27,450	96,281
2031-2035	65,000	14,318	79,318
2036-2040	29,000	1,327	30,327
	<u>\$ 459,715</u>	<u>\$ 83,845</u>	<u>\$ 543,560</u>

CITY OF DRAKESBORO, KENTUCKY
Notes to Financial Statements
June 30, 2020

Note 6 - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied January 1, become delinquent in the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided. The ad valorem tax for fiscal year 2020 was \$.270 on each \$100 worth of real and \$.307 for tangible property

Motor vehicle taxes with a calendar 2020 tax rate of \$.307 per \$100 assessed valuation are due and collected in the birth month of the vehicles licensee. They are collected by the County Clerk of Muhlenburg County and remitted to the City monthly.

The following is the District's property tax calendar:

<u>Date Event</u>	
January 1, year of levy	Assessment date
November 1, year of levy	Taxes levied
November 30, year of levy	2% discount allowed
December 31, year of levy	Gross amount due
January 1, following year	Delinquent date, 5% penalty added
February 1, following year	21% penalty added

Note 7 – Other Information

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, job related illnesses or injuries to employees, and natural disasters. The City carries commercial insurance for all of these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 – Commitments and Contingencies

The City receives funding from state agencies, non-public grants, and private donations. These funds may be required to be used for designated purposes. If the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced. The amount of such future refunds, if any, is not expected to be significant.

Note 9 - Subsequent Events

Management has evaluated subsequent events through June 7, 2021, the date which the financial statements were available to be issued.

Required Supplemental Information

CITY OF DRAKESBORO, KENTUCKY
Statement of Revenues, Expenditures and Changes in Fund
Balances – Budget and Actual – Governmental Funds
For the Year Ended June 30, 2020

	General				Municipal Road Aid			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:								
Taxes, licenses and fees	\$ 42,500	\$ 42,500	\$ 78,022	\$ 35,522	\$ -	\$ -	\$ -	\$ -
LGEAF	-	-	-	-	10,500	10,500	17,211	6,711
Other	3,000	3,000	19,506	16,506	-	-	-	-
Total Revenues	<u>45,500</u>	<u>45,500</u>	<u>97,528</u>	<u>52,028</u>	<u>10,500</u>	<u>10,500</u>	<u>17,211</u>	<u>6,711</u>
Expenditures:								
Current:								
General government	48,100	48,100	107,307	(59,207)	-	-	-	-
Fire department	4,000	4,000	4,000	-	-	-	-	-
Street department	12,500	12,500	66,359	(53,859)	10,500	10,500	9,800	700
Park department	900	900	-	900	-	-	-	-
Capital outlay	-	-	32,691	(32,691)	-	-	-	-
Total expenditures	<u>65,500</u>	<u>65,500</u>	<u>210,357</u>	<u>(144,857)</u>	<u>10,500</u>	<u>10,500</u>	<u>9,800</u>	<u>700</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(20,000)</u>	<u>(20,000)</u>	<u>(112,829)</u>	<u>(92,829)</u>	<u>-</u>	<u>-</u>	<u>7,411</u>	<u>7,411</u>
Other Financing Sources (Uses)								
Sale of asset	-	-	6,200	6,200	-	-	-	-
Interest income	-	-	2	2	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>6,202</u>	<u>6,202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ (20,000)</u>	<u>\$ (20,000)</u>	<u>\$ (106,627)</u>	<u>\$ (86,627)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,411</u>	<u>\$ 7,411</u>
Fund Balances, Beginning of Year			<u>7,070</u>				<u>4,123</u>	
Fund Balances, End of Year			<u>\$ (99,557)</u>				<u>\$ 11,534</u>	

Supplemental Information

CITY OF DRAKESBORO, KENTUCKY
Schedule of Expenditures-Governmental Funds
For the Year Ended June 30, 2020

	<u>General</u>	<u>Municipal Road Aid</u>	<u>Total</u>
Expenditures:			
Current:			
General government			
Salary	\$ 26,617	\$ -	\$ 26,617
Utilities	6,562	-	6,562
Membership dues	377	-	377
Taxes and licenses	-	-	-
Office supplies	9,537	-	9,537
Janitorial supplies	575	-	575
Repairs and maintenance	15,450	-	15,450
Insurance	6,240	-	6,240
Legal and accounting	21,387	-	21,387
Printing and advertising	3,585	-	3,585
Miscellaneous	16,977	-	16,977
	<u>107,307</u>	<u>-</u>	<u>107,307</u>
Fire department:			
Dispatch Salaries	4,000	-	4,000
	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Street department:			
Street lighting	15,941	-	15,941
Street paving	49,777	9,800	59,577
Park and miscellaneous	641	-	641
	<u>66,359</u>	<u>9,800</u>	<u>76,159</u>
Capital outlay	<u>32,691</u>	<u>-</u>	<u>32,691</u>
Total expenditures	<u>\$ 210,357</u>	<u>\$ 9,800</u>	<u>\$ 220,157</u>

CITY OF DRAKESBORO, KENTUCKY
Schedule of Findings and Responses
June 30, 2020

Noncompliance 2020-001 Repeat Finding 2019-001

Criteria:

Under KRS 83A.060, Enactment of Ordinances, City Ordinances must only address one issue and must clearly state the subject addressed in writing. Ordinance readings must be held on two separate days and are not effective until published under KRS 424.

Condition:

During the course of our audit, for City Ordinances as they related to utilities, we found no evidence of two separate readings and the ordinances were not clear nor readily available when requested.

Cause:

Ordinances were not clear or readily available when requested. Only summations of events were contained within the minutes of the City.

Effect:

Ordinances unavailable to the public upon request and the City is not compliant with KRS 83A.060.

Recommendation:

We recommend ordinances as they relate to the utility rates be published for view by the public.

Management Response:

The City will be making ordinances available for public viewing and any new ordinance readings will be held on two separate days.

Material Weakness 2020-002 Repeat Finding 2019-002

Criteria:

Property taxes are the main source of income for the City's general fund.

Condition:

During the course of our audit, it was revealed that a compiled listing of delinquent property taxes for properties was not readily available for the presentation of the balance of accounts receivable.

Cause:

A manual set of books for multiple years was available and records were maintained for delinquent properties, but no actions had been taken.

Effect:

No action had been taken on delinquent property taxes and therefore not liens have been assessed on delinquent property to ensure that the City will be able to collect those revenues in the future.

Recommendation:

We recommend that the City purchase software in order to track delinquent bills in order that they can be turned over for legal action.

Management Response:

The City has purchased software in order to track delinquent property taxes.

CITY OF DRAKESBORO, KENTUCKY
Schedule of Findings and Responses
June 30, 2020

Material Weakness 2020-003 Repeat Finding 2019-003

Criteria:

The use of separate funds within the City's Proprietary fund aids in financial management and profitability determination.

Condition:

During our audit it was noted that while the proprietary billing registers were being produced and an accounts receivable subsidiary was being maintained; however, the billing registers did not reconcile back to the general ledger for recorded revenue.

Cause:

Monthly comparisons to recorded revenue and actual amounts billed are not being made.

Effect:

Without monitoring billed revenue, recorded revenue and amounts collected, the City is unable to determine if property amounts have been collected and opens the City up to opportunities of fraud and misappropriations.

Recommendation:

We recommend that monthly reconciliations and comparisons be made between amounts billed and recorded revenue in the general ledger between for the gas, water, and sewer utilities and that discrepancies be investigated.

Management Response:

Management understands the importance and is now printing out daily deposit reports that contain a detail of deposited customer amounts and reconcile to the daily cash deposit. Management will also provide monthly billed reports to the external bookkeeper for reconciling.

Significant Deficiencies 2020-004 Repeat Finding 2019-004

Criteria:

The City's policy for utility termination is to terminate services immediately when bills become delinquent.

Condition:

During the review of utility accounts, it was noted that service for delinquent customers was not being terminated timely.

Cause:

Customer services when delinquent was ceased; however, it was typically three months after delinquency.

Effect:

Customers are continuing to use the services even after delinquency.

Recommendation:

We recommend that the City adhere to its cutoff policy and terminate service immediately when bills become delinquent in order to minimize bad debts.

CITY OF DRAKESBORO, KENTUCKY
Schedule of Findings and Responses
June 30, 2020

Management Response:

The City is working on adhering to the cutoff policy to terminate service immediately when bills become delinquent.

Significant Deficiency 2020-005 Repeat Finding 2019-005

Criteria:

The use of separate funds within the City aids in financial management and demonstrates legal compliance.

Condition:

During our audit it was noted that there was no uniform way of recording interfund transactions between governmental and proprietary funds.

Cause:

Deposits for multiple funds are being made into one account, interfund transactions are often recorded as revenue, and the revenue is not always recorded as revenue in the correct fund.

Effect:

Deposits into one account create due to due from transactions.

Recommendation:

We recommend that deposits be allocated between the funds and when necessary, a due to due from transaction be recorded as opposed to revenue in the fund.

Management Response:

Management understands the importance and will ensure that interfund transactions are recorded uniformly and that repayments are only recorded in the general ledger when the cash is actually transferred from one account to another to prevent outstanding interfund transactions.

Significant Deficiency 2020-006 Repeat Finding 2019-006

Criteria:

Management is responsible to develop and implement an internal control structure for the safeguarding of assets.

Condition:

The City does not have adequate segregation of duties for an internal control structure to exist.

Cause:

The inherent size of the City.

Effect:

There is an increased risk of material misstatement due to the deficiency in internal control.

Recommendation:

We recommend that the city seek compensating controls to mitigate this deficiency.

Management Response:

The city will search for ways to compensate for the lack of segregation of duties due to the inherent size of the city.



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 City Council
City of Drakesboro, Kentucky

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Drakesboro, Kentucky, as of and for the year ended June 30, 2020, 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 June 7, 2021. Our report disclaims an opinion on the governmental activities because of limitations surrounding the balance of accounts receivable associated with property taxes.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the City of Drakesboro, Kentucky'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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, 2020-002 and 2020-003.

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. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies, 2020-004, 2020-005 and 2020-006.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City of Drakesboro, Kentucky, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-001. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the governmental activities, other instances of noncompliance or other matters may have been identified and reported herein.

City of Drakesboro, Kentucky's Response to Findings

City of Drakesboro, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Drakesboro, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Campbell, Myers & Rutledge, PLLC

Glasgow, Kentucky
June 7, 2021

