

CITY OF LEWISPORT, KENTUCKY
FINANCIAL STATEMENTS
AND
ACCOMPANYING INFORMATION

JUNE 30, 2016

CITY OF LEWISPORT, KENTUCKY
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June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Lewisport, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Lewisport, Kentucky (City) 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 City'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 City'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.

Auditor's Responsibility (continued)

Basis for Qualified Opinions

We were not able to perform sufficient tests and procedures on the City's inventory and meter deposits in the Proprietary Funds and business-type activities.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the proprietary funds of the City of Lewisport, Kentucky as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund of the City of Lewisport, Kentucky as of June 30, 2016, and the respective changes in financial position 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 on pages 4 through 9 and the budgetary comparison information, pension schedules, and notes to required supplementary information on pages 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017 on our consideration of City of Lewisport, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lewisport, Kentucky's internal control over financial reporting and compliance.

Alister & Company CPAs PSC

Owensboro, Kentucky
March 16, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

This section of the City of Lewisport's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2016. Please read it with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2015, the City implemented two newly issued accounting pronouncements, GASB 68 and GASB 71. Information related to the implementation of these pronouncements not available at the time of the prior year audit resulted in the restatement of the beginning net position and deferred outflows of the governmental and business-type activities and of the Proprietary Fund. Please note this change when comparing the following financial reports.
 - Beginning net position and prior year deferred outflows of the governmental activities were increased by \$3,695.
 - Beginning net position and prior year deferred outflows of the business-type activities and Proprietary Fund were decreased by \$29,558.
- The City's total net position decreased 6.1 percent over the course of this year's operations. The net position of business-type activities decreased \$415,855 or 6.5 percent while net position of governmental activities decreased \$68,971 or 4.6 percent.
- During the year, the City's expenses for governmental activities were \$68,971 more than the \$301,496 generated in taxes, grants, and other revenues and \$313,701 in transfers to governmental programs.
- In the City's business-type activities, revenues decreased 15.4 percent to \$2,070,745 and expenses decreased 8.6 percent to \$2,172,899.
- The resources available for appropriation were \$40,537 less than budgeted for the general fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the gas, water and sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health, or position.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into two categories:

- **Governmental activities** – Most of the City's basic services are included here, such as the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- **Business-type activities** – The City charges fees to customers to help it cover the costs of certain services it provides. The City's gas, water and sewer system are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- **Governmental funds** – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

For the year ended June 30, 2016, net position changed as follows:

	City of Lewisport's Net Position						Total Percentage Change 2015-16
	Governmental Activities		Business-type Activities		Total		
	2015	2016	2015	2016	2015	2016	
Current and other assets	\$ 224,426	\$ 230,785	\$ 1,589,337	\$ 1,397,437	\$ 1,813,763	\$ 1,628,222	-10.2%
Capital assets	1,609,062	1,591,681	5,714,494	5,638,943	7,323,556	7,230,624	-1.3%
Deferred outflows	31,560	53,685	34,976	126,245	66,536	179,930	170.4%
Total assets & deferred outflows	\$ 1,865,048	\$ 1,876,151	\$ 7,338,807	\$ 7,162,625	\$ 9,203,856	\$ 9,038,776	-1.8%
Long-term liabilities	\$ 298,178	\$ 391,582	\$ 695,640	\$ 914,957	\$ 993,818	\$ 1,306,539	31.5%
Other liabilities	35,166	41,619	141,015	203,367	176,181	244,986	39.1%
Deferred inflows	26,485	6,702	57,515	15,519	84,000	22,221	-73.5%
Total liabilities & deferred inflows	\$ 359,829	\$ 439,903	\$ 894,170	\$ 1,133,843	\$ 1,253,999	\$ 1,573,748	25.5%
Invested in capital assets, net of related debt	\$ 1,609,062	\$ 1,554,003	\$ 5,606,849	\$ 5,429,916	\$ 7,215,911	\$ 6,983,919	-3.2%
Restricted	118,668	32,843	-	-	118,668	32,843	-72.3%
Unrestricted	(222,511)	(150,598)	837,788	598,866	615,277	448,268	-27.1%
Total net position	\$ 1,505,219	\$ 1,436,248	\$ 6,444,637	\$ 6,028,782	\$ 7,949,856	\$ 7,465,030	-6.1%

Total net position of the City's governmental activities decreased 4.6 percent to \$1.44 million. Due to the implementation of GASB 68 and GASB 71 in fiscal year 2015 to record net pension liability, unrestricted net position showed a \$222,511 deficit at year-end. Deferred outflows and unrestricted net position for 2015 were restated for purposes of this table.

In addition, the unrestricted governmental net position was affected by three particular features of the City's recent financial activity:

- General government and public safety expenses were higher than anticipated.
- Capital outlays were higher than anticipated.
- Revenues were less than anticipated.

The total net position of business-type activities decreased by 6.5 percent to \$6.03 million, which was due to transfers to the General Fund and losses in the water and sewer systems. The City may use this net position to finance the continuing operations of the governmental activities.

Changes in Net Position

The City's total revenues decreased 15.6 percent from \$2.81 million to \$2.37 million, which was mainly due to a decrease in gas sales. Virtually 86 cents of every dollar of the City's revenue comes from charges for service, while only 6 cents of every dollar raised comes from some type of tax. The majority of the remaining balance is local, state and federal aid.

The total cost of all programs and services decreased 4.6 percent from \$2.99 million to \$2.86 million, and the net cost increased to \$563,594 or 34.2 percent. The City's expenses cover a range of services, with about 76 percent related to municipal services.

Governmental Activities

Revenues for the City's governmental activities decreased 17.3 percent, while total expenses increased 10.9 percent. The net position for governmental activities decreased \$68,971 in 2016, compared to a \$100,552 increase in 2015.

Changes in City of Lewisport's Net Position

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015-16
Revenues							
Program revenues							
Charges for services	\$ 335	\$ 285	\$2,427,392	\$ 2,030,744	\$2,427,727	\$ 2,031,029	-16.3%
Operating grants and contributions	107,120	87,044	-	-	107,120	87,044	-18.7%
Capital grants and contributions	89,861	33,245	5,411	(5,000)	95,272	28,245	-70.4%
General revenues							
Taxes and licenses	151,203	145,580	-	-	151,203	145,580	-93.6%
Interest income	66	103	14,368	9,544	14,434	9,647	389.8%
Other income	16,110	35,239	-	35,457	16,110	70,696	1393.0%
Total revenues	364,695	301,496	2,447,171	2,070,745	2,811,866	2,372,241	-15.6%
Expenses							
General government	124,244	220,910	-	-	124,244	220,910	77.8%
Public safety	252,185	256,813	-	-	252,185	256,813	1.8%
Highways and streets	55,969	10,382	-	-	55,969	10,382	-81.5%
Planning and zoning	10,000	10,000	-	-	10,000	10,000	0.0%
Culture and recreation	55,330	56,723	-	-	55,330	56,723	2.5%
Depreciation - unallocated	119,441	129,340	-	-	119,441	129,340	8.3%
Gas	-	-	1,567,970	1,290,594	1,567,970	1,290,594	-17.7%
Water	-	-	458,335	480,006	458,335	480,006	4.7%
Sewer	-	-	351,075	402,299	351,075	402,299	14.6%
Total expenses	617,169	684,168	2,377,380	2,172,899	2,994,549	2,857,067	-4.6%
Transfers	353,026	313,701	(353,026)	(313,701)	-	-	0.0%
Increase (decrease) in net position	\$ 100,552	\$ (68,971)	\$ (283,235)	\$ (415,855)	\$ (182,683)	\$ (484,826)	-165.4%

The table below presents the cost of each of the City's four largest programs – general government, public safety, highways and streets and culture and recreation – as well as each program's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$684,168.
- The amount that our taxpayers paid for these activities through City taxes was \$563,594. Some of the cost was paid by:
 - Those who directly benefited from the programs (\$285), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$120,289).
- The City paid for the \$563,594 "public benefit" portion mainly with \$145,580 in taxes and \$313,701 in transfers.

Net Cost of City of Lewisport's Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2016	2015-2016	2015	2016	2015-2016
General government	\$ 124,244	\$ 220,910	77.8%	\$ 59,053	\$ 159,373	169.9%
Public safety	252,185	256,813	1.8%	226,305	231,021	2.1%
Highways and streets	55,969	10,382	-81.5%	16,108	(22,863)	-241.9%
Culture and recreation	55,330	56,723	2.5%	(11,054)	56,723	613.1%
Other	129,441	139,340	7.6%	129,441	139,340	7.6%
Total	\$ 617,169	\$ 684,168	10.9%	\$ 419,853	\$ 563,594	34.2%

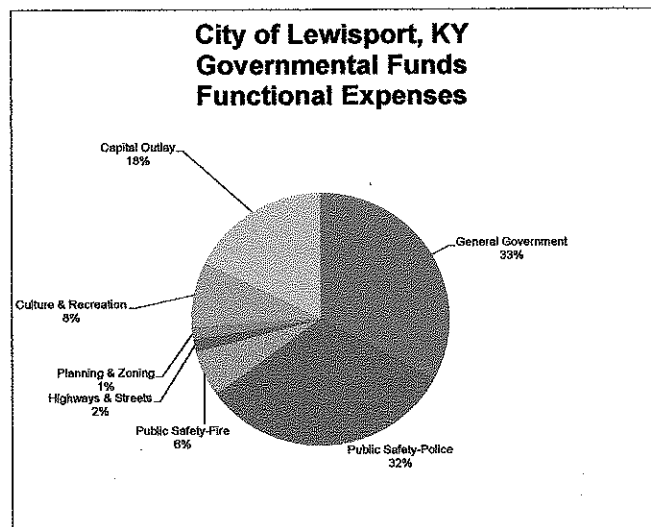
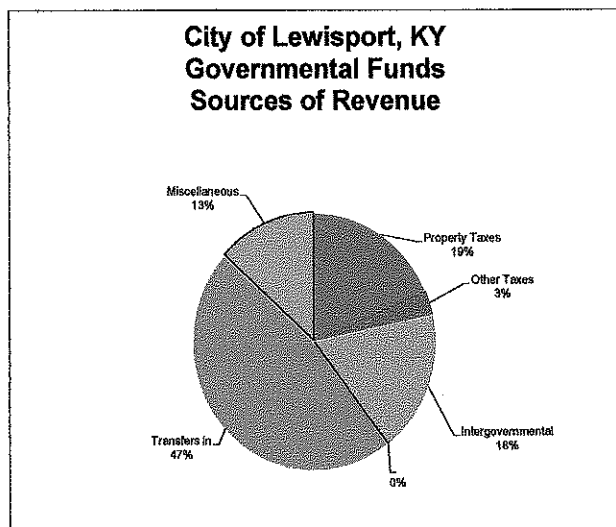
Business-type Activities

Revenues of the City's business-type activities decreased 15.4 percent to \$2.07 million, while expenses also decreased 8.6 percent to \$2.17 million. There was an operating loss of \$88,733 compared to a profit of \$51,838 for 2015.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$165,654, a decrease of \$7,781 from the prior year. Changes are highlighted in the analysis of governmental activities. In addition, these other changes contributed to the decrease in fund balance:

- The City spent \$120,366 on capital outlay.
- The City's property tax rate remained unchanged from the prior year.



General Fund Budgetary Highlights

Over the course of the year, the City Council did revise the City's general fund budget.

Resources available for appropriation were \$40,537 below the final budgeted amount, and actual expenditures were \$145,265 over final budget amounts. The following factors contributed to the largest budget to actual variances:

- Capital outlay, general government, and public safety expenditures were higher than expected.
- Miscellaneous income was lower than expected.

Total actual expenditures exceeded budgeted amounts. Although expenditures were more than budgeted amounts, transfers were greater than anticipated. The City ended the year with a fund balance that was \$22,899 more than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had invested \$13,530,942 in a broad range of capital assets, including police and fire equipment, park facilities, and gas, water and sewer lines. (See table below.) This amount represents a net increase (including additions and deletions) of \$79,935 or 0.6 percent over last year.

City of Lewisport's Capital Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015-16
	Land	\$ 87,957	\$ 119,451	\$ 197,402	\$ 292,402	\$ 285,359	\$ 411,853
Building and improvements	1,381,709	1,381,709	-	-	1,381,709	1,381,709	0.0%
Equipment	326,730	306,444	774,405	755,309	1,101,135	1,061,753	-3.6%
Land improvements	780,711	794,641	8,209	8,209	788,920	802,850	1.8%
Furniture and fixtures	78,636	63,349	76,668	71,804	155,304	135,153	-13.0%
Vehicles	440,597	451,551	193,822	215,109	634,419	666,660	5.1%
Service assets	-	-	9,104,161	9,070,964	9,104,161	9,070,964	-0.4%
Total	\$ 3,096,340	\$ 3,117,145	\$10,354,667	\$10,413,797	\$13,451,007	\$13,530,942	0.6%

This year's major capital asset additions included:

- Land and related improvements \$126,494
- Various equipment \$58,851
- Fire truck \$60,000
- Utility trucks \$48,209

Long-term Debt

Long-term debt consists of the portion of lease payments that will become due after one year. The City received \$91,761 in lease proceeds to aid in the purchase of the above capital assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts available for appropriation in the 2017 general fund budget are \$596,625, a decrease of 4.2 percent from the amount available for 2016, which was \$622,790. Property taxes and grant revenue are expected to slightly increase. The City will use these revenues to finance programs currently offered and the expected impact of inflation on program costs.

Budgeted expenditures are expected to decrease 18.7 percent to \$449,500. The City has added no major new programs to the 2017 budget.

For fiscal years 2017 and 2018, the City anticipates receiving \$265,000 from a Kentucky Infrastructure Authority loan to help finance the cost of improvements to the water treatment plant.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office, 405 Second Street, Lewisport, Kentucky 42351.

Brent Wigginton
City Administrator

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 185,867	\$ 900,111	\$ 1,085,978
Receivables, net:			
Taxes	2,638	-	2,638
Accounts - trade	-	105,807	105,807
Miscellaneous	29,909	10,814	40,723
Due from other funds	7,600	-	7,600
Inventories	-	93,576	93,576
Prepaid expenses	4,771	16,490	21,261
Total current assets	<u>230,785</u>	<u>1,126,798</u>	<u>1,357,583</u>
Noncurrent Assets			
Restricted cash	-	270,639	270,639
Capital assets:			
Land and construction in progress	119,451	292,402	411,853
Other capital assets, net of depreciation	1,472,230	5,346,541	6,818,771
Total noncurrent assets	<u>1,591,681</u>	<u>5,909,582</u>	<u>7,501,263</u>
Total assets	<u>1,822,466</u>	<u>7,036,380</u>	<u>8,858,846</u>
Deferred Outflows of Resources			
Deferred amounts related to pensions	53,685	126,245	179,930
LIABILITIES			
Current Liabilities			
Accounts payable	17,583	74,951	92,534
Due to other funds	-	7,600	7,600
Accrued expenses	-	3,263	3,263
Accrued wages payable	19,036	7,724	26,760
Unearned revenue	5,000	2,503	7,503
Lease payable	9,547	24,190	33,737
Note payable	-	107,326	107,326
Total current liabilities	<u>51,166</u>	<u>227,557</u>	<u>278,723</u>
Noncurrent Liabilities			
Meter deposits	-	124,185	124,185
Compensated absences	63,274	16,075	79,349
Lease payable	28,131	77,511	105,642
Net pension liability	290,630	672,996	963,626
Total noncurrent liabilities	<u>382,035</u>	<u>890,767</u>	<u>1,272,802</u>
Total liabilities	<u>433,201</u>	<u>1,118,324</u>	<u>1,551,525</u>
Deferred Inflows of Resources			
Deferred amounts related to pensions	6,702	15,519	22,221
NET POSITION			
Net investment in capital assets	1,563,550	5,429,916	6,993,466
Restricted	32,843	-	32,843
Unrestricted	(160,145)	598,866	438,721
Total net position	<u>\$ 1,436,248</u>	<u>\$ 6,028,782</u>	<u>\$ 7,465,030</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 220,910	\$ -	\$ 61,537	\$ -	\$ (159,373)	\$ -	\$ (159,373)
Public safety	256,431	285	25,507	-	(230,639)	-	(230,639)
Highways and streets	10,382	-	-	33,245	22,863	-	22,863
Planning and zoning	10,000	-	-	-	(10,000)	-	(10,000)
Culture and recreation	56,723	-	-	-	(56,723)	-	(56,723)
Interest expense	382	-	-	-	(382)	-	(382)
Depreciation unallocated	129,340	-	-	-	(129,340)	-	(129,340)
Total governmental activities	684,168	285	87,044	33,245	(563,594)	-	(563,594)
Business-type Activities							
Gas	1,290,594	1,397,936	-	(5,000)	-	102,342	102,342
Water	480,006	380,947	-	-	-	(99,059)	(99,059)
Sewer	402,299	251,861	-	-	-	(150,438)	(150,438)
Total business-type activities	2,172,899	2,030,744	-	(5,000)	-	(147,155)	(147,155)
Total Primary Government	\$ 2,857,067	\$ 2,031,029	\$ 87,044	\$ 28,245	(563,594)	(147,155)	(710,749)
			General Revenues				
			Property taxes		124,599	-	124,599
			Franchise taxes		20,981	-	20,981
			Interest income		103	9,544	9,647
			Miscellaneous		43,647	45,429	89,076
			Loss on disposal of capital assets		(8,408)	(9,972)	(18,380)
			Transfers		313,701	(313,701)	-
			Total General Revenues and Transfers		494,623	(268,700)	225,923
			Changes in Net Position		(68,971)	(415,855)	(484,826)
			Net Position - Beginning of Year		1,501,524	6,474,195	7,975,719
			Prior Period Adjustment		3,695	(29,558)	(25,863)
			Net Position - End of Year		\$ 1,436,248	\$ 6,028,782	\$ 7,465,030

See accompanying notes.

**CITY OF LEWISPORT, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2016**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 185,867
Receivables:	
Taxes, net	2,638
Miscellaneous	6,396
Due from other funds	7,600
Prepaid expenses	4,771
	<u>207,272</u>
Total assets	\$ 207,272
 LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 17,582
Accrued wages	19,036
Unearned revenue	5,000
Total liabilities	<u>41,618</u>
 Fund balance	
Restricted	32,843
Assigned	15,797
Unassigned	117,014
Total fund balances	<u>165,654</u>
Total liabilities and fund balance	\$ 207,272

See accompanying notes.

**CITY OF LEWISPORT, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Governmental Fund Balance		\$ 165,654
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported as assets in governmental funds.		
Gross capital assets	3,117,146	
Accumulated depreciation	<u>(1,525,465)</u>	1,591,681
Deferred outflows and inflows of resources related to pensions are applicable to future periods and therefore are not reported in the governmental funds.		
Deferred outflows of resources	53,685	
Deferred inflows of resources	<u>(6,702)</u>	46,983
Some receivables are not available soon enough to pay for the current period's expenditures and therefore are not currently recognized as revenue in the governmental fund.		
		23,512
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Compensated absences	(63,274)	
Lease payable	(28,131)	
Net pension liability	<u>(290,630)</u>	<u>(382,035)</u>
Total Net Position of Governmental Activities		<u>\$ 1,445,795</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
JUNE 30, 2016

	General Fund
Revenues	
Property taxes	\$ 124,599
Franchise taxes	20,981
Intergovernmental:	
State grants	15,508
County grants	60,000
State highway grants	33,245
Local government economic assistance	5,329
HB413 revenue	6,207
Interest income	103
Miscellaneous	49,161
Total revenues	315,133
Expenditures	
Current:	
General government	222,790
Public safety	253,650
Highways and streets	10,382
Planning and zoning	10,000
Culture and recreation	56,723
Debt service:	
Principal	2,322
Interest	382
Capital outlay	120,366
Total expenditures	676,615
Deficiency of revenues over expenditures	(361,482)
Other Financing Sources (Uses)	
Capital lease proceeds	40,000
Transfers in	315,482
Transfers out	(1,781)
Total other financing sources (uses)	353,701
Deficiency of revenues and other financing sources over expenditures and other financing uses	(7,781)
Fund balance, June 30, 2015	173,435
Fund balance, June 30, 2016	\$ 165,654

See accompanying notes.

**CITY OF LEWISPORT, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balance - Governmental Fund \$ (7,781)

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

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

Capital outlay	120,366	
Depreciation expense	<u>(129,340)</u>	(8,974)

Governmental funds do not report the gain or loss on capital asset disposals. However, in the statement of activities a gain or loss is recognized. (8,408)

Capital leases provides current financial resources to governmental funds, while the repayment of the capital lease consumes the current financial resources of governmental funds. In the Statement of Activities, neither transaction has any effect on the change in net position.

Proceeds from capital lease	(40,000)	
Payments on capital lease	<u>2,322</u>	(37,678)

Governmental funds report pension contributions as expenditures when made. In the Statement of Net Position, pension contributions are reported as deferred outflows of resources because the reported net pension liability is measured one year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

City pension contributions	19,358	
Pension expense	<u>(30,028)</u>	(10,670)

Certain expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in governmental funds.

Payroll reimbursement	7,688	
Change in compensated absences	<u>(3,148)</u>	<u>4,540</u>

Change in Net Position of Governmental Activities \$ (68,971)

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

	<u>Gas System</u>	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 295,810	\$ 531,536	\$ 72,765	\$ 900,111
Receivables:				
Trade	44,801	36,168	24,838	105,807
Miscellaneous	-	-	10,814	10,814
Inventories	42,970	29,781	20,825	93,576
Prepaid expenses	7,227	5,377	3,885	16,489
Total current assets	<u>390,808</u>	<u>602,862</u>	<u>133,127</u>	<u>1,126,797</u>
Noncurrent assets				
Restricted cash	93,610	177,029	-	270,639
Capital assets:				
Land and construction in progress	208,137	81,005	3,260	292,402
Other capital assets, net of depreciation	1,710,967	1,235,531	2,400,043	5,346,541
Total noncurrent assets	<u>2,012,714</u>	<u>1,493,565</u>	<u>2,403,303</u>	<u>5,909,582</u>
Total assets	<u>2,403,522</u>	<u>2,096,427</u>	<u>2,536,430</u>	<u>7,036,379</u>
Deferred outflows of resources				
Deferred amounts related to pensions	55,148	41,692	29,405	126,245
LIABILITIES				
Current liabilities				
Accounts payable	56,236	6,591	19,720	82,547
Accrued expenses	1,619	1,645	-	3,264
Accrued wages payable	3,095	2,582	2,047	7,724
Unearned revenue	1,921	496	86	2,503
Lease payable	24,190	-	-	24,190
Note payable	107,326	-	-	107,326
Total current liabilities	<u>194,387</u>	<u>11,314</u>	<u>21,853</u>	<u>227,554</u>
Noncurrent liabilities				
Meter deposits	93,610	30,575	-	124,185
Compensated absences	8,106	4,571	3,399	16,076
Lease payable	77,511	-	-	77,511
Net pension liability	291,593	221,441	159,962	672,996
Total noncurrent liabilities	<u>470,820</u>	<u>256,587</u>	<u>163,361</u>	<u>890,768</u>
Total liabilities	<u>665,207</u>	<u>267,901</u>	<u>185,214</u>	<u>1,118,322</u>
Deferred inflows of resources				
Deferred amounts related to pensions	6,724	5,106	3,689	15,519
NET POSITION				
Net investment in capital assets	1,710,077	1,316,536	2,403,303	5,429,916
Unrestricted	76,662	548,576	(26,371)	598,867
Total net position	<u>\$ 1,786,739</u>	<u>\$ 1,865,112</u>	<u>\$ 2,376,932</u>	<u>\$ 6,028,783</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>Gas System</u>	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Operating Revenues				
Charges for services	\$ 1,397,936	\$ 380,947	\$ 251,861	\$ 2,030,744
Miscellaneous revenue	13,317	7,428	24,687	45,432
Total operating revenues	<u>1,411,253</u>	<u>388,375</u>	<u>276,548</u>	<u>2,076,176</u>
Operating Expenses				
Chemicals	-	47,008	1,455	48,463
Depreciation expense	96,441	71,457	111,404	279,302
Education and training	3,190	6,916	926	11,032
Insurance	25,995	12,617	6,424	45,036
Miscellaneous	16,066	7,643	3,434	27,143
Natural gas purchases and transportation	726,536	-	-	726,536
Office supplies	7,717	5,084	2,511	15,312
Professional and legal fees	4,988	4,677	4,677	14,342
Quality testing	-	6,150	11,347	17,497
Repairs and maintenance	54,724	59,623	53,472	167,819
Salaries and benefits	305,638	225,043	160,065	690,746
Telephone	10,537	-	-	10,537
Utilities	21,065	22,343	40,930	84,338
Vehicles expense	9,707	11,445	5,654	26,806
Total operating expenses	<u>1,282,604</u>	<u>480,006</u>	<u>402,299</u>	<u>2,164,909</u>
Operating income (loss)	<u>128,649</u>	<u>(91,631)</u>	<u>(125,751)</u>	<u>(88,733)</u>
Non-operating Revenues and Expenses				
Interest income	1,544	7,224	776	9,544
Interest expense	(7,992)	-	-	(7,992)
Gain (loss) on sale of capital assets	1,561	-	(11,533)	(9,972)
Total non-operating revenues and expenses	<u>(4,887)</u>	<u>7,224</u>	<u>(10,757)</u>	<u>(8,420)</u>
Income (Loss) Before Capital Contributions and Transfers	123,762	(84,407)	(136,508)	(97,153)
Capital contributions	(5,000)	-	-	(5,000)
Transfers in	13,634	54,786	38,121	106,541
Transfers out	<u>(397,598)</u>	<u>(10,307)</u>	<u>(12,337)</u>	<u>(420,242)</u>
Change in Net Position	(265,202)	(39,928)	(110,724)	(415,854)
Net Position, June 30, 2015	2,059,263	1,919,791	2,495,141	6,474,195
Prior Period Adjustment	<u>(7,322)</u>	<u>(14,751)</u>	<u>(7,485)</u>	<u>(29,558)</u>
Net Position, June 30, 2016	<u>\$ 1,786,739</u>	<u>\$ 1,865,112</u>	<u>\$ 2,376,932</u>	<u>\$ 6,028,783</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
JUNE 30, 2016

	<u>Gas System</u>	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Cash Flows from Operating Activities				
Cash received from customers	\$ 1,422,049	\$ 384,380	\$ 239,625	\$ 2,046,054
Cash received from other sources	13,317	7,428	24,688	45,433
Cash payments to suppliers of goods or services	(843,056)	(204,366)	(125,581)	(1,173,003)
Cash payments to employees for services	(285,980)	(200,468)	(144,599)	(631,047)
Net cash provided by (used in) operating activities	<u>306,330</u>	<u>(13,026)</u>	<u>(5,867)</u>	<u>287,437</u>
Cash Flows from Noncapital Financing Activities				
Transfers in from other funds	13,634	54,786	38,121	106,541
Transfers to other funds	(397,598)	(10,307)	(12,337)	(420,242)
Net cash provided by (used in) noncapital financing activities	<u>(383,964)</u>	<u>44,479</u>	<u>25,784</u>	<u>(313,701)</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	(176,473)	(8,128)	(31,725)	(216,326)
Proceeds from sale of capital assets	2,605	-	-	2,605
Capital contributions	(5,000)	-	-	(5,000)
Proceeds from capital lease	75,059	-	-	75,059
Proceeds from notes payable	49,622	-	-	49,622
Principal paid on capital leases	(23,299)	-	-	(23,299)
Interest paid on debt	(7,992)	-	-	(7,992)
Net cash provided by (used in) capital and related financing activities	<u>(85,478)</u>	<u>(8,128)</u>	<u>(31,725)</u>	<u>(125,331)</u>
Cash Flows from Investing Activities				
Interest income	1,544	7,496	776	9,816
Net cash provided by (used in) operating activities	<u>1,544</u>	<u>7,496</u>	<u>776</u>	<u>9,816</u>
Net increase (decrease) in cash and cash equivalents	(161,568)	30,821	(11,032)	(141,779)
Cash and cash equivalents - beginning	550,988	677,745	83,797	1,312,530
Cash and cash equivalents - ending	<u>\$ 389,420</u>	<u>\$ 708,566</u>	<u>\$ 72,765</u>	<u>\$ 1,170,751</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ 128,649	\$ (91,631)	\$ (125,751)	\$ (88,733)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	96,441	71,457	111,404	279,302
Decrease (increase) in assets				
Accounts receivable	20,913	2,633	(12,235)	11,311
Inventories	39,764	1,284	1,494	42,542
Prepaid expenses	(1,755)	(1,306)	(943)	(4,004)
Deferred outflows of resources	(34,509)	(35,210)	(21,551)	(91,269)
Increase (decrease) in liabilities				
Accounts payable	6,314	(6,008)	13,438	13,744
Accrued expenses	467	(79)	(1,253)	(865)
Accrued wages payable	3,095	2,582	2,047	7,724
Unearned revenue	484	158	-	642
Meter deposits	2,715	643	-	3,358
Compensated absences	(182)	(103)	(81)	(366)
Net pension liability	62,677	55,870	37,501	156,048
Deferred inflows of resources	(18,745)	(13,315)	(9,936)	(41,996)
Total Adjustments	<u>177,681</u>	<u>78,605</u>	<u>119,884</u>	<u>376,170</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 306,330</u>	<u>\$ (13,026)</u>	<u>\$ (5,867)</u>	<u>\$ 287,437</u>

See accompanying notes.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lewisport, Kentucky (City) was incorporated on February 27, 1844, under the provisions of the Commonwealth of Kentucky. The City operates under a legislative-executive form of government and provides the following services: public safety – police and fire; streets; culture and recreation; public improvements; planning and zoning; general administrative services; and water, and sewer operations. As required by accounting principles generally accepted in the United States of America (GAAP), the financial statements of the reporting entity include those of the City of Lewisport (the primary government).

Financial Reporting Entity

The City of Lewisport is a municipality governed by a mayor and six-member council. The City, for financial reporting purposes, includes all of the funds relevant to the operations of the City of Lewisport. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Lewisport.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position and the Statement of Activities display information about the primary government (the City). These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements - The fund financial statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The City reports the following major governmental fund:

1. General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

1. Gas System - This fund accounts for the operations, maintenance, and development of natural gas distribution lines.
2. Water System - This fund accounts for the operation, maintenance, and development of the water plant and water distribution lines.
3. Sewer System - This fund accounts for the operation, maintenance, and development of the sewage treatment plant and sewage lines.

Measurement Focus and Basis of Accounting

Government-Wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, 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.

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management 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, liabilities, fund balances, 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.

Capital Assets

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

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The City maintains a capitalization threshold of \$5,000.

General infrastructure assets acquired prior to July 1, 2001 are not reported in the basic financial statements. General infrastructure assets include all roads, road improvements, and other infrastructure assets acquired subsequent to July 1, 2001.

Depreciation is provided in the government-wide financial statements in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. Depreciation is recorded as an unallocated expense in the Statement of Activities. The service lives by type of asset are as follows:

Buildings and improvements	40 years
Land improvements	20 years
Distribution/collection systems	10 - 50 years
Vehicles	5 - 15 years
Furniture and fixtures	3 - 10 years
Equipment	5 - 10 years

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted assets are those assets that do not meet the definition of "restricted" or "net investment in capital assets".

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Property tax receivables in the General Fund and trade receivables in the Gas System are shown net of allowances of \$564 and \$11,411, respectively, for uncollectible accounts. No provision is made for uncollectible water and sewer bills due to management's position that any uncollectible accounts would be insignificant. Bad debts are written off annually.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Compensated Absences

The City allows employees to accumulate unused vacation and sick leave until termination or retirement. Upon termination for any cause, the City pays up to a maximum of sixty-five days of vacation leave, but the employee is not compensated for unused sick leave. Any vacation days accumulated in excess of sixty-five days and unused sick leave will be forfeited by the employee. The City only accrues unused vacation pay.

Inventory

The City records inventory for materials and supplies used for routine maintenance and repairs. The inventories are valued at cost using the FIFO (first in-first out) method or market, whichever is lower. Inventory reported by the Gas System also includes natural gas purchased and stored prior to year-end and is recorded using the weighted average cost of gas method.

Allocation of Indirect Expenses

Expenses that are not specifically related to an individual fund are allocated. Those expenses include salaries, employee benefits, insurance, operating supplies, office supplies, postage, truck expenses, and other expenses. Those allocations are based on time spent in the General Fund, Gas System, Water System, and Sewer System, as estimated by the City Administrator.

Fund Balance

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory and prepayments) 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.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance, (Continued)

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose.

The City did not establish any fund balance commitments for the fiscal year. Assigned fund balance is established by the Mayor through adoption or amendment of the budget as intended for a specific purpose. Unrestricted and unassigned fund balances are reduced first, unless expenditures are incurred for a specific purpose for which fund balance has been restricted, committed, or assigned.

Interfund Activity

Interfund receivables and payables may arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Amounts owed between funds within the business-type activities are eliminated in the government-wide Statement of Net Position. Amounts not expected to be repaid are considered transfers.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses using the consumption method.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports the deferred amounts related to pensions in the Statement of Net Position in this category. Deferred amounts related to pensions include pension contributions made during the current fiscal year but applicable to a future measurement period of the net pension liability.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The City reports the deferred amount related to pensions in the Statement of Net Position in this category.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

NOTE B - CASH AND INVESTMENTS

Statutes authorize the City to invest in certificates of deposit, passbooks, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law. The governing body has not formally adopted deposit and investment policies that limit the City's allowable deposits or investments and address the specific types of risk to which it is exposed.

The City considers cash and cash equivalents to be cash on hand, demand deposits, and certificates of deposit. At June 30, 2016, the reported amount of the City's deposits was \$1,356,617 and the bank balance was \$1,380,355. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. All of the City's deposits were either insured or collateralized with a letter of credit issued by the pledging financial institution, with the City named as beneficiary.

Restricted Cash

Proprietary Funds are required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding liabilities, such as meter deposits. Certificates of deposit used as loan collateral are also considered restricted. For purposes of the Statement of Cash Flows, the Proprietary Funds consider all certificates of deposit to be cash equivalents. Cash and cash equivalents at June 30, 2016 consisted of the following:

	Gas System	Water System	Sewer System	Total
Cash	\$ 295,810	\$ 531,536	\$ 72,765	\$ 900,111
Restricted Cash	93,610	177,029	-	270,639
	<u>\$ 389,420</u>	<u>\$ 708,565</u>	<u>\$ 72,765</u>	<u>\$ 1,170,750</u>

NOTE C - CONCENTRATION OF CREDIT RISK

The City operates and grants credit to customers in Lewisport, Kentucky, located in Western Kentucky. The region is highly dependent on aluminum and farming production. One financial instrument that potentially subjects the City to credit risk is accounts receivable. Accounts receivable are not collateralized. During the year ended June 30, 2016, the City had sales of \$529,022 (24% of charges for services) to Dal-Tile, a large industrial customer (see Note H).

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE D - PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and are due and payable at that time. All unpaid taxes levied November 1 become delinquent February 1 of the following year. The City's property tax rate is \$.21 per \$100 valuation.

City resolution requires the Gas System to make an annual payment to the General Fund in lieu of tax in the amount of \$10% of the net property and equipment of the gas system, not to exceed \$150,000. During the year ended June 30, 2016 the Gas System paid the General Fund \$150,000 for this purpose and the amount was recorded as a transfer.

NOTE E - RISK MANAGEMENT

The City of Lewisport is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for risks related to injuries to employees and all other risks of loss. The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2016, will not materially affect the financial condition of the City. Therefore, there are no provisions for estimated claims.

NOTE F - BUDGETS

The City's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis are revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP). The City Council approves total budget appropriations by ordinance, and amendments are made as needed throughout the year. Formal budgetary integration is employed as a management control device during the year.

NOTE G - LONG-TERM LIABILITIES

Changes in noncurrent liabilities, including current portions, for the year ended June 30, 2016 were as follows:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due in One Year</u>
<u>Governmental Activities</u>					
Compensated absences	\$ 60,127	\$ 8,683	\$ (5,536)	\$ 63,274	\$ -
Lease payable	-	40,000	(2,322)	37,678	9,547
Net pension liability	238,051	90,840	(38,261)	290,630	-
Total	<u>\$ 298,178</u>	<u>\$ 139,523</u>	<u>\$ (46,119)</u>	<u>\$ 391,582</u>	<u>\$ 9,547</u>
<u>Business-Type Activities</u>					
Meter deposits	\$ 120,828	\$ 8,583	\$ (5,226)	\$ 124,185	\$ -
Compensated absences	16,442	2,207	(2,574)	16,075	-
Lease payable	49,941	75,059	(23,299)	101,701	24,190
Net pension liability	516,949	236,099	(80,052)	672,996	-
Total	<u>\$ 704,160</u>	<u>\$ 321,948</u>	<u>\$ (111,151)</u>	<u>\$ 914,957</u>	<u>\$ 24,190</u>

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE G – LONG-TERM LIABILITIES (CONTINUED)

Compensated absences and net pension liability have been liquidated in the Governmental and Proprietary Funds. Meter deposits have been liquidated in the Proprietary Funds (Water and Gas Systems). The lease payable will be liquidated in the Gas System. The amounts due in one year for meter deposits, compensated absences, and net pension liability could not be determined.

Debt Service Requirements – Lease Payable

Capital leases included in governmental activities includes a capital lease of a fire truck. Capital leases for business-type activities includes the lease of two police cruisers. The schedule of future minimum lease payments on the capital lease as of June 30, 2016 is as follows:

Year Ending June 30	Governmental Activities	Business-type Activities
2017	\$ 8,114	\$ 27,267
2018	10,816	27,267
2019	10,816	27,267
2020	10,816	27,267
Thereafter	-	-
Future Minimum Payments	40,562	109,068
Less Interest	(2,884)	(7,367)
Present Value of Future Minimum Payments	<u>\$ 37,678</u>	<u>\$ 101,701</u>

NOTE H - COMMITMENTS AND CONTINGENCIES

The City receives federal and state grants for specific purposes that are subject to review and audit by state agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of city management, such disallowances, if any, will not be significant.

In an effort to manage risks in a volatile market, in February 2008 the City entered into a ten year gas purchase agreement with Municipal Gas Acquisition and Supply Corporation (Municipal Gas), whereby the City receives a discount (\$.30 per Dth) and pays market rate for gas purchases.

In August 2008 the City signed an agreement to sell natural gas to Dal-Tile, the City's largest industrial customer. As a result of the agreement, the City had to issue an irrevocable non-transferable standby letter of credit in the amount of \$260,000 to the gas supplier, Municipal Gas, and Dal-Tile obtained a \$250,000 utility guarantee bond on behalf of the City. The letter of credit was renewed prior to year-end and is automatically extend each year unless terminated as outlined in the contract. The letter of credit remained unused at June 30, 2016.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE I - RETIREMENT PLAN

Defined Benefit Plan

Plan Description – Full-time employees are covered by the County Employees Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, COLAs were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

The County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124, calling 502-696-8822, or on the internet at www.kyret.gov.

Contributions – For the fiscal years ended June 30, 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2016, participating employers contributed 17.06% of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2016, were 17.06%. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE I - RETIREMENT PLAN (CONTINUED)

For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of \$963,626 for its proportionate share of the net pension liability for CERS. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date. The City's proportion of the net pension liability was based on the actual contributions of the City relative to the total contributions of all participating members of CERS during the measurement period July 1, 2014 through June 30, 2015. At June 30, 2015, the City's proportion was 0.02241%.

For the year ended June 30, 2016, the City recognized pension expense of \$99,563 for CERS. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected & actual experience	\$ 8,008	\$ -
Net difference between projected and actual investment earnings on pension plan investments	8,638	-
Changes of assumption	97,171	-
City contributions subsequent to the measurement date	66,113	-
Changes in proportion and differences between City contributions and proportional share of contributions	-	22,221
	\$ 179,930	\$ 22,221

The \$179,930 of deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2017	\$ 25,362
2018	25,362
2019	25,362
2020	17,010

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE I - RETIREMENT PLAN (CONTINUED)

Actuarial Methods and Assumptions – The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2015 using the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class.

These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE I - RETIREMENT PLAN (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return	10%	3.50%
Real Estate	5%	4.50%
Absolute Return	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2016, is based on the June 30, 2015 actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Sensitivity of Proportionate Share of Net Pension Liability to Changes in Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease 6.50%	Current Discount 7.50%	1% Increase 8.50%
City's proportionate share of the net pension liability	\$ 1,230,188	\$ 963,626	\$ 735,339

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

The City also participates in the Kentucky Public Employees 401(k) Deferred Compensation (Plan II). Participation in the plan is voluntary and contributions are withheld from participating employees' wages. No contributions were made by the City.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE J - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Gas	\$ 1,781	Allocated expenses
Water	General	1,403	Allocated expenses
Gas	General	150,000	In lieu of tax
Gas	General	164,078	Allocated expenses
Water	Gas	6,333	Allocated expenses
Sewer	Gas	5,520	Allocated expenses
Gas	Water	47,969	Allocated expenses
Gas	Sewer	35,549	Allocated expenses
Water	Sewer	2,571	Allocated expenses
Sewer	Water	6,819	Allocated expenses

NOTE K - CAPITAL ASSETS

Depreciation expense includes \$14,940 in amortization expense for assets purchased under capital leases. Assets purchased under capital lease are as follows

	<u>Cost</u>
Equipment	\$ 7,700
Furniture and fixtures	7,520
Vehicles	158,151
	<u>173,371</u>
Accumulated amortization	(18,665)
Capital assets, net	<u>\$ 154,706</u>

The following table provides a summary of changes in capital assets:

<u>Governmental Activities</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Capital assets not depreciated:				
Land	\$ 87,957	\$ 31,494	\$ -	\$ 119,451
Total capital assets not depreciated:	<u>87,957</u>	<u>31,494</u>	<u>-</u>	<u>119,451</u>
Capital assets depreciated:				
Buildings and improvements	1,381,709	-	-	1,381,709
Equipment	326,730	-	20,287	306,444
Land improvements	780,711	18,298	4,368	794,641
Furniture and fixtures	78,636	-	15,287	63,349
Vehicles	440,597	70,575	59,621	451,551
Total capital assets depreciated	<u>3,008,383</u>	<u>88,873</u>	<u>99,562</u>	<u>2,997,694</u>
Less accumulated depreciation:				
Buildings and improvements	630,017	34,037	-	664,054
Equipment	209,288	18,125	19,286	208,127
Land improvements	301,430	39,233	4,368	336,295
Furniture and fixtures	59,261	3,786	15,287	47,760
Vehicles	287,282	34,159	52,213	269,228
Total accumulated depreciation	<u>1,487,278</u>	<u>129,340</u>	<u>91,154</u>	<u>1,525,464</u>
Total capital assets depreciated, net	<u>1,521,105</u>	<u>(40,467)</u>	<u>8,408</u>	<u>1,472,230</u>
Total capital assets, net	<u>\$ 1,609,062</u>	<u>\$ (8,973)</u>	<u>\$ 8,408</u>	<u>\$ 1,591,681</u>

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE K - CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not depreciated:				
Land	\$ 197,402	\$ 95,000	\$ -	\$ 292,402
Construction in progress	-	-	-	-
Total capital assets not depreciated:	<u>197,402</u>	<u>95,000</u>	<u>-</u>	<u>292,402</u>
Capital assets depreciated:				
Distribution/collection systems	9,104,161	14,267	47,465	9,070,964
Equipment	774,405	58,851	77,947	755,309
Furniture and fixtures	76,668	-	4,864	71,804
Improvements	8,209	-	-	8,209
Vehicles	193,822	48,209	26,922	215,109
Total capital assets depreciated	<u>10,157,264</u>	<u>121,327</u>	<u>157,197</u>	<u>10,121,395</u>
Less accumulated depreciation:				
Distribution/collection systems	3,969,491	210,667	42,926	4,137,233
Equipment	441,836	40,814	69,909	412,741
Furniture and fixtures	69,795	1,387	4,864	66,319
Improvements	2,992	945	-	3,937
Vehicles	156,058	25,489	26,922	154,625
Total accumulated depreciation	<u>4,640,172</u>	<u>279,302</u>	<u>144,620</u>	<u>4,774,854</u>
Total capital assets depreciated, net	<u>5,517,093</u>	<u>(157,975)</u>	<u>12,576</u>	<u>5,346,541</u>
Total capital assets, net	<u>\$ 5,714,495</u>	<u>\$ (62,975)</u>	<u>\$ 12,576</u>	<u>\$ 5,638,944</u>

NOTE M - FUND BALANCE

The fund balance for the Governmental Fund was classified as follows:

<u>Fund Balance</u>	<u>General Fund</u>
Restricted:	
Fire department	\$ 32,843
Total Restricted	<u>32,843</u>
Assigned:	
Municipal improvements	13,091
Heritage Festival	2,706
Total Assigned	<u>15,797</u>
Unassigned	<u>117,014</u>
Total Fund Balance	<u>\$ 165,654</u>

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE N – SHORT TERM NOTE PAYABLE

Gas System

In August 2015, the City obtained a short-term note payable in the amount of \$107,326. The maturity date of this loan is June 30, 2017 and bears an interest rate of 2.45%. The promissory note requires one lump sum payment due on the maturity date. The note is secured by two certificate of deposits included in the Water System's restricted cash. The values of these certificates of deposits were \$90,953 and \$25,568. As of June 30, 2016 the balance of the note payable was \$107,326.

NOTE O - RELATED PARTIES

The City Administrator is on the board of directors for Kenergy Corporation, which provides all electric services to the City of Lewisport. The City paid Kenergy \$124,606 for utility services.

The Mayor is a vice president and branch manager of Hancock Bank, which provides all banking services to the City.

NOTE P – DEFICIT FUND/POSITION

The City's only governmental fund did not have a deficit fund balance as of June 30, 2016. However, the Sewer System unrestricted net position was a deficit of \$26,371.

NOTE Q - GRANTS AND DONATIONS

For the year ended June 30, 2016 the General Fund received \$60,000 from the Hancock County, Kentucky Fiscal Court for financial assistance. The County designated \$50,000 for operations and \$10,000 for the fire department.

NOTE R – RESTATEMENTS

During 2016, net position at June 30, 2015 was restated as follows:

	Governmental Activities	Business-Type Activities		
		Gas System	Water System	Sewer System
Net Position at June 30, 2015, Previously reported	\$ 1,501,524	\$ 2,059,263	\$ 1,919,791	\$ 2,495,141
Prior period adjustment for: Deferred outflows of resources due to healthcare contributions for postemployment healthcare benefits included in deferred outflows of resources as of June 30, 2015.	3,695	(7,322)	(14,751)	(7,485)
Net Position at June 30, 2015, Restated	<u>\$ 1,505,219</u>	<u>\$ 2,051,941</u>	<u>\$ 1,905,040</u>	<u>\$ 2,487,656</u>

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 5 – SUBSEQUENT EVENTS

On June 2, 2016, the Kentucky Infrastructure Authority approved a loan to the City for the Lewisport Water Tank Rehabilitation Project. The amount of the loan is based upon the total project cost, which has been estimated by the City to be roughly \$150,000. The loan will bear an interest rate of 2.75 percent and will be repaid over a period of twenty years when the project starts when the last draw is made. The payment of interest is required subsequent to the first draw of funds due on the earlier of June 1, or December 1.

The City did not have any other subsequent events through March 16, 2017, which is the date the financial statements were available to be issued, for events requiring disclosure in the financial statements for the year ended June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LEWISPORT, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR END JUNE 30, 2016**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 116,600	\$ 120,421	\$ 124,599	\$ 4,178
Franchise taxes	21,000	20,500	20,981	481
Intergovernmental:				
State grants	20,750	21,450	15,508	(5,942)
County grants	60,000	60,000	60,000	-
State highway grants	37,000	34,500	33,245	(1,255)
Local government economic assistance	9,000	8,800	5,329	(3,471)
HB413 revenue	8,000	6,000	6,207	207
Investment earnings	50	50	103	53
Miscellaneous	55,000	83,949	49,161	(34,788)
Total revenues	<u>327,400</u>	<u>355,670</u>	<u>315,133</u>	<u>(40,537)</u>
Expenditures				
Current:				
General government	227,300	206,450	222,790	(16,340)
Public safety	192,000	219,050	253,650	(34,600)
Highways and streets	41,500	26,400	10,382	16,018
Planning and zoning	10,000	10,000	10,000	-
Culture and recreation	72,350	69,450	56,723	12,727
Debt service:				
Principal	-	-	2,322	(2,322)
Interest	-	-	382	(382)
Capital outlay	-	-	120,366	(120,366)
Total expenditures	<u>543,150</u>	<u>531,350</u>	<u>676,615</u>	<u>(145,265)</u>
Deficit of revenues over expenditures	<u>(215,750)</u>	<u>(175,680)</u>	<u>(361,482)</u>	<u>(185,802)</u>
Other Financing Sources (Uses)				
Capital lease proceeds	-	-	40,000	40,000
Transfers in	140,000	145,000	315,482	170,482
Transfers out	-	-	(1,781)	(1,781)
Total other financing sources (uses)	<u>140,000</u>	<u>145,000</u>	<u>353,701</u>	<u>208,701</u>
Deficit of revenues and other financing sources over expenditures and other financing uses	<u>(75,750)</u>	<u>(30,680)</u>	<u>(7,781)</u>	<u>22,899</u>
Fund balance, June 30, 2015	<u>173,435</u>	<u>173,435</u>	<u>173,435</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ 97,685</u>	<u>\$ 142,755</u>	<u>\$ 165,654</u>	<u>\$ 22,899</u>

**CITY OF LEWISPORT, KENTUCKY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 LAST 10 FISCAL YEARS***

COUNTY EMPLOYEES RETIREMENT SYSTEM	<u>2016</u>	<u>2015</u>
<u>Non-Hazardous</u>		
City's proportion of the net pension liability	0.224100%	0.023274%
City's proportionate share of the net pension liability	\$ 963,626	\$ 755,000
City's covered employee-payroll	\$ 532,311	\$ 533,942
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.03%	141.40%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

Note: The data provided in this schedule is based on the measurement date of the CERS net pension liability, which is as of June 30th of the prior fiscal year.

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**CITY OF LEWISPORT, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS***

	2016	2015
COUNTY EMPLOYEES RETIREMENT SYSTEM		
<u>Non-Hazardous</u>		
Contractually required contribution	\$ 90,812	\$ 92,399
Contributions in relation of the contractually required contribution	(90,812)	(92,399)
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 532,311	\$ 522,912
Contributions as a percentage of covered- employee payroll	17.06%	17.67%

* This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**CITY OF LEWISPORT, KENTUCKY
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2016**

NOTES TO BUDGETARY COMPARISON SCHEDULE

NOTE A - BASIS OF PRESENTATION

The City prepares its financial statements using accounting principles generally accepted in the United States of America (GAAP). All governmental fund budgets are maintained on the cash basis (budgetary basis) of accounting, which is a comprehensive basis of accounting other than GAAP.

The budget and all transactions are presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a meaningful comparison of actual results with the budget. No adjustments have been made to convert the actual data presented on the GAAP basis to the cash basis of accounting for revenues because any differences were deemed to be immaterial.

The amount reported as fund balance on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. This amount differs from the fund balance reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund because of the cumulative effect of transactions such as those described above.

NOTE B - BUDGET SHORTFALL

For certain line items and total expenditures, the General Fund experienced an excess of outlays over final budget appropriations.

NOTES TO PENSION SCHEDULES

NOTE A - CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

NOTE B - CHANGES OF ASSUMPTIONS

The following changes in actuarial assumptions were made for amounts reported in fiscal year 2016:

	FY 2016	Prior Periods
Inflation	3.25%	3.50%
Salary Increase	4.00%	4.50%
Investment Rate of Return	7.50%	7.75%

For amounts reported in fiscal year 2016, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 305 for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

For periods prior to fiscal year 2016, the rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability.



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 and Members of the City Council
City of Lewisport, 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, and each major fund of the City of Lewisport, Kentucky (City) 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, and have issued our report thereon dated March 16, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be material weaknesses (2016-001, 2016-002, and 2016-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2016-004.

City of Lewisport, Kentucky's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.



Owensboro, Kentucky
March 16, 2017

**CITY OF LEWISPORT, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

FINDINGS – FINANCIAL STATEMENT AUDIT

2016-001 Material Weakness (repeat):

Segregation of Duties

Condition: The small size of the City's staff limits the extent of the separation of duties. Consequently, the separation of duties, which is the basic premise of a good internal control structure, does not exist.

Criteria: The City should have adequate segregation of duties over the handling of cash receipts and disbursements.

Cause: Budgetary constraints limit the number of staff members.

Effect: Significant controls over transaction processing were absent.

Recommendation: We recommend the City divide the responsibilities of handling cash receipts and disbursements among various employees at the City.

View of Responsible Officials and Planning Corrective Action: Management realizes the need for segregation of duties, however because of budget limitations and because of cost/benefit, proper segregation is not feasible at this time.

**CITY OF LEWISPORT, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

FINDINGS – FINANCIAL STATEMENT AUDIT

2016-002 Material Weakness (repeat):

Excessive Overtime

Condition: During the course of our engagement, we noted that the City had significant overtime pay on a regular basis.

Criteria: Government auditing standards suggest that overtime is a potential sign of abuse. Overtime on a regular basis can lead to excessive costs.

Cause: The City has a generous overtime policy, in an effort to maintain qualified staff. Overtime is paid for time over 8 hours a day, instead of 40 hours a week. Paid absences contribute to the 40 hour work week and potentially add to overtime.

Effect: These additional wages create substantial expenditures to the City.

Recommendation: We recommend that the City study local wages and benefits to determine a reasonable package to retain their staff, while adjusting the overtime policy and practices. While adjusting the base wage of employees and approving a more fiscally responsible overtime policy, the City can better control personnel expense. We also recommend that the City review its personnel schedule to determine what adjustments to assigned duties would allow for fewer overtime hours. We recommend the new overtime policies be strictly enforced.

Views of Responsible Officials and Planned Corrective Actions: The decision to change our overtime policies in the past has been rejected. The City will review the recommendations of the auditor to see if adjustments can be made while maintaining qualified staff.

**CITY OF LEWISPORT, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

FINDINGS – FINANCIAL STATEMENT AUDIT

2016-003 Material Weakness:

Maintain Utility Deposit Records

Condition: The City has not reviewed the utility meter deposit records or reconciled them to the general ledger.

Criteria: Meter Deposits should be required to be recorded and reconciled in order to present complete, accurate financial statements.

Cause: The City has maintained the utility meter deposits using manual cards for many years. In recent years, as deposits were paid, they were also entered into the billing system, but older manual cards were not. Neither the original manual cards, nor the electronic record has been reconciled to general ledger.

Effect: The liability for deposits being held for utility customers is significantly understated. In addition, required deposit refunds have not been made.

Recommendation: We recommend that all manual deposit cards be reviewed for validity and either entered into the system or refunded as deemed necessary. We also recommend that deposit totals be reconciled to the general ledger. This reconciliation should be made at least quarterly.

Views of Responsible Officials and Planned Corrective Actions: City staff has already started the process. It will take time but should be complete before the next audit period.

**CITY OF LEWISPORT, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

FINDINGS – FINANCIAL STATEMENT AUDIT

2016-004 Publish Required Documents

Condition: The City did not publish a statement that any citizen may obtain from city hall a copy of the complete audit report, including financial statements and supplemental information, for his personal use as required by KRS 424.

Criteria: The City should monitor and adhere to requirements put forth by state regulations.

Cause: The City has employed different personnel over the years and the requirement was not relayed from one Clerk to the next.

Effect: The City failed to publish one required document.

Recommendation: We recommend that the City monitor and adhere to all related state requirements.

Views of Responsible Officials and Planned Corrective Actions: The City will monitor regulations and see that the omitted item is published as required in the future.