

CITY OF GRAND RIVERS, KENTUCKY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

**CITY OF GRAND RIVERS, KENTUCKY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**TABLE OF CONTENTS**

	Page
Independent Auditors' Report.....	1 - 2
Management's Discussion and Analysis.....	3 - 8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	9 - 10
Statement of Activities.....	11
Fund Financial Statements:	
<i>Governmental Funds</i>	
Balance Sheet.....	12
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances.....	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities.....	15
 <i>Proprietary Funds</i>	
Statement of Net Position.....	16
Statement of Revenues, Expenses and Changes in Fund Net Position.....	17
Statement of Cash Flows.....	18
Notes to Basic Financial Statements.....	19 - 36
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
General Fund.....	38
Tourism Fund.....	39
Combining and Individual Fund Statements and Schedules:	
Combining Financial Statements - Non-Major Governmental Funds:	
Combining Balance Sheet .....	41
Combining Statement of Revenues, Expenditures and Changes In Fund Balances.....	42
Compliance and Internal Control Section:	
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 <i>Government Auditing Standards</i> .....	43 - 44
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with the <i>Uniform Guide</i> .....	45 - 46
Schedule of Expenditures of Federal Awards.....	47
Notes to Schedule of Expenditures of Federal Awards.....	47
Schedule of Findings and Questioned Costs.....	48

**JESSICA K. DANIEL, CPA PSC**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor Tom Moodie  
and Members of the City Council  
City of Grand Rivers, Kentucky  
Grand Rivers, 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 the City of Grand Rivers, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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.

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 38-39 be presented to supplement the basic financial statements. Such information, although not 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 Grand Rivers, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are 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 a report dated July 31, 2017 on our consideration of the City of Grand Rivers, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Grand Rivers, Kentucky's internal control over financial reporting and compliance.



Eddyville, Kentucky  
July 31, 2017

**CITY OF GRAND RIVERS, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016  
(UNAUDITED)**

The City of Grand Rivers, Kentucky ("City") offers Management's Discussion and Analysis to provide an overview and analysis of the City's primary governmental financial activities for the year ended June 30, 2016. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements provided in this document.

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

**FINANCIAL HIGHLIGHTS**

The financial statements, which follow the Management's Discussion and Analysis, provide these key financial highlights for fiscal year ended June 30, 2016:

- The total assets of the City exceed its total liabilities and deferred inflows of resources at the close of the 2016 fiscal year by \$6,735,112 (Net Position). Of this amount, a negative \$2,094 represents the unrestricted net position.
- The City's total net position increased by \$2,279,951 during the year. Governmental activities increased the City's net position by \$321,205 and business-type activities increased the City's net position by \$1,958,746.
- The City's governmental fund balance, a measure of current financial resources, increased in the governmental funds by \$303,002 to a June 30, 2016 fund balance of \$753,864. Of that balance \$383,723 is restricted, \$145,061 is assigned, and \$37,956 is non-spendable, leaving a \$187,124 unrestricted balance. Unrestricted fund balance is available to the City for general operations.
- The Statement of Revenues, Expenditures and Changes in Fund Balance shows that the General Fund revenues were exceeded by expenditures by \$303,002.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial report includes the activities of the City of Grand Rivers, Kentucky. The City's basic financial statements are comprised of three components: 1) Government-wide 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.

**Government-wide Statements**

The **government-wide** financial statements are designed to provide readers with a broad overview of the City of Grand Rivers' finances, in a manner similar to private-sector business and, accordingly, to provide information about the City as a whole, presenting both an aggregate current view of the City's finances and longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental fund, these statements reflect how services were financed in the short-term as well as what dollars remain for future spending. The major fund financial statements also display the City's most significant funds.

The **Statement of Net Position** presents financial information on all of the City's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that are expected to result in cash flows in the future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public works, cemetery, and culture and recreation. The business-type activities of the City include water, sewer, and internet. The government-wide financial statements can be found on pages 9-11 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following categories - **governmental** funds and **proprietary** funds.

#### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, and provide the balances of spendable resources available at the end of the fiscal year. Such information reflects financial resources available in the near future to finance the City's programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City of Grand Rivers maintains two individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Tourism Fund which are considered to be major funds. Data from the other four funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental funds financial statements can be found on pages 12-15.

### **Proprietary Funds**

Proprietary funds are generally used to account for services for which the City charges customers; either outside customers, or internal units/divisions of the City. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of Grand Rivers maintains the following type of proprietary funds:

**Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and internet operations.

The proprietary fund financial statements provide separate information for the Water Fund and Sewer Fund since both are considered to be major funds of the City. Because the Internet Fund is the only remaining enterprise fund, it is being presented as a major fund even though it does not meet the criteria of a major fund established in Governmental Accounting Standards Board (GASB) Statement No. 34. The basic proprietary fund financial statements can be found on pages 16-18 of this report.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-36 of this report.

### **Supplementary Information**

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparison schedules as required. Required supplementary information can be found on pages 38-39 of this report. The City also reports supplemental information for combining non-major funds which can be found on pages 41 and 42 of this report.

## **OVERVIEW OF THE CITY'S FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The government-wide financial statements report that during the year ending June 30, 2016, the City received \$2,244,289 in operating and capital grants. Revenue from taxes and charges for services were \$383,071 and \$1,047,689 respectively. Expenses directly related to programs offered by the City were \$1,638,453. The Statement of Activities reflects the current year gain of \$2,279,951.

- The fund financial statements report General fund ordinary revenues of \$315,300, grant revenues of \$370,000, and debt proceeds of \$500,000. Expenditures for the year ending June 30, 2016 total \$878,078.
- Tourism revenue totaled \$199,989. Expenditures from the tourism fund were \$225,980.
- The other governmental funds generated ordinary revenues of \$34,348 and debt proceeds of \$60,467, while expenditures total \$95,437.

The following is a recap of financial activity for the year:

**CITY OF GRAND RIVERS, KENTUCKY'S NET POSITION**

	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Current and other assets	\$ 1,542,359	\$ 1,253,333
Noncurrent assets, net	<u>12,097,765</u>	<u>5,929,073</u>
Total Assets	<u>13,640,124</u>	<u>7,182,406</u>
<b>Liabilities and Deferred Inflows of Resources</b>		
Long-term liabilities	5,622,318	933,150
Other liabilities	<u>1,277,063</u>	<u>1,787,440</u>
Total Liabilities	<u>6,899,381</u>	<u>2,720,590</u>
Deferred inflows of resources	<u>5,631</u>	<u>6,655</u>
Total Liabilities and Deferred Inflows of Resources	<u>6,905,012</u>	<u>2,727,245</u>
<b>Net Position:</b>		
Invested in capital assets net of related debt	5,852,921	3,776,613
Restricted	884,285	608,603
Unrestricted	<u>(2,094)</u>	<u>69,945</u>
Total Net Position	<u>\$ 6,735,112</u>	<u>\$ 4,455,161</u>

**CITY OF GRAND RIVERS, KENTUCKY  
CHANGES IN NET POSITION**

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 1,047,689	\$ 1,068,789
Grants and contributions	2,244,289	26,991
General revenues:		
Taxes	383,071	351,630
Other	143,403	138,126
Insurance proceeds	16,650	-
Capital contributions	82,798	-
Investment earnings	<u>504</u>	<u>590</u>
Total revenues	<u>3,918,404</u>	<u>1,586,126</u>
<b>Expenses</b>		
General government	233,157	269,681
Public works	64,841	77,730
Culture and recreation	301,336	277,968
Cemetery	10,628	4,573
Interest expense	10,863	16,615
Business-type activities	<u>1,017,628</u>	<u>1,129,589</u>
Total Expenses	<u>1,638,453</u>	<u>1,776,156</u>
Change in net position	2,279,951	(190,030)
Net position - beginning, restated	<u>4,455,161</u>	<u>4,645,191</u>
Net position - ending	<u>\$ 6,735,112</u>	<u>\$ 4,455,161</u>

## GENERAL FUND BUDGETARY HIGHLIGHTS

The original and final General Fund budget passed by the city council anticipated no increase or decrease in the general fund balance. The budgeted revenue exceeded actual revenue received by \$24,117 in the general fund. Actual expenditures exceeded budgeted expenditures by \$567,528. The budgetary figures and actual amounts are reported in the supplementary information on page 38.

The original Tourism Fund budget passed by the council anticipated a decrease in the tourism fund balance of \$4,565. The original Tourism Fund budget was amended by the council to show no increase or decrease in fund balance. The actual revenue exceeded budgeted revenue received by \$21,791 in the tourism fund. Actual expenditures exceeded budgeted expenditures by \$16,182. The budgetary figures and actual amounts are reported in the supplementary information on page 39.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital assets

The City's investment in capital assets for its governmental activities as of June 30, 2016 was \$2,548,615. The City's investment in capital assets for its business-type activities as of June 30, 2016 was \$9,549,150. This investment includes land, buildings, vehicles and equipment, net of depreciation and debt used to acquire the assets. The City acquired various assets during the year totaling \$6,468,408. Carrying values of the City's capital assets are as follows:

	2016	2015
<b>Governmental activities:</b>		
Capital assets, not being depreciated:		
Land	\$ 265,350	\$ 265,350
Total capital assets, not being depreciated	265,350	265,350
Capital assets, being depreciated (net):		
Infrastructure	151,348	163,552
Buildings and improvements	756,655	781,692
Land improvements	1,313,032	740,933
Furnishings and fixtures	59,508	66,034
Vehicles	2,722	3,182
Total capital assets, being depreciated (net)	2,283,265	1,755,393
Governmental activities capital assets, net	\$ 2,548,615	\$ 2,020,743
 <b>Business-type activities:</b>		
Capital assets, not being depreciated:		
Land	\$ 4,761	\$ 3,561
Construction in progress	6,765,741	1,080,061
Total capital assets, not being depreciated	6,770,502	1,083,622
Capital assets, being depreciated:		
Buildings and improvements	2,662,876	2,678,903
Machinery and equipment	96,742	119,169
Vehicles	19,030	26,636
Total capital assets, being depreciated	2,778,648	2,824,708
Business-type activities capital assets, net	\$ 9,549,150	\$ 3,908,330

**Long-term and other debt**

At the end of the current fiscal year, the City had a total outstanding debt for the governmental and business-type activities of \$915,241 and \$5,323,972 respectively. The debt is related to equipment and improvements to existing capital assets. The City acquired new debt in the current fiscal year in the form of a line of credit from First Kentucky Bank to cover costs of the sidewalk and lighting project. Draws totaling \$500,000 were received during the year ended June 30, 2016. The City completed the community center upgrades, consisting of additional debt proceeds from First Kentucky Bank of \$60,642. The City is in the process of building a new sewer plant using funds provided through the USDA in the form of RUS Loans and RUS Grants, as well as, CDBG Grants. As of June 30, 2016, \$1,067,000 and \$3,662,000 has been received from the USDA in the form of revenue bonds. During the next fiscal year, the general fund amount due is \$543,529 and the remainder is scheduled to be paid out in 2031. Interest expense for 2016 was \$10,863. The proprietary fund debt is payable from charges for water and sewer services. The amount due during the next fiscal year for proprietary fund debt is \$73,366 and the remainder is scheduled to be paid out in 2055. Interest expense paid by the proprietary funds for 2016 was \$16,189.

**REQUEST FOR INFORMATION**

This financial report is designated to provide a general overview of the City of Grand Rivers, Kentucky's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to Tom Moodie, Mayor, City of Grand Rivers, Kentucky - 122 W Cumberland Ave, Grand Rivers, KY 42045.

**CITY OF GRAND RIVERS, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Totals</u>
<b><u>Assets</u></b>			
<b>Current Assets:</b>			
Cash equivalents	\$ 427,410	\$ -	\$ 427,410
Investments	5,336	-	5,336
Accounts receivable (net):			
Fees and services	-	111,902	111,902
Taxes	21,167	-	21,167
Other	6,281	-	6,281
Grant receivables	370,000	437,814	807,814
Inventory	-	57,511	57,511
Prepaid expenses	6,993	20,629	27,622
Restricted assets:			
Cash equivalents	27,207	30,148	57,355
Investments	<u>19,961</u>	<u>-</u>	<u>19,961</u>
Total Current Assets	<u>884,355</u>	<u>658,004</u>	<u>1,542,359</u>
<b>Noncurrent Assets:</b>			
Land and construction in progress	265,350	6,770,502	7,035,852
Depreciable capital assets, net of depreciation	<u>2,283,265</u>	<u>2,778,648</u>	<u>5,061,913</u>
Total Noncurrent Assets	<u>2,548,615</u>	<u>9,549,150</u>	<u>12,097,765</u>
Total Assets	<u>3,432,970</u>	<u>10,207,154</u>	<u>13,640,124</u>
<b><u>Liabilities</u></b>			
<b>Current Liabilities:</b>			
Accounts payable	127,406	476,008	603,414
Meter deposits payable	-	26,364	26,364
Accrued interest	-	10,200	10,200
Taxes withheld and accrued	939	4,010	4,949
Accrued employee benefits	1,017	7,273	8,290
Accrued payroll	1,129	5,822	6,951
Long-term debt due in one year	<u>543,529</u>	<u>73,366</u>	<u>616,895</u>
Total Current Liabilities	<u>674,020</u>	<u>603,043</u>	<u>1,277,063</u>
<b>Noncurrent Liabilities</b>			
Long-term debt due after one year	<u>371,712</u>	<u>5,250,606</u>	<u>5,622,318</u>
Total Noncurrent Liabilities	<u>371,712</u>	<u>5,250,606</u>	<u>5,622,318</u>
Total Liabilities	<u>1,045,732</u>	<u>5,853,649</u>	<u>6,899,381</u>

See accompanying notes and accountants; report

**CITY OF GRAND RIVERS, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Governmental Activities	Business-type Activities	Totals
<b><u>Deferred Inflows of Resource</u></b>			
Premium on debt	-	5,631	5,631
Total Deferred Inflows of Resources	-	5,631	5,631
<b><u>Net Position</u></b>			
Invested in capital assets, net of related debt	1,633,374	4,219,547	5,852,921
Restricted for:			
Capital projects	370,000	437,991	807,991
Debt service	13,723	29,971	43,694
Cemetery fund	32,600	-	32,600
Unrestricted	337,541	(339,635)	(2,094)
Total Net Position	\$ 2,387,238	\$ 4,347,874	\$ 6,735,112

**CITY OF GRAND RIVERS, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
					Governmental Activities	Business-type Activities	Total
<b><u>Primary Government</u></b>							
Governmental activities							
General government	\$ 233,157	\$ -	\$ 19,770	\$ 370,000	\$ 156,613	\$ -	\$ 156,613
Culture and recreation	301,336	-	3,225	-	(298,111)	-	(298,111)
Public works	64,841	-	-	-	(64,841)	-	(64,841)
Cemetery maintenance	10,628	-	-	-	(10,628)	-	(10,628)
Interest on long-term debt	10,863	-	-	-	(10,863)	-	(10,863)
Total governmental activities	<u>620,825</u>	<u>-</u>	<u>22,995</u>	<u>370,000</u>	<u>(227,830)</u>	<u>-</u>	<u>(227,830)</u>
Business-type activities							
Water system	626,522	572,932	-	19,633	-	(33,957)	(33,957)
Sewer system	371,790	448,792	-	1,831,661	-	1,908,663	1,908,663
Internet	19,316	25,965	-	-	-	6,649	6,649
Total business-type activities	<u>1,017,628</u>	<u>1,047,689</u>	<u>-</u>	<u>1,851,294</u>	<u>-</u>	<u>1,881,355</u>	<u>1,881,355</u>
Total Primary Government	<u>\$ 1,638,453</u>	<u>\$ 1,047,689</u>	<u>\$ 22,995</u>	<u>\$ 2,221,294</u>	<u>(227,830)</u>	<u>1,881,355</u>	<u>1,653,525</u>
<b><u>General Revenues and Transfers</u></b>							
Taxes:							
Property taxes					195,644	-	195,644
Tourism tax					146,763	-	146,763
Other taxes					33,570	-	33,570
Franchise tax					7,094	-	7,094
Miscellaneous					88,904	-	88,904
Rental income					49,999	-	49,999
Cemetery					4,500	-	4,500
Interest income					168	336	504
Insurance proceeds					16,650	-	16,650
Contributed capital					-	82,798	82,798
Transfers					5,743	(5,743)	-
Total General Revenues and Transfers					<u>549,035</u>	<u>77,391</u>	<u>626,426</u>
<b><u>Change in Net Position</u></b>					<u>321,205</u>	<u>1,958,746</u>	<u>2,279,951</u>
<b><u>Net Position at Beginning of Year</u></b>					<u>2,066,033</u>	<u>2,389,128</u>	<u>4,455,161</u>
<b><u>Net Position at End of Year</u></b>					<u>\$ 2,387,238</u>	<u>\$ 4,347,874</u>	<u>\$ 6,735,112</u>

See accompanying notes and accountants' report.

**CITY OF GRAND RIVERS, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	<u>General</u>	<u>Tourism</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Cash equivalents	\$ 299,396	\$ 127,714	\$ 300	\$ 427,410
Investments	-	-	5,336	5,336
Accounts Receivable:				
Taxes	2,830	18,337	-	21,167
Other receivables	2,959	3,269	53	6,281
Grant receivables	370,000	-	-	370,000
Prepaid expenses	5,356	1,637	-	6,993
Restricted assets:				
Cash equivalents	13,723	-	13,484	27,207
Investments	-	-	19,961	19,961
<b><u>Total Assets</u></b>	<b><u>\$ 694,264</u></b>	<b><u>\$ 150,957</u></b>	<b><u>\$ 39,134</u></b>	<b><u>\$ 884,355</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b><u>Liabilities</u></b>				
Accounts payable	\$ 119,614	\$ 4,318	\$ 3,474	\$ 127,406
Taxes withheld and accrued	428	469	42	939
Accrued payroll	700	429	-	1,129
Accrued employee benefits	337	680	-	1,017
Total Liabilities	<u>121,079</u>	<u>5,896</u>	<u>3,516</u>	<u>130,491</u>
<b><u>Fund Balances</u></b>				
Nonspendable:				
Prepaid expenses	5,356	-	-	5,356
Cemetery	-	-	32,600	32,600
Restricted for:				
Capital projects	370,000	-	-	370,000
Debt service	13,723	-	-	13,723
Assigned for:				
Tourism fund	-	145,061	-	145,061
Unassigned:	184,106	-	3,018	187,124
Total Fund Balances	<u>573,185</u>	<u>145,061</u>	<u>35,618</u>	<u>753,864</u>
<b><u>Total Liabilities and Fund Balances</u></b>	<b><u>\$ 694,264</u></b>	<b><u>\$ 150,957</u></b>	<b><u>\$ 39,134</u></b>	<b><u>\$ 884,355</u></b>

**CITY OF GRAND RIVERS, KENTUCKY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**Fund Balances - Total Governmental Funds** \$ 753,864

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet:

Governmental capital assets	\$ 3,928,209	
Less accumulated depreciation	<u>(1,379,594)</u>	2,548,615

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.

Debt due within one year	(543,529)	
Debt due after one year	<u>(371,712)</u>	<u>(915,241)</u>

**Net Position of Governmental Activities** **\$ 2,387,238**

**CITY OF GRAND RIVERS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Tourism</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>				
Taxes:				
Property	\$ 195,644	\$ -	\$ -	\$ 195,644
Tourism	-	146,763	-	146,763
Other	33,570	-	-	33,570
Franchise	7,094	-	-	7,094
Miscellaneous	59,111	10,249	19,544	88,904
Rental income	-	39,752	10,247	49,999
Intergovernmental	19,770	3,225	-	22,995
Cemetery	-	-	4,500	4,500
Investment income	111	-	57	168
Total Revenues	<u>315,300</u>	<u>199,989</u>	<u>34,348</u>	<u>549,637</u>
<b><u>Expenditures</u></b>				
Current:				
General government	111,766	-	-	111,766
Culture and recreation	41,546	180,263	70,481	292,290
Public works	64,841	-	-	64,841
Cemetery maintenance	-	-	10,150	10,150
Debt service	30,463	23,754	7,034	61,251
Capital outlay	<u>629,462</u>	<u>21,963</u>	<u>7,772</u>	<u>659,197</u>
Total Expenditures	<u>878,078</u>	<u>225,980</u>	<u>95,437</u>	<u>1,199,495</u>
<b><u>Excess (Deficiency) of Revenues</u></b>				
<b><u>Over Expenditures</u></b>				
	<u>(562,778)</u>	<u>(25,991)</u>	<u>(61,089)</u>	<u>(649,858)</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Long-term debt issued	500,000	-	60,467	560,467
Insurance Proceeds	-	16,650	-	16,650
Grant revenue	370,000	-	-	370,000
Transfers in	-	-	26,292	26,292
Transfers (out)	<u>(17,740)</u>	<u>(2,809)</u>	<u>-</u>	<u>(20,549)</u>
Total Other Financing Sources (Uses)	<u>852,260</u>	<u>13,841</u>	<u>86,759</u>	<u>952,860</u>
<b><u>Net Change in Fund Balances</u></b>	<u>289,482</u>	<u>(12,150)</u>	<u>25,670</u>	<u>303,002</u>
<b><u>Fund Balances at Beginning of Year</u></b>	<u>283,703</u>	<u>157,211</u>	<u>9,948</u>	<u>450,862</u>
<b><u>Fund Balances at End of Year</u></b>	<u>\$ 573,185</u>	<u>\$ 145,061</u>	<u>\$ 35,618</u>	<u>\$ 753,864</u>

See accompanying notes and accountants' report

**CITY OF GRAND RIVERS, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Net Change in Fund Balance - Total Governmental Funds** \$ 303,002

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets	\$ 659,197	
Less current year depreciation	<u>(131,282)</u>	527,915

Governmental funds report debt proceeds as income. However, debt proceeds do not affect net position in the government-wide Statement of Activities. (560,467)

Principal payments of debt require the use of current financial resources and, therefore, are reported as expenditures in governmental funds. However, principal payments of debt do not affect net position in the government-wide Statement of Activities. 47,446

Accrued interest payments on debt do not require the use of current financial resources. The change in accrued interest is reported as an expenditure in the government-wide statement of activities. 3,309

**Changes in Net Position of Governmental Activities** **\$ 321,205**

**CITY OF GRAND RIVERS, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	Business-type Activities Enterprise Funds			Total
	Water	Sewer	Internet Nonmajor Fund	
<b><u>ASSETS</u></b>				
<b><u>Current Assets</u></b>				
Customer receivables (net allowance of doubtful accounts)	\$ 62,803	\$ 46,825	\$ 2,274	\$ 111,902
Grant receivables	11,767	426,047	-	437,814
Inventory	47,734	9,777	-	57,511
Prepaid expenses	12,053	8,576	-	20,629
Restricted assets:				
Cash equivalents	29,971	177	-	30,148
Total Current Assets	164,328	491,402	2,274	658,004
<b><u>Noncurrent Assets</u></b>				
Land and work in progress	28,222	6,742,280	-	6,770,502
Depreciable capital assets, net	1,670,947	1,085,517	22,184	2,778,648
Total Noncurrent Assets	1,699,169	7,827,797	22,184	9,549,150
Total Assets	1,863,497	8,319,199	24,458	10,207,154
<b><u>LIABILITIES</u></b>				
<b><u>Current Liabilities</u></b>				
Accounts payable	40,262	435,746	-	476,008
Meter deposits payable	26,364	-	-	26,364
Accrued employee benefits	4,662	2,611	-	7,273
Taxes withheld and accrued	2,888	1,122	-	4,010
Accrued interest payable	4,061	6,139	-	10,200
Accrued payroll	3,496	2,326	-	5,822
Long-term debt due in one year	67,847	5,519	-	73,366
Total Current Liabilities	149,580	453,463	-	603,043
<b><u>Noncurrent Liabilities</u></b>				
Long-term debt due after one year	515,020	4,735,586	-	5,250,606
Total Liabilities	664,600	5,189,049	-	5,853,649
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Premium on debt	5,631	-	-	5,631
Total Deferred Inflows of Resources	5,631	-	-	5,631
<b><u>NET POSITION</u></b>				
Invested in capital assets, net of related debt	1,110,671	3,086,692	22,184	4,219,547
Restricted for debt service	29,971	-	-	29,971
Restricted for capital projects	11,767	426,224	-	437,991
Unrestricted	40,857	(382,766)	2,274	(339,635)
Total Net Position	\$ 1,193,266	\$ 3,130,150	\$ 24,458	\$ 4,347,874

See accompanying notes and accountants' report

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

	Business-type Activities			Total
	Enterprise Funds			
	Water	Sewer	Internet Nonmajor Fund	
<b><u>Operating Revenues</u></b>				
Charges for services	\$ 572,932	\$ 448,792	\$ 25,965	\$ 1,047,689
Total Operating Revenues	<u>572,932</u>	<u>448,792</u>	<u>25,965</u>	<u>1,047,689</u>
<b><u>Operating Expenses</u></b>				
Purchased Water	255,241	-	-	255,241
Salaries and wages	123,110	81,419	-	204,529
Depreciation	92,431	69,044	4,356	165,831
Repairs and maintenance	42,601	53,274	-	95,875
Utilities	14,416	39,085	-	53,501
Materials and supplies	2,639	49,457	-	52,096
Contracted services	13,917	15,658	14,960	44,535
Employee benefits	21,016	21,928	-	42,944
Professional	13,549	10,863	-	24,412
Insurance	14,925	7,862	-	22,787
Taxes	10,023	6,673	-	16,696
Office supplies	1,262	5,758	-	7,020
Gasoline, oil and grease	4,190	2,242	-	6,432
Miscellaneous	3,122	1,769	-	4,891
Uniforms	1,653	1,818	-	3,471
Advertising	1,178	-	-	1,178
Total Operating Expenses	<u>615,273</u>	<u>366,850</u>	<u>19,316</u>	<u>1,001,439</u>
<b><u>Income (Loss) from Operations</u></b>	<u>(42,341)</u>	<u>81,942</u>	<u>6,649</u>	<u>46,250</u>
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Interest income	210	126	-	336
Grant revenues	19,633	1,831,661	-	1,851,294
Interest expense	(11,249)	(4,940)	-	(16,189)
Total Nonoperating Revenues (Expenses)	<u>8,594</u>	<u>1,826,847</u>	<u>-</u>	<u>1,835,441</u>
<b><u>Income (Loss) Before Contributions and Transfers</u></b>	<u>(33,747)</u>	<u>1,908,789</u>	<u>6,649</u>	<u>1,881,691</u>
Capital contributions	82,798	-	-	82,798
Transfers (out)	-	(81,041)	(9,469)	(90,510)
Transfers in	84,767	-	-	84,767
<b><u>Change in Net Position</u></b>	<u>133,818</u>	<u>1,827,748</u>	<u>(2,820)</u>	<u>1,958,746</u>
<b><u>Net Position at Beginning of Year</u></b>	<u>1,059,448</u>	<u>1,302,402</u>	<u>27,278</u>	<u>2,389,128</u>
<b><u>Net Position at End of Year</u></b>	<u>\$ 1,193,266</u>	<u>\$ 3,130,150</u>	<u>\$ 24,458</u>	<u>\$ 4,347,874</u>

See accompanying notes and accountants' report

**CITY OF GRAND RIVERS, KENTUCKY**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Business-type Activities			
	Enterprise Funds			
	Water	Sewer	Internet Nonmajor Fund	Total
<b><u>Cash Flows From Operating Activities</u></b>				
Cash received from customers	\$ 569,064	\$ 444,517	\$ 25,789	\$ 1,039,370
Cash payments to suppliers for goods and services	(375,872)	(179,323)	(16,320)	(571,515)
Cash payments to employees for services	(151,520)	(109,155)	-	(260,675)
Net Cash Provided (Used) By Operating Activities	<u>41,672</u>	<u>156,039</u>	<u>9,469</u>	<u>207,180</u>
<b><u>Cash Flows From Noncapital Financing Activities</u></b>				
Transfers in	84,767	-	-	84,767
Transfers out	-	(81,041)	(9,469)	(90,510)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>84,767</u>	<u>(81,041)</u>	<u>(9,469)</u>	<u>(5,743)</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Proceeds from debt	-	3,662,000	-	3,662,000
Principal paid on debt	(73,144)	(6,989)	-	(80,133)
Grant proceeds	7,867	1,405,613	-	1,413,480
Acquisition of property, plant and equipment	(49,538)	(5,667,918)	-	(5,717,456)
Interest paid on debt	(12,908)	(457)	-	(13,365)
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(127,723)</u>	<u>(607,751)</u>	<u>-</u>	<u>(735,474)</u>
<b><u>Cash Flows from Investing Activities</u></b>				
Income received on investments	210	126	-	336
Net Cash Provided (Used) By Investing Activities	<u>210</u>	<u>126</u>	<u>-</u>	<u>336</u>
<b><u>Net Increase (Decrease) in Cash Equivalents</u></b>	(1,074)	(532,627)	-	(533,701)
<b><u>Cash and Cash Equivalents at Beginning of Year</u></b>	<u>31,045</u>	<u>532,804</u>	<u>-</u>	<u>563,849</u>
<b><u>Cash and Cash Equivalents at End of Year</u></b>	<u>\$ 29,971</u>	<u>\$ 177</u>	<u>\$ -</u>	<u>\$ 30,148</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities</u></b>				
Operating income (loss)	\$ (42,341)	\$ 81,942	\$ 6,649	\$ 46,250
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	92,431	69,044	4,356	165,831
Change in assets and liabilities:				
Decrease (increase) in accounts receivable	(6,544)	(4,275)	(176)	(10,995)
Decrease (increase) in prepayments	(8,780)	(5,953)	-	(14,733)
Decrease (increase) in inventory	(424)	(87)	-	(511)
Increase (decrease) in accounts payable	2,025	14,503	(1,360)	15,168
Increase (decrease) in accrued liabilities	5,305	865	-	6,170
Net Cash Provided (Used) By Operating Activities	<u>\$ 41,672</u>	<u>\$ 156,039</u>	<u>\$ 9,469</u>	<u>\$ 207,180</u>
<b><u>Reconciliation of Total Cash</u></b>				
Current assets - cash	\$ -	\$ -	\$ -	\$ -
Restricted assets - cash	29,971	177	-	30,148
Total cash	<u>\$ 29,971</u>	<u>\$ 177</u>	<u>\$ -</u>	<u>\$ 30,148</u>

**Non-Cash Investing, Capital and Related Financing Activities - none**

See accompanying notes and accountants' report

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Grand Rivers, Kentucky (the City) operates under a Mayor/Council form of government and provides the following services as authorized: public works (streets and highways), culture and recreation, water distribution, wastewater treatment, cemetery maintenance, health and welfare, public improvements, planning and zoning and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The City follows GASB pronouncements as codified under GASB 62. The more significant accounting policies of the City are described below:

**A. The Financial Reporting Entity**

The City of Grand Rivers, Kentucky operates under a Mayor/Council form of government. The City has adhered to the standards set forth in Statement No. 14 as amended by Statement No. 61 of the Governmental Accounting Standards Board in reporting the primary government (including blended component units), discretely presented component units, the reporting entity and related relationships with the City. There are no organizations to be included in the reporting entity.

**B. Basis of Presentation**

The government-wide financial statements include the statement of net position and the statement of activities. These statements report information for the City as a whole. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

***Governmental Funds***

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

**General Fund**

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Tourism Fund**

The Tourism fund accounts for the collection of hotel/motel and restaurant taxes. These revenues are to be used to promote tourism activities in the Grand Rivers area.

***Proprietary Funds***

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

**Water Fund**

The Water Fund is used to account for the provision of water services to the residents of the City. Activities of the fund include administration, water treatment, and distribution infrastructure additions and maintenance. The department accounts for the accumulation of resources for, and payment of, long-term debt principal and interest for water system debt. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

**Sewer Fund**

The Sewer Fund is used to account for the provision of sewer services to the residents of the City. Activities of the fund include administration, wastewater treatment and collection, infrastructure additions and maintenance. The fund accounts for the accumulation of resources for, and payment of, long-term debt principal and interest for sewer system debt. All fund costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the financial integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the costs of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**C. Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Franchise and other taxes are considered available and are, therefore, recognized as revenues even though a portion of taxes may be collected in the subsequent year. Intergovernmental revenues received as reimbursements for specific purposes or projects are recognized based upon expenditures recorded. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities (whether current or non-current) are included on the statement of net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water, sewer and internet services which are accrued. Expenses are recognized at the time the liability is incurred.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, 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. Eligibility requirements include: (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the City must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

**D. Budgets**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, and proprietary funds. Non-major governmental funds are not budgeted.

Prior to June 1 of each year, the Mayor submits a proposed budget to the City Council for the year commencing the following July 1. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and request appropriations for the next fiscal year. The City Council holds public hearings to obtain taxpayer comments. Prior to June 30 of each year, the City Council approves the budget by majority vote.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

As required by Kentucky Revised Statutes (KRS) 91A.030 (2), formal budgetary integration is employed as a management device during the year for the General Fund, and Proprietary Funds. Total expenditures for a fund legally may not exceed the total appropriations as required by KRS 91A.030 (13).

Budget amendments, as allowed by ordinance, require majority approval by the City Council. There were no amendments to the General Fund original adopted budget for year ended June 30, 2016. The Tourism Fun budget for the year ended June 30, 2016, was amended during the year.

**E. Cash and Investments**

For the purpose of the Statement of Net Position, "cash equivalents" includes all demand and savings accounts of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash equivalents" include all demand and savings accounts, and certificates of deposit, or short-term investments with an original maturity of three months or less.

Investments include certificates of deposit reported at cost, which approximates fair value. Investments also include short-term pooled municipal guaranteed securities which are valued at market value. In accordance with GASB Statement 31, quoted market price was used to determine the fair value of investments. Additional cash and investment disclosures are presented in Note 3.

**F. Receivables**

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. The major receivable balance for the governmental activities normally include taxpayer assessed revenues. Business-type activities report customer utility usages as their major receivable.

**G. Allowance for Uncollectible Accounts**

The City established an allowance for doubtful accounts based off of past collection history. The City has determined that a fair estimate for uncollectible accounts is 4.8% of outstanding receivables.

**H. Inventory**

Material and supply inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies and replacement parts. Adjustments are made to cost of goods sold at year-end when physical counts are performed on inventory items.

**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016 are recorded as prepaid items. Prepaid items recorded in the governmental funds are reflected as nonspendable fund balance.

**J. Restricted Assets**

The restricted funds have been handled in accordance with the provisions of the various proprietary fund revenue bond resolutions, loan agreements, or by state or federal laws and regulations. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**K. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Assets capitalized, not including infrastructure assets, have an original cost of \$500 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. The estimated useful lives are as follows:

Buildings and Infrastructure	35-50 years
Land Improvements	10-35 years
Utility Plant	50 years
Machinery and Equipment	5-10 years
Furniture and Fixtures	5-10 years
Vehicles	5-7 years

The City has elected not to retroactively report general infrastructure assets purchased prior to July 1, 2003.

**L. Postemployment Benefits**

Postemployment benefits are those received by employees after termination of employment. The City provides no such benefits.

**M. Compensated Absences**

The City accrues vacation leave benefits as earned by its employees at June 30. Paid time off is earned for the year on January 1 and any unused time at December 31 is forfeited. These benefits are measured using the pay rates in effect at June 30, 2016. The entire compensated absence liability is reported on the government-wide financial statements and proprietary fund financial statements.

**N. Long-Term Debt**

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

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists of lease, note and bond obligations payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Debt issuance costs on long-term debt are amortized over the life of the bond issues using the straight-line method.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**O. Deferred Outflows and Inflows of Resources**

**Deferred Outflows of Resources:** In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applied to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category.

**Deferred Inflows of Resources:** In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category.

Deferred inflows related to premium on refinancing of debt is reported in the Water Fund. The City incurred a premium when refinancing their debt with Kentucky Rural Water. The balance as of June 30, 2016 was \$5,631 and will be amortized against interest expense over the remaining life of the loan.

**P. Bond Discounts/Issuance Costs**

Bond discounts and issuance costs on long-term debt are deferred and charged as nonoperating expense over the terms of the related issues.

**Q. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**R. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 expenditures during the reporting period. Actual results could differ from those estimates.

**S. Pensions**

The City contributes to a Simple IRA plan for all eligible employees. The City will contribute a matching contribution to each eligible employee's Simple IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year. The plan is administered by Edward Jones and is established under Section 408(p) of the Internal Revenue Code. The City contributed \$4,430 to employee Simple IRA accounts for the year ending June 30, 2016.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**T. Net Position**

In the government-wide statements, equity is classified as net position and displayed in three components.

- **Net investment in capital assets** - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction, or improvement of those assets net of unspent financing proceeds.
- **Restricted net position** - Net position with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

The City has implemented GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The City establishes (and modifies or rescinds) fund balance commitments by voting. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City through adoption or amendment of the budget which is intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes). The following classifications describe the relative strength of the spending constraints:

- **Nonspendable fund balance** - amounts that are not in spendable form (such as inventory or prepaid expenses) or are required to be maintained intact.
- **Restricted fund balance** - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance** - amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** - amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City delegates the authority.
- **Unassigned fund balance** - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the city would first use committed then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**U. Adoption of New Accounting Pronouncements**

**GASB Statement No. 72**

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued February 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements.

**GASB Statement No. 73**

GASB Statement No. 73, *Accounting and Financial Reporting and Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015.

**GASB Statement No. 76**

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2015. This Statement supersedes Statement No. 55.

**GASB Statement No. 77**

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued August 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement requires disclosure of information necessary to assess how tax abatements affect financial position and results of operations.

**GASB Statement No. 78**

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employees, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

**GASB Statement No. 79**

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued December 2015. The provisions of this Statement are effective for periods beginning after December 15, 2015. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Recent Accounting Pronouncements**

As of June 30, 2016, the GASB has issued the following statements not yet required to be adopted by the City.

**GASB Statement No. 80**

GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, was issued January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The City's management has not yet determined the effect this statement will have on the financial statements.

**GASB Statement No. 81**

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was issued March 2016. The provisions of this Statement are effective for periods beginning after December 15, 2016. This Statement provides recognition and measurement guidance for situations in which a government is a beneficiary of a split interest agreement. The City's management has not yet determined the effect this statement will have on the financial statements.

**GASB Statement No. 82**

GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued March 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement clarifies certain issues that have been raised with previous pronouncements. The City's management has not yet determined the effect this statement will have on the financial statements.

**V. Subsequent Events**

The City has evaluated subsequent events through July 31, 2017, the date which the financial statements were available to be issued.

The City is in the process of two projects: the building of the new sewer plant and Koon Road lift station elevation. These projects are being funded through United States Department of Agriculture(USDA) Rural Development and Community Development Block Grants (CDBG). Over a three year period the City will receive funds totaling \$9,250,000. These funds consist of RUS Loans for \$4,729,000, RUS Grants for \$3,313,000, and CDBG grants for \$1,208,000.

In July 2016, the City received funds of \$307,000 from Kentucky Transportation Cabinet. These funds are to reimburse the sidewalk and lighting project expenses.

The City is to receive a total of \$83,280 from the Kentucky Transportation Cabinet for the water project on Paradise Road. As of June 30, 2016, \$7,867 has been received. The remaining balance will be received during the next fiscal year.

**2. LEGAL COMPLIANCE**

**Excess of Expenditures Over Appropriations in Individual Funds**

The following funds had an excess of actual expenditures and other financing uses over budget for the year ended June 30, 2016:

General Fund                   \$ 567,528   Due to underbudgeted capital outlay.

Tourism Fund                   \$ 16,182    Due to underbudgeted wages and repairs and maintenance.

Fund equity and other financial sources were sufficient to offset the over expenditures in the General and Tourism Funds.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Deficit Fund Balances/Net Position**

No funds had a deficit fund balance or deficit net position during the fiscal year ending June 30, 2016.

**3. DEPOSITS AND INVESTMENTS**

**A. Statement of Net Position Cash Presentation**

The captions on the statement of net position for cash, investments, and restricted assets enumerated as to deposits and investments and the amounts in total are as follows:

	<u>Cash on Hand</u>	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash equivalents	\$ 350	\$ 427,060	\$ -	\$ 427,410
Investments	-	5,336	-	5,336
Restricted assets:				
Cash equivalents	-	57,355	-	57,355
Investments	-	19,961	-	19,961
Total	<u>\$ 350</u>	<u>\$ 509,712</u>	<u>\$ -</u>	<u>\$ 510,062</u>

**B. Deposits**

At year end, the carrying amount of the City's demand deposits and certificates of deposit was \$510,062 and the bank balance was \$541,302. These demand deposits and certificates of deposit were held in various financial institutions. Of the bank balance \$332,475 was covered by federal depository insurance and \$208,827 was covered by collateral held by the pledging financial institution's agent or trust department in the City's name.

**C. Investments**

The Kentucky Revised Statutes authorize the City to invest in interest-bearing and demand deposits in national or state chartered banks and insured by an agency of the U.S. Government. The City can also invest in U.S. Treasury, agencies, and instrumentalities.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City doesn't not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk and Custodial Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The custodial credit risk for investments is the risk that a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails.

*Concentrations of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not place any limit on the amount that may be invested with one issuer.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

<i>Identification</i>	Investment	Maturities	Fair Value
Certificates of Deposit:			
Community Center Fund			
US Bank		12/12/2016	\$ 5,336
Cemetery Fund			
US Bank		12/7/2016	1,000
US Bank		2/13/2017	4,918
US Bank		10/16/2016	4,623
US Bank		1/4/2017	1,000
US Bank		1/4/2017	4,300
US Bank		3/13/2017	1,500
US Bank		12/8/2016	1,500
US Bank		9/12/2016	<u>1,120</u>
Total Investments			<u>\$ 25,297</u>

**4. PROPERTY TAX**

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by Livingston 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 Livingston County, and the annual increase in the property tax levy cannot exceed 4%. For the year ending June 30, 2016, taxes were levied on July 1 and payable on December 31. The tax rate was \$0.260 per \$100 of assessed valuation for motor vehicles, \$0.248 per \$100 of assessed valuation of real property, and \$0.6809 per \$100 of assessed valuation of tangible personal property. City property tax revenues are recognized when levied to the extent that they result in current receivables in accordance with GASB Statement 1, "Revenue Recognition - Property Taxes".

**5. RESTRICTED NET POSITION**

Restrictions imposed by external sources are shown as restricted net position on the government-wide financial statements. The following restrictions apply to the General, Cemetery, Water, and Sewer Funds as of June 30, 2016.

<u>Cemetery Fund</u>	\$ 32,600
<u>Capital Projects - Restricted Assets</u>	
General - Capital projects	370,000
Water - Capital projects	11,767
Sewer - Capital projects	426,224
<u>Debt Requirement Restricted Assets</u>	
General - Bond reserve funds	13,723
Water - Bond reserve funds	<u>29,971</u>
Total	<u>\$ 884,285</u>

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**6. CAPITAL ASSETS**

**Governmental Activities**

A summary of capital assets at June 30, 2016 for governmental activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 265,350	\$ -	\$ -	\$ 265,350
Total capital assets not being depreciated	<u>265,350</u>	<u>-</u>	<u>-</u>	<u>265,350</u>
Capital assets being depreciated:				
Infrastructure	221,020	-	-	221,020
Land improvements	1,299,221	627,743	-	1,926,964
Buildings	1,289,652	20,178	-	1,309,830
Furnishings and fixtures	189,212	11,233	-	200,445
Vehicles	4,600	-	-	4,600
Total capital assets being depreciated	<u>3,003,705</u>	<u>659,154</u>	<u>-</u>	<u>3,662,859</u>
Less accumulated depreciation for:				
Infrastructure	(57,468)	(12,204)	-	(69,672)
Land improvements	(558,288)	(55,644)	-	(613,932)
Buildings	(507,960)	(45,215)	-	(553,175)
Furnishings and fixtures	(123,178)	(17,759)	-	(140,937)
Vehicles	(1,418)	(460)	-	(1,878)
Total accumulated depreciation	<u>(1,248,312)</u>	<u>(131,282)</u>	<u>-</u>	<u>(1,379,594)</u>
Total capital assets being depreciated, net	<u>1,755,393</u>	<u>527,872</u>	<u>-</u>	<u>2,283,265</u>
Governmental activities capital assets, net	<u>\$ 2,020,743</u>	<u>\$ 527,872</u>	<u>\$ -</u>	<u>\$ 2,548,615</u>

**Business-type Activities**

A summary of property, plant and equipment at June 30, 2016 for business-type activities follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,561	\$ 1,200	\$ -	\$ 4,761
Construction in progress	1,080,061	5,688,283	(2,603)	6,765,741
Total capital assets not being depreciated	<u>1,083,622</u>	<u>5,689,483</u>	<u>(2,603)</u>	<u>6,770,502</u>
Capital assets being depreciated:				
Buildings and improvements	5,170,155	116,467	-	5,286,622
Machinery and equipment	428,218	3,304	-	431,522
Vehicles	131,725	-	-	131,725
Total capital assets being depreciated	<u>5,730,098</u>	<u>119,771</u>	<u>-</u>	<u>5,849,869</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,491,252)	(132,494)	-	(2,623,746)
Machinery and equipment	(309,049)	(25,731)	-	(334,780)
Vehicles	(105,089)	(7,606)	-	(112,695)
Total accumulated depreciation	<u>(2,905,390)</u>	<u>(165,831)</u>	<u>-</u>	<u>(3,071,221)</u>
Total capital assets being depreciated, net	<u>2,824,708</u>	<u>(46,060)</u>	<u>-</u>	<u>2,778,648</u>
Business-type activities capital assets, net	<u>\$ 3,908,330</u>	<u>\$ 5,643,423</u>	<u>\$ (2,603)</u>	<u>\$ 9,549,150</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 121,758
Culture and recreation	9,046
Cemetery	478
Total depreciation expense - governmental activities	<u>\$ 131,282</u>

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

Business-type activities:	
Water	\$ 92,431
Sewer	69,044
Internet	<u>4,356</u>
Total depreciation expense - business type activities	<u>\$ 165,831</u>

**7. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disaster. There were no claims in excess of insurance coverage levels during the fiscal year ended June 30, 2016. The City also did not have any claims in excess of insurance coverage levels for the prior three years. All other risks of loss are covered by commercial insurance purchased through private carriers. With regard to the insurance coverage provided by private carriers, there were no significant changes in insurance coverage for the prior three years.

**8. LONG-TERM DEBT**

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

*Governmental Activities*

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

Current portion general obligation bonds and notes	
Bond obligations	\$ 25,000
Note obligations	18,529
Line of credit	<u>500,000</u>
Total current portion	<u>543,529</u>
Noncurrent portion general obligation bonds and notes:	
Bond obligations	140,000
Note obligations	<u>231,712</u>
Total noncurrent portion	<u>371,712</u>
Total General Bond and Note Obligations	<u>\$ 915,241</u>

*General Bonds Payable*

The City entered into a leasing agreement on March 29, 2012, with the Kentucky Bond Corporation to help finance storm damage expenses. The original amount advanced was \$255,000. The lease agreement requires monthly payments including principal, interest, and fees to be made to a sinking fund beginning May 1, 2012 (the monthly payments vary and range from \$2,625 to \$3,168). The last scheduled payments is February 1, 2022. The lease agreement provides financing rates that range from 2.5% to 3.25%. The lease is backed by the full faith and credit of the City. The principal balance at June 30, 2016, is \$165,000. The lease financed various cleanup and asset improvement projects.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

*General Notes Payable*

First Kentucky Bank - The City (Grand Rivers Tourist Commission) entered into an agreement on December 1, 2006, with First Kentucky Bank to help finance the Badgett Playhouse building at a variable interest rate. This loan consolidated two initial construction advances of \$200,000 and \$150,000. The note has a variable financing rate after the first ten year. The current rate is 3.375%. The note matures in 2026 and is backed by the full faith and credit of the City. The principal balance at June 30, 2016 is \$174,089.

First Kentucky Bank - The City entered into an agreement with First Kentucky Bank to finance improvements to the community center. The agreement was entered into on June 16, 2015, with an available amount of \$80,000 with an interest rate of 4.49% and a maturity date of June 16, 2020. As of June 30, 2016 the principal balance is \$76,152.

First Kentucky Bank - The City entered into an agreement with First Kentucky Bank to finance the sidewalk and lighting project with a line of credit. The City took draws totaling \$500,000 during the fiscal year ending June 30, 2016.

*Business-Type Activities*

As of June 30, 2016, the leases and notes payable from proprietary fund resources consisted of the following:

Current portion proprietary leases, notes and bonds:	
Lease obligations	\$ 11,038
Note obligations	12,328
Bond obligations	50,000
Total current portion	73,366
Noncurrent portion proprietary leases, notes, and bonds	
Lease obligations	13,170
Note obligations	238,436
Bond obligations	4,999,000
Total noncurrent portion	5,250,606
Total Proprietary Lease, Note, and Bond Obligations	\$ 5,323,972

*Proprietary Leases*

National Rural Water Association - The City entered into a leasing agreement on December 19, 2001, with the Kentucky Rural Water Finance Corporation Area Development Districts Financing Trust to finance water improvement projects at interest rates approximating 5% per annum. This agreement was refinanced on February 27, 2013 with lower interest rates of 2.3%-2.8%. The lease agreement requires monthly payments including principal and interest to be made to a sinking fund beginning April 2013 varying from \$4,712 to \$5,437. The last scheduled payment is January 2022. The lease is backed by full faith and credit of the City. The principal balance at June 30, 2016, is \$320,000.

Kentucky League of Cities - The City entered into a leasing agreement on January 26, 2006, with Kentucky League of Cities to finance the acquisition of a backhoe. Monthly payments including principal and interest began March 1, 2006. The interest rate is approximately 3%. The lease was paid in full at June 30, 2016.

Caterpillar Financial Services - The City entered into a leasing agreement in November 2010, with Caterpillar Financial Services Corporation to finance the acquisition of an excavator. The lease calls for sixty-two monthly payments of \$222 including principal and interest. The lease was paid in full as of June 30, 2016.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

*Proprietary Notes Payable*

National Rural Water Association - The City entered into a loan agreement on July 1, 2009, to finance the acquisition of a trencher. The original amount advanced was \$100,000. Monthly payments of \$966 including principal and interest began August 1, 2008, and continues for 119 months with a final payment of \$963 due July 1, 2018, at 3% per annum. The loan grants the lender a secured interest in the assets of the City. The principal balance at June 30, 2016 is \$24,208.

First Kentucky Bank - The City entered into an agreement on October 19, 2010, with First Kentucky Bank to finance the purchase of a 2011 Ford F250 at an interest rate of 6.49%. Monthly payments of \$519 including principal and interest began July 27, 2007. The note matures June 27, 2017, and is backed by the full faith and credit of the City. The loan was paid in full as of June 30, 2016.

Kentucky Infrastructure Authority - The City entered into a loan agreement with Kentucky Infrastructure Authority for \$263,000. The project consisted of Lake City waterline improvements and water tank repairs. The project was completed in June 2015. The loan calls for semi-annual payments due June 1 and December 1 with an interest rate of .75% and was financed over 20 years. The principal balance at June 30, 2016 is \$250,764.

*Revenue Bonds*

Water and Sewer Revenue Bonds - The City of Grand Rivers, Kentucky, adopted a resolution to issue \$3,662,000 of City of Grand Rivers, Water and Sewer Revenue Bonds, Series 2015A and \$1,067,000 Water and Sewer Revenue Bonds, Series 2015B for the purpose of a new sewer plant and lift station. The bonds were finalized June 6, 2016 with an interest rate of 2.25%. The bond covenants require \$1,760 per month be deposited into a "Funded Debt Reserve Account" until the account reaches \$211,200. The deposits are to be resumed any time the account falls below the \$211,200. Principal payments will begin January 1, 2018.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**9. CHANGES IN GOVERNMENT-WIDE ACTIVITIES DEBT**

A summary of changes in government-wide debt activities for the year ended June 30, 2016 follows:

	Balance June 30, 2015	Proceeds	Retirement/ Reductions	Balance June 30, 2016	Due in One Year
<i><u>Governmental Activities</u></i>					
Line of Credit:					
1st Kentucky Bank - General	\$ -	\$ 500,000	\$ -	\$ 500,000	\$ 500,000
Lease payable:					
Kentucky Bond Corporation	190,000	-	25,000	165,000	25,000
Notes payable:					
1st Kentucky Bank - Tourism	192,687	-	18,598	174,089	13,160
1st Kentucky Bank - Community	19,358	60,642	3,848	76,152	5,369
<b>Total Governmental Activities</b>	<b>402,045</b>	<b>560,642</b>	<b>47,446</b>	<b>915,241</b>	<b>543,529</b>
<i><u>Business Type Activities</u></i>					
Leases payable:					
Kentucky Rural Water	\$ 370,000	\$ -	\$ 50,000	\$ 320,000	\$ 50,000
Kentucky League of Cities	4,403	-	4,403	-	-
Caterpillar Financial	3,304	-	3,304	-	-
Notes Payable:					
National Rural Water Assoc	34,013	-	9,805	24,208	11,038
1st Kentucky Bank	2,040	-	2,040	-	-
Kentucky Infrastructure Authority	263,000	-	12,236	250,764	12,328
Bonds Payable:					
Series 2015B	-	1,067,000	-	1,067,000	-
Series 2015A	-	3,662,000	-	3,662,000	-
<b>Total Business-Type Activities</b>	<b>676,760</b>	<b>4,729,000</b>	<b>81,788</b>	<b>5,323,972</b>	<b>73,366</b>
<b>Total Primary Government</b>	<b>\$ 1,078,805</b>	<b>\$ 5,289,642</b>	<b>\$ 129,234</b>	<b>\$ 6,239,213</b>	<b>\$ 616,895</b>

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

Year Ending June 30:	Principal	Interest	Total
2017	\$ 616,895	\$ 131,945	\$ 748,840
2018	196,043	127,639	323,682
2019	189,515	122,342	311,857
2020	251,986	117,817	369,803
2021	194,430	110,712	305,142
2022-2026	674,297	488,466	1,162,763
2027-2031	569,106	419,987	989,093
2032-2036	617,941	356,664	974,605
2037-2041	638,500	287,167	925,667
2042-2046	727,000	209,452	936,452
2047-2051	827,000	121,039	948,039
2052-2055	736,500	25,166	761,666
<b>Total</b>	<b>\$ 6,239,213</b>	<b>\$ 2,518,396</b>	<b>\$ 8,757,609</b>

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

Total interest expensed for the year ended June 30, 2016:

Governmental activities	\$ 10,863
Business-type activities	<u>16,189</u>
	<u><u>\$ 27,052</u></u>

**10. LITIGATION AND CONTINGENCIES**

**Litigation**

The City is not aware of any pending or threatened litigation in which it is involved which would have a material effect on these financial statements.

**Contingencies**

The City participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2016 have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date.

**11. COMMITMENTS**

The City entered into a contract with WastePath Disposal and Recycling (Contractor) beginning May 15, 2014. The Contractor is to provide the collection and disposal of residential and commercial garbage. The Contractor is responsible for billing and collections. The Contractor has agreed to pay to the City a franchise fee of 7% of all fees collected to be paid quarterly.

The City entered into an agreement between the Grand Rivers Tourism Commission and Minihan Productions, LLC, to sublease the Badgett Playhouse. The initial agreement dated June 15, 2005, for 10 years, was renewed January 1, 2015 for an additional 10 years, through December 31, 2024. A sum of \$8,000 is due annually to be paid at a rate of 2% of gross receipts collected by Minihan until the amount is paid in full each year. Should the percentage be insufficient, a settlement is due within 30 days of the calendar yearend for the remaining balance.

The City entered into a contract with Williams Landscaping July 1, 2011 to provide mowing services for the City and Dixon Cemetery at a rate of \$3,390 per month. The terms of this contract ended July 1, 2015. At that time Williams Landscaping submitted a new bid. The new terms are \$4,625 per month for next 4 years.

The City entered into an agreement with Phillip and Brenda Colburn to sublease the land known as Lighthouse Landing. The most recent agreement was signed on January 1, 2005 for a term of 20 years. The annual lease is for \$8,800 to be paid in monthly installments.

**CITY OF GRAND RIVERS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**12. TRANSFERS AND INTERFUND RECEIVABLE/PAYABLE BALANCES**

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

Primary government operating transfers at June 30, 2016 were:

	<u>Transfers Out</u>	<u>Transfers In</u>	<u>Transfers Net</u>
<b><u>General Fund</u></b>	\$ 17,740	\$ -	\$ 17,740
<b><u>Special Revenue Funds</u></b>			
Tourism	2,809	-	2,809
Cemetery	-	7,975	(7,975)
Community Center	-	18,317	(18,317)
<b><u>Business-type funds</u></b>			
Water Fund	-	84,767	(84,767)
Sewer Fund	81,041	-	81,041
Internet Fund	9,469	-	9,469
Total	<u>\$ 111,059</u>	<u>\$ 111,059</u>	<u>\$ -</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF GRAND RIVERS, KENTUCKY**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original</u> <u>Budgeted</u>	<u>Final</u> <u>Budgeted</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>Revenues</u></b>				
Taxes				
Property	\$ 189,500	\$ 189,500	\$ 195,644	\$ 6,144
Other	34,000	34,000	33,570	(430)
Franchise	3,000	3,000	7,094	4,094
Miscellaneous	52,950	52,950	59,111	6,161
Intergovernmental	12,000	12,000	19,770	7,770
Interest income	100	100	111	11
Total revenues	<u>291,550</u>	<u>291,550</u>	<u>315,300</u>	<u>23,750</u>
<b><u>Expenditures</u></b>				
General government	145,742	145,742	111,766	33,976
Public works	56,000	56,000	64,841	(8,841)
Culture and recreation	56,500	56,500	41,546	14,954
Debt service	52,308	52,308	30,463	21,845
Capital outlay	-	-	629,462	(629,462)
Total expenditures	<u>310,550</u>	<u>310,550</u>	<u>878,078</u>	<u>(567,528)</u>
<b><u>Excess (Deficiency) of Revenues Over</u></b>	<b><u>(19,000)</u></b>	<b><u>(19,000)</u></b>	<b><u>(562,778)</u></b>	<b><u>(543,778)</u></b>
<b><u>Expenditures</u></b>				
<b><u>Other Financing Sources (Uses)</u></b>				
Long-term debit issued	-	-	500,000	500,000
Grant revenue	-	-	370,000	370,000
Transfers in(out)	19,000	19,000	(17,740)	(36,740)
Total other financing sources (uses)	<u>19,000</u>	<u>19,000</u>	<u>852,260</u>	<u>833,260</u>
<b><u>Net Change in Fund Balances</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>289,482</u></b>	<b><u>\$ 289,482</u></b>
<b><u>Fund Balances at Beginning of Year</u></b>			<b><u>283,703</u></b>	
<b><u>Fund Balances at End of Year</u></b>			<b><u>\$ 573,185</u></b>	

**CITY OF GRAND RIVERS, KENTUCKY**  
**TOURISM SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budgeted</u>	<u>Final Budgeted</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
Taxes	\$ 121,530	\$ 125,130	\$ 146,763	\$ 21,633
Rental income	40,000	40,000	39,752	(248)
Intergovernmental	1,500	1,500	3,225	1,725
Miscellaneous	11,568	11,568	10,249	(1,319)
Investment income	-	-	-	-
Total revenues	<u>174,598</u>	<u>178,198</u>	<u>199,989</u>	<u>21,791</u>
<b><u>Expenditures</u></b>				
Culture and recreation	161,763	156,548	180,263	(23,715)
Capital outlay	-	27,500	21,963	5,537
Debt service:	41,400	25,750	23,754	1,996
Total expenditures	<u>203,163</u>	<u>209,798</u>	<u>225,980</u>	<u>(16,182)</u>
<b><u>Excess (Deficiency) of Revenues Over Expenditures</u></b>	(28,565)	(31,600)	(25,991)	5,609
<b><u>Other Financing Sources (Uses)</u></b>				
Insurance proceeds	-	-	16,650	16,650
Transfers in/(out)	24,000	31,600	(2,809)	(34,409)
<b><u>Net Change in Fund Balances</u></b>	<u>\$ (4,565)</u>	<u>\$ -</u>	(12,150)	<u>\$ (12,150)</u>
<b><u>Fund Balances at Beginning of Year</u></b>			<u>157,211</u>	
<b><u>Fund Balances at End of Year</u></b>			<u>\$ 145,061</u>	

**COMBINING AND INDIVIDUAL FUND STATEMENTS  
AND SCHEDULES**

**CITY OF GRAND RIVERS, KENTUCKY**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	Special Revenue Funds				Total Non-Major Governmental Funds
	Municipal Aid	Local Governmental Economic Assistance Fund	Cemetery Fund	Community Center	
<b><u>Assets</u></b>					
Cash equivalents	\$ -	\$ -	\$ -	\$ 300	\$ 300
Investments				5,336	5,336
Other current assets	-	-	-	53	53
Restricted assets:					
Cash equivalents	-	-	13,484	-	13,484
Investments	-	-	19,961	-	19,961
<b><u>Total Assets</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 33,445</u></b>	<b><u>\$ 5,689</u></b>	<b><u>\$ 39,134</u></b>
<b><u>Liabilities and Fund Balances</u></b>					
<b><u>Liabilities</u></b>					
Accounts payable	\$ -	\$ -	\$ 803	\$ 2,671	\$ 3,474
Taxes withheld and accrued	-	-	42	-	42
Total Liabilities	-	-	845	2,671	3,516
<b><u>Fund Balances</u></b>					
Nonspendable:					
Cemetery Fund	-	-	32,600	-	32,600
Unrestricted	-	-	-	3,018	3,018
Total Fund Balances	-	-	32,600	3,018	35,618
<b><u>Total Liabilities and Fund Balances</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 33,445</u></b>	<b><u>\$ 5,689</u></b>	<b><u>\$ 39,134</u></b>

**CITY OF GRANDS RIVERS, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds				Total Other Governmental Funds
	Municipal Aid	Local Governmental Economic Assistance Fund	Cemetery Fund	Community Center	
<b><u>Revenues</u></b>					
Miscellaneous	\$ -	\$ -	\$ -	\$ 19,544	\$ 19,544
Rental Income	-	-	-	10,247	10,247
Cemetery	-	-	4,500	-	4,500
Interest income	-	-	48	9	57
Total Revenues	<u>-</u>	<u>-</u>	<u>4,548</u>	<u>29,800</u>	<u>34,348</u>
<b><u>Expenditures</u></b>					
Culture and recreation	-	-	-	70,481	70,481
Cemetery maintenance	-	-	10,150	-	10,150
Capital outlay	-	-	496	7,276	7,772
Debt service	-	-	-	7,034	7,034
Total Expenditures	<u>-</u>	<u>-</u>	<u>10,646</u>	<u>84,791</u>	<u>95,437</u>
<b><u>Excess (Deficiency) of Revenues Over Expenditures</u></b>	-	-	(6,098)	(54,991)	(61,089)
<b><u>Other Financing Sources (Uses)</u></b>					
Proceeds from debt	-	-	-	60,467	60,467
Operating transfers in	-	-	7,975	18,317	26,292
<b><u>Net Change in Fund Balances</u></b>	-	-	1,877	23,793	25,670
<b><u>Fund Balances - Beginning of Year</u></b>	<u>-</u>	<u>-</u>	<u>30,723</u>	<u>(20,775)</u>	<u>9,948</u>
<b><u>Fund Balances - End of Year</u></b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,600</u>	<u>\$ 3,018</u>	<u>\$ 35,618</u>

**JESSICA K. DANIEL, CPA PSC**  
CERTIFIED PUBLIC ACCOUNTANT

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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**

Honorable Mayor Tom Moodie  
and Members of the City Council  
City of Grand Rivers, Kentucky  
Grand Rivers, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Grand Rivers, Kentucky as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Grand Rivers, Kentucky's basic financial statements, and have issued our report thereon dated July 31, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Grand Rivers, 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 Grand Rivers, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 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. 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. Given these limitations, during our audit we did not identify any significant deficiencies or material weaknesses 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 Grand Rivers, Kentucky's financial statements are free of material misstatement, we performed tests of 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 is required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City of Grand Rivers, Kentucky, in a separate letter dated July 31, 2017.

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.

A handwritten signature in black ink that reads "Jessica Daniel, CPA". The signature is written in a cursive style.

Eddyville, Kentucky  
July 31, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH THE *UNIFORM GUIDANCE***

Honorable Mayor Tom Moodie  
and Members of the City Council  
City of Grand Rivers, Kentucky  
Grand Rivers, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the City of Grand Rivers, Kentucky's (the City) compliance with the types of compliance requirements described in the OMB *Circular Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Jessica Daniel, CPA". The signature is written in a cursive style with a large initial "J".

Eddyville, Kentucky  
July 31, 2017

**CITY OF GRAND RIVERS, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass Through Grantor, Program Title</u>	<u>Federal C.F.D.A Number</u>	<u>Program or Award Amount</u>	<u>Federal Assistance Expended</u>
<b><u>U.S. Department of Agriculture</u></b>			
Passed through the Rural Utilities Service Water and Waste Disposal Systems for Rural Communities	10.760	\$ 4,900,896	\$ 4,900,896
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed through the Kentucky Department for Local Government Community Development Block Grants/State's Program	14.228	<u>592,765</u>	<u>592,765</u>
Total Federal Awards		<u>\$ 5,493,661</u>	<u>\$ 5,493,661</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Grand Rivers, Kentucky (the City) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Grand Rivers, Kentucky has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**CITY OF GRAND RIVERS, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**A. SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

- |  |            |
|--|------------|
| 1. Type of auditor's report issued   | Unmodified |
| 2. Internal control over financial reporting:  |            |
| a. Material weakness(es) identified?   | No         |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | None noted |
| 3. Noncompliance material to financial statements noted?                                 | No         |

Federal Awards

- |   |            |
|---|------------|
| 1. Internal control over major programs:  |            |
| a. Material weakness(es) identified?  | No         |
| b. Significant deficiencies identified not considered to be material weaknesses?                              | None noted |
| 2. Type of auditor's report issued on compliance for major programs:  | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? | No         |

4. Identification of major programs:

CFDA Numbers

Name of Federal Program

10.760

Water and Waste Disposal Systems for Rural Communities

14.218

Community Development Block Grant Program for Entitlement Communities

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as low-risk auditee under 2 CFR Section 200.516(a)?    | No        |

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT**

None

**D. PRIOR YEAR FINDINGS**

None