

CITY OF LEWISPORT, KENTUCKY
FINANCIAL STATEMENTS
AND
ACCOMPANYING INFORMATION

JUNE 30, 2018

CITY OF LEWISPORT, KENTUCKY
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June 30, 2018

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INDEPENDENT AUDITORS' 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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.

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, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the

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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, during the year ended June 30, 2018, the City adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. The adoption resulted in increase in the net OPEB liability of \$375,701 and deferred outflows of resources of \$30,445, and a reduction of net position of \$345,256 at July 1, 2017. Our opinion is not modified with respect to this matter.

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 3 through 8 and the budgetary comparison information, pension schedules, and notes to required supplementary information on pages 40 through 46 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 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.

Alford & Company CPAs PSC

Owensboro, Kentucky
April 18, 2019

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 ended June 30, 2018. Please read it with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net position decreased 10.7 percent over the course of this year's operations. The net position of the governmental activities decreased \$241,974 or 18.4 percent while the net position of the business-type activities decreased \$492,371 or 8.8 percent. The reduction in net position included a restatement for the implementation of GASB 75 to record the net OPEB (other post-employment benefits) liability. The restatement caused a reduction in net position of \$101,091 for governmental activities and \$244,165 for business-type activities.
- During the fiscal year, the City's expenses for governmental activities were \$140,883 more than the \$318,568 generated in taxes, grants, and other revenues and \$302,023 in transfers from the business-type activities.
- The City's expenses for business-type activities were \$53,816 less than the \$2.63 million generated in revenues. This gain along with transfers of \$302,023 to the governmental activities caused a decrease in net position of \$248,207.
- The resources available for appropriation were \$41,733 more than budgeted for the general fund.
- Prior to year-end, the City finished a \$152,000 project to replace the water plant pump and a \$137,000 project for the water storage tank rehab, which were funded by a Kentucky Infrastructure Authority loan.

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 local 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 systems 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, 2018, net position changed as follows:

City of Lewisport's Net Position

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2017-2018
	2017	2018	2017	2018	2017	2018	
Current and other assets	\$ 162,866	\$ 161,826	\$1,258,982	\$1,028,143	\$1,421,848	\$1,189,969	-16.3%
Capital assets	1,532,668	1,430,904	5,517,131	5,747,657	7,049,699	7,178,561	1.8%
Deferred outflows	70,712	162,200	171,658	401,628	242,370	563,828	132.6%
Total assets & deferred outflows	1,766,146	1,754,930	6,947,771	7,177,428	8,713,917	8,932,358	2.5%
Long-term liabilities	396,571	617,063	1,089,471	1,806,097	1,486,042	2,423,160	63.1%
Other liabilities	49,395	46,602	257,726	230,782	307,121	277,384	-9.7%
Deferred inflows	8,303	21,362	20,055	52,402	28,358	73,764	160.1%
Total liabilities & deferred inflows	454,269	685,027	1,367,252	2,089,281	1,821,521	2,774,308	52.3%
Net investment in capital assets	1,504,406	1,412,635	5,207,287	5,019,058	6,711,693	6,431,693	-4.2%
Restricted	35,338	35,338	-	-	35,338	35,338	0%
Unrestricted	(227,867)	(378,070)	373,232	69,090	145,365	(308,980)	-312.6%
Total net position	\$1,311,877	\$1,069,903	\$5,580,519	\$5,088,148	\$6,892,396	\$6,158,051	-10.7%

Total net position of the City's governmental activities decreased 18.4 percent to \$1.07 million, which included a reduction of \$101,091 to the beginning balance due to the implementation of GASB 75 in fiscal year 2018 to record the net OPEB liability. For the fiscal year ended June 30, 2018, the City also experienced a \$140,883 decrease in net position from operations, resulting in a \$378,070 deficit in unrestricted net position at year-end.

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

- Public safety and highway and street expenses were higher than anticipated.
- Revenues decreased from the prior fiscal year.

The total net position of the business-type activities decreased by 8.8 percent to \$5.09 million, which was partially due to transfers to the General Fund and losses in the water and sewer systems. The implementation of GASB 75 in fiscal year 2018 to record net OPEB liability resulted in a reduction of \$244,165 to the beginning balance. The City reserves the right to use the net position of the business-type activities to finance the continuing operations of the governmental activities.

Changes in Net Position

The City's total revenues increased 17.7 percent from \$2.5 million to \$2.9 million, which was mainly due to an increase in gas sales. Virtually \$.89 of every dollar of the City's revenue comes from charges for service, while only \$.05 of every dollar raised comes from some type of tax. The majority of the remaining balance is local and state aid.

The total cost of all programs and services increased 8.5 percent from \$3.07 million to \$3.33 million, and the net cost increased 15.8 percent to \$636,045. The City's expenses cover a range of services, with about 77.16 percent related to municipal services.

Changes in City of Lewisport's Net Position

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2017-2018
	2017	2018	2017	2018	2017	2018	
Revenues							
Program Revenues:							
Charges for services	\$ 478	\$ 270	\$2,165,752	\$2,618,711	\$2,166,230	\$2,618,981	20.9%
Operating grants & contributions	96,195	91,472	-	-	96,195	91,472	-4.9%
Capital grants & contributions	33,555	33,687	-	-	33,555	33,687	0.4%
General Revenues:							
Taxes & licenses	148,780	153,279	-	-	148,780	153,279	3.0%
Interest income	50	85	8,235	7,101	8,285	7,186	-13.3%
Other income	48,045	39,775	-	-	48,045	39,775	-17.2%
Total revenues	327,103	318,568	2,173,987	2,625,812	2,501,090	2,944,380	17.7%
Expenses							
General government							
Public safety	235,557	315,532	-	-	235,557	315,532	34.0%
Highways & streets	6,951	28,027	-	-	6,951	28,027	303.2%
Planning & zoning	10,000	10,000	-	-	10,000	10,000	0%
Culture & recreation	57,564	61,422	-	-	57,564	61,422	6.7%
Interest expense	1,346	1,058	-	-	1,346	1,058	-21.4%
Depreciation - unallocated	132,488	132,143	-	-	132,488	132,143	-0.3%
Gas	-	-	1,500,653	1,542,436	1,500,653	1,542,436	2.8%
Water	-	-	497,126	574,212	497,126	574,212	15.5%
Sewer	-	-	396,665	455,348	396,665	455,348	14.8%
Total expenses	679,281	761,474	2,394,444	2,571,996	3,073,725	3,333,470	8.5%
Transfers	227,807	302,023	(227,807)	(302,023)	-	-	0%
Increase (decrease) in net position	\$(124,371)	\$(140,883)	\$(448,264)	\$(248,207)	\$(572,635)	\$(389,090)	32.1%

Governmental Activities

Revenues for the City's governmental activities decreased 2.6 percent, while total expenses increased 12.1 percent. The net position for governmental activities decreased \$140,883 in 2018, compared to a \$124,371 decrease in 2017. The City's governmental activities rely heavily on transfers from the business-type activities, which increased by 32.6% in 2018.

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 \$761,474.
- Some of the cost was paid by:
 - Those who directly benefited from the programs (\$270), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$125,159).
- The City paid for the \$636,045 "public benefit" portion mainly with \$153,279 in taxes, \$302,023 in transfers from the business-type activities, and reserves.

Net Cost of City of Lewisport's Governmental Activities

	Total Cost of Services		Percentage Change 2017-2018	Net Cost of Services		Percentage Change 2017-2018
	2017	2018		2017	2018	
General government	\$235,375	\$213,292	-9.4%	\$169,674	\$152,354	-10.2%
Public safety	235,557	315,532	34.0%	204,585	284,728	39.2%
Highways & streets	6,951	28,027	303.2%	(26,804)	(5,660)	78.7%
Culture & recreation	57,564	61,422	6.7%	57,564	61,422	6.7%
Other	143,834	143,201	-0.4%	143,834	143,201	-0.4%
Total	\$679,281	\$761,474	12.1%	\$549,053	\$636,045	15.8%

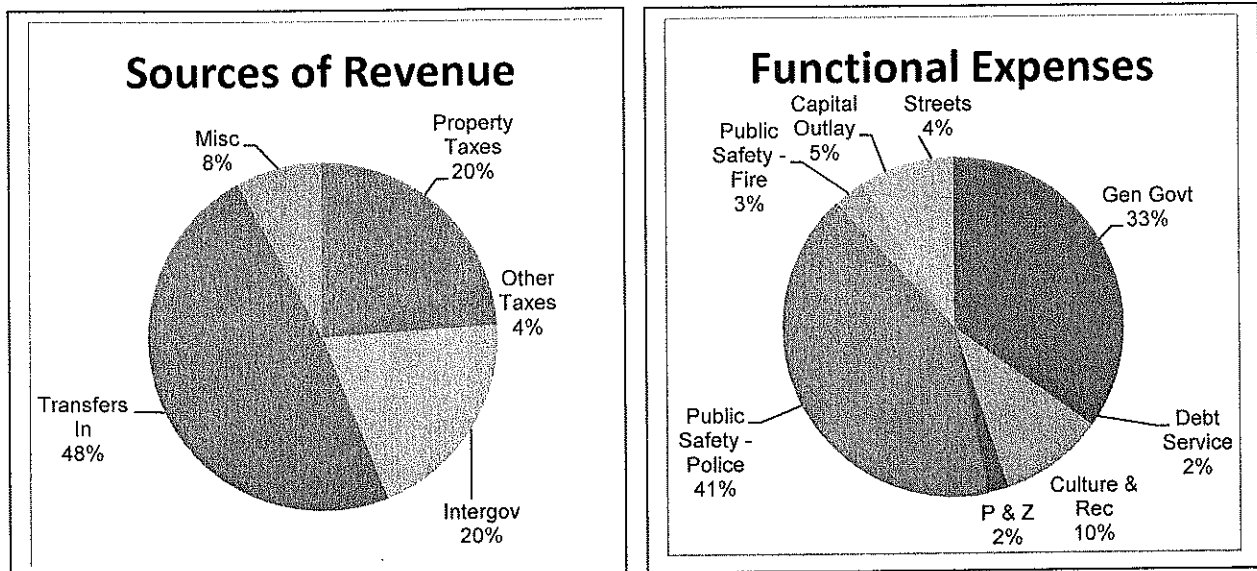
Business-type Activities

Revenues of the City's business-type activities increased 20.8 percent to \$2.63 million, while expenses also increased 7.4 percent to \$2.57 million. There was an operating income of \$57,495 for 2018 compared to an operating loss of \$221,762 for 2017. The substantial increase in expenses was due to the rising costs of employee benefits such as retirement and health insurance, as well as natural gas purchases.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental fund reported a fund balance of \$125,544, an increase of \$14,316 from the prior year. Changes are highlighted in the analysis of governmental activities. In addition, these other changes contributed to the increase in fund balance:

- The City's transfers from the Gas System increased.
- Miscellaneous revenues increased.
- 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 \$41,733 above the final budgeted amount, and actual expenditures were \$132,065 over final budget amounts. The following factors contributed to the largest budget to actual variances:

- Capital outlay, culture and recreation, and public safety expenditures were higher than expected.
- Property taxes and miscellaneous revenues were higher than expected.

Total actual expenditures exceeded budgeted amounts. However, due to transfers and revenues being greater than anticipated, the City ended the year with a fund balance that was \$748 more than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City had invested \$13,978,513 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 \$229,472 or 1.7 percent over last year.

City of Lewisport's Capital Assets

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	2018	2017	2018	2017	2018	2017-2018
Land	\$ 119,452	\$ 119,452	\$ 292,402	\$ 292,402	\$ 411,854	\$ 411,854	0%
Construction in progress	-	-	127,080	-	127,080	-	-100%
Building & improvements	1,381,709	1,381,709	-	-	1,381,709	1,381,709	0%
Equipment	312,384	325,425	772,951	793,077	1,085,335	1,118,502	3.1%
Land improvements	862,076	879,513	8,209	8,209	870,285	887,722	2.0%
Furniture & fixtures	63,349	63,349	71,805	71,805	135,154	135,154	0%
Vehicles	451,551	451,551	215,109	215,109	666,660	666,660	0%
Service assets	-	-	9,070,964	9,376,912	9,070,964	9,376,912	3.4%
Total	\$3,190,521	\$3,220,999	\$10,558,520	\$10,757,514	\$13,749,041	\$13,978,513	1.7%

This year's major capital asset additions included:

- Infrastructure \$17,437
- Equipment \$49,323
- Water plant pump replacement \$25,180
- Rehab water storage tank \$137,532

Long-term Debt

Long-term debt consists of the portion of lease and loan payments that will become due after one year. For business-type activities, the City received \$157,550 in loan proceeds for the water plant projects. The long-term portion outstanding at year-end was \$262,439. The long-term portion of an existing lease payable for the governmental activities was \$7,949 and \$35,894 for the business-type activities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts available for appropriation in the fiscal year (FY) 2019 General Fund budget are \$782,037, an increase of 11.28 percent from the final budget amount available for FY 2018, which was \$702,746. Property taxes and grant revenue are expected to remain stable. The City will use these revenues to finance programs currently offered and the expected impact of inflation on program costs. Budgeted expenditures for the General Fund are expected to increase 8.95 percent to \$617,150. The City has added no major new programs to the FY 2019 budget.

The City's budgeted resources for the Proprietary Funds increased by 0.56 percent to \$3,235,762. Proprietary Fund expenses are also expected to decrease by 5.3 percent to \$2,577,418. The City anticipates increased sewer revenues due to the addition of an industrial customer.

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, 2018

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 148,720	\$ 788,633	\$ 937,353
Receivables, net:			
Taxes	2,832	-	2,832
Accounts - trade	-	113,558	113,558
Miscellaneous	4,857	-	4,857
Inventories	-	106,108	106,108
Prepaid expenses	5,417	19,844	25,261
Total current assets	<u>161,826</u>	<u>1,028,143</u>	<u>1,189,969</u>
Noncurrent Assets			
Restricted cash	-	300,202	300,202
Capital assets:			
Land and construction in progress	119,452	292,402	411,854
Other capital assets, net of depreciation	1,311,452	5,155,053	6,466,505
Total noncurrent assets	<u>1,430,904</u>	<u>5,747,657</u>	<u>7,178,561</u>
Total assets	<u>1,592,730</u>	<u>6,775,800</u>	<u>8,368,530</u>
Deferred Outflows of Resources			
Deferred amounts related to OPEB	39,912	98,960	138,872
Deferred amounts related to pensions	122,288	302,668	424,956
	<u>162,200</u>	<u>401,628</u>	<u>563,828</u>
LIABILITIES			
Current Liabilities			
Accounts payable	7,245	82,375	89,620
Accrued expenses	-	3,231	3,231
Accrued wages payable	24,037	11,138	35,175
Unearned revenue	5,000	3,974	8,974
Lease payable	10,320	30,109	40,429
Note payable	-	110,287	110,287
Total current liabilities	<u>46,602</u>	<u>241,114</u>	<u>287,716</u>
Noncurrent Liabilities			
Meter deposits	-	153,748	153,748
Compensated absences	66,521	23,016	89,537
Lease payable	7,949	35,894	43,843
Note payable	-	252,107	252,107
Net OPEB liability	138,714	340,270	478,984
Net pension liability	403,879	990,730	1,394,609
Total noncurrent liabilities	<u>617,063</u>	<u>1,795,765</u>	<u>2,412,828</u>
Total liabilities	<u>663,665</u>	<u>2,036,879</u>	<u>2,700,544</u>
Deferred Inflows of Resources			
Deferred amounts related to OPEB	7,263	17,815	25,078
Deferred amounts related to pensions	14,099	34,587	48,686
	<u>21,362</u>	<u>52,402</u>	<u>73,764</u>
NET POSITION			
Net investment in capital assets	1,412,635	5,019,058	6,431,693
Restricted	35,338	-	35,338
Unrestricted	(378,070)	69,090	(308,980)
Total net position	<u>\$ 1,069,903</u>	<u>\$ 5,088,148</u>	<u>\$ 6,158,051</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

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	\$ 213,292	\$ -	60,938	\$ -	\$ (152,354)	\$ -	\$ (152,354)
Public safety	315,532	270	30,534	-	(284,728)	-	(284,728)
Highways and streets	28,027	-	-	33,687	5,660	-	5,660
Planning and zoning	10,000	-	-	-	(10,000)	-	(10,000)
Culture and recreation	61,422	-	-	-	(61,422)	-	(61,422)
Interest expense	1,058	-	-	-	(1,058)	-	(1,058)
Depreciation unallocated	132,143	-	-	-	(132,143)	-	(132,143)
Total governmental activities	<u>761,474</u>	<u>270</u>	<u>91,472</u>	<u>33,687</u>	<u>(636,045)</u>	<u>-</u>	<u>(636,045)</u>
Business-type Activities							
Gas	1,542,436	1,909,685	-	-	-	367,249	367,249
Water	574,212	442,562	-	-	-	(131,650)	(131,650)
Sewer	455,348	266,464	-	-	-	(188,884)	(188,884)
Total business-type activities	<u>2,571,996</u>	<u>2,618,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,715</u>	<u>46,715</u>
Total Primary Government	<u>\$ 3,333,470</u>	<u>\$ 2,618,981</u>	<u>\$ 91,472</u>	<u>\$ 33,687</u>	<u>(636,045)</u>	<u>46,715</u>	<u>(589,330)</u>
		General Revenues					
		Property taxes			128,401	-	128,401
		Franchise taxes			24,878	-	24,878
		Interest income			85	7,101	7,186
		Miscellaneous			39,775	-	39,775
		Gain on disposal of capital assets			-	-	-
		Transfers			<u>302,023</u>	<u>(302,023)</u>	<u>-</u>
		Total General Revenues and Transfers			<u>495,162</u>	<u>(294,922)</u>	<u>200,240</u>
		Changes in Net Position			<u>(140,883)</u>	<u>(248,207)</u>	<u>(389,090)</u>
		Net Position - Beginning of Year			1,311,877	5,580,519	6,892,396
		Restatement for Implementation of GASB 75			(101,091)	(244,165)	(345,256)
		Net Position - Beginning of Year, as restated			<u>1,210,786</u>	<u>5,336,354</u>	<u>6,547,140</u>
		Net Position - End of Year			<u>\$ 1,069,903</u>	<u>\$ 5,088,147</u>	<u>\$ 6,158,050</u>

See accompanying notes.

**CITY OF LEWISPORT, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2018**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 148,720
Receivables:	
Taxes, net	2,832
Miscellaneous	4,857
Prepaid expenses	5,417
Total assets	\$ 161,826
 LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 7,245
Accrued wages	24,037
Unearned revenue	5,000
Total liabilities	36,282
 Fund balance	
Restricted	35,338
Assigned	24,467
Unassigned	65,739
Total fund balances	125,544
 Total liabilities and fund balance	 \$ 161,826

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2018

Total Governmental Fund Balance		\$ 125,544
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	3,221,000	
Accumulated depreciation	<u>(1,790,096)</u>	1,430,904
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	122,288	
Deferred inflows of resources	<u>(14,099)</u>	108,189
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and therefore are not reported in the governmental funds.		
Deferred outflows of resources	39,912	
Deferred inflows of resources	<u>(7,263)</u>	32,649
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.		
		-
Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Compensated absences	(66,521)	
Lease payable	(18,269)	
Net OPEB liability	(138,714)	
Net pension liability	<u>(403,879)</u>	<u>(627,383)</u>
Total Net Position of Governmental Activities		<u>\$ 1,069,903</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
June 30, 2018

	General Fund
Revenues	
Property taxes	\$ 128,401
Franchise taxes	24,878
Intergovernmental:	
State grants	20,534
County grants	60,000
State highway grants	33,687
Local government economic assistance	5,618
HB413 revenue	5,320
Interest income	84
Miscellaneous	51,882
Total revenues	330,404
Expenditures	
Current:	
General government	203,424
Public safety	273,808
Highways and streets	28,027
Planning and zoning	10,000
Culture and recreation	61,422
Debt service:	
Principal	9,894
Interest	1,058
Capital outlay	30,478
Total expenditures	618,111
Deficiency of revenues over expenditures	(287,707)
Other Financing Sources (Uses)	
Proceeds from disposal of capital assets	-
Transfers in	303,790
Transfers out	(1,767)
Total other financing sources (uses)	302,023
Deficiency of revenues and other financing sources over expenditures and other financing uses	14,316
Fund balance, June 30, 2017	111,228
Fund balance, June 30, 2018	\$ 125,544

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, 2018**

Net Change in Fund Balance - Governmental Fund **\$ 14,316**

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	30,478	
Depreciation expense	<u>(132,143)</u>	(101,665)

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	-	
Payments on capital lease	<u>9,894</u>	9,894

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

OPEB expense	(4,974)	
Pension expense	<u>(43,059)</u>	(48,033)

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.

Amounts not refunded	(12,169)	
Change in compensated absences	<u>(3,226)</u>	<u>(15,395)</u>

Change in Net Position of Governmental Activities **\$ (140,883)**

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2018

	<u>Gas System</u>	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 344,594	\$ 427,852	\$ 16,187	\$ 788,633
Receivables:				
Trade	38,741	47,581	27,236	113,558
Inventories	60,639	28,674	16,795	106,108
Prepaid expenses	8,696	6,473	4,676	19,845
Total current assets	<u>452,670</u>	<u>510,580</u>	<u>64,894</u>	<u>1,028,144</u>
Noncurrent assets				
Restricted cash	116,548	183,654	-	300,202
Capital assets:				
Land and construction in progress	208,137	81,005	3,260	292,402
Other capital assets, net of depreciation	1,545,363	1,411,697	2,197,993	5,155,053
Total noncurrent assets	<u>1,870,048</u>	<u>1,676,356</u>	<u>2,201,253</u>	<u>5,747,657</u>
Total assets	<u>2,322,718</u>	<u>2,186,936</u>	<u>2,266,147</u>	<u>6,775,801</u>
Deferred outflows of resources				
Deferred amounts related to OPEB	43,640	32,559	22,761	98,960
Deferred amounts related to pensions	133,454	99,480	69,734	302,668
Total deferred outflows of resources	<u>177,094</u>	<u>132,039</u>	<u>92,495</u>	<u>401,628</u>
LIABILITIES				
Current liabilities				
Accounts payable	69,671	9,401	3,303	82,375
Accrued expenses	1,271	1,960	-	3,231
Accrued wages payable	5,120	3,612	2,406	11,138
Unearned revenue	2,784	978	212	3,974
Lease payable	30,109	-	-	30,109
Note payable	99,955	-	-	99,955
Total current liabilities	<u>208,910</u>	<u>15,951</u>	<u>5,921</u>	<u>230,782</u>
Noncurrent liabilities				
Meter deposits	116,548	37,200	-	153,748
Compensated absences	11,605	6,545	4,866	23,016
Lease payable	35,894	-	-	35,894
Note payable	-	262,439	-	262,439
Net OPEB liability	149,922	111,268	79,080	340,270
Net pension liability	436,512	323,968	230,250	990,730
Total noncurrent liabilities	<u>750,481</u>	<u>741,420</u>	<u>314,196</u>	<u>1,806,097</u>
Total liabilities	<u>959,391</u>	<u>757,371</u>	<u>320,117</u>	<u>2,036,879</u>
Deferred inflows of resources				
Deferred amounts related to OPEB	7,849	5,826	4,140	17,815
Deferred amounts related to pensions	15,239	11,310	8,038	34,587
Total deferred inflows of resources	<u>23,088</u>	<u>17,136</u>	<u>12,178</u>	<u>52,402</u>
NET POSITION				
Net investment in capital assets	1,587,542	1,230,264	2,201,253	5,019,058
Unrestricted	(70,209)	314,204	(174,905)	69,090
Total net position	<u>\$ 1,517,333</u>	<u>\$ 1,544,468</u>	<u>\$ 2,026,348</u>	<u>\$ 5,088,148</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2018

	<u>Gas System</u>	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Operating Revenues				
Charges for services	\$ 1,883,112	\$ 417,097	\$ 260,107	\$ 2,560,316
Miscellaneous revenue	26,573	25,465	6,357	58,395
Total operating revenues	<u>1,909,685</u>	<u>442,562</u>	<u>266,464</u>	<u>2,618,711</u>
Operating Expenses				
Chemicals	-	66,227	2,084	68,311
Depreciation expense	90,026	67,009	111,635	268,670
Education and training	2,505	4,481	236	7,222
Insurance	21,561	12,350	6,288	40,199
Miscellaneous	12,806	7,945	3,656	24,407
Natural gas purchases and transportation	862,596	-	-	862,596
Office supplies	7,581	4,994	2,467	15,042
Professional and legal fees	6,768	5,893	5,350	18,011
Quality testing	-	2,949	13,348	16,297
Repairs and maintenance	63,706	61,834	39,907	165,447
Salaries and benefits	414,576	303,000	220,047	937,623
Telephone	13,936	-	-	13,936
Utilities	29,737	22,218	45,198	97,153
Vehicles expense	10,781	10,389	5,132	26,302
Total operating expenses	<u>1,536,579</u>	<u>569,289</u>	<u>455,348</u>	<u>2,561,216</u>
Operating income (loss)	<u>373,106</u>	<u>(126,727)</u>	<u>(188,884)</u>	<u>57,495</u>
Non-operating Revenues and Expenses				
Interest income	1,012	5,570	520	7,102
Interest expense	(5,857)	(4,923)	-	(10,780)
Total non-operating revenues and expenses	<u>(4,845)</u>	<u>647</u>	<u>520</u>	<u>(3,678)</u>
Income (Loss) Before Capital Contributions and Transfers	368,261	(126,080)	(188,364)	53,817
Transfers in	137,152	54,249	44,373	235,774
Transfers out	(397,953)	(98,088)	(41,756)	(537,797)
Change in Net Position	<u>107,460</u>	<u>(169,919)</u>	<u>(185,747)</u>	<u>(248,206)</u>
Net Position, June 30, 2017	1,518,007	1,795,521	2,266,991	5,580,519
Restatement for Implementation of GASB 75	(108,134)	(81,135)	(54,896)	(244,165)
Net Position, June 30, 2017, restated	<u>1,409,873</u>	<u>1,714,386</u>	<u>2,212,095</u>	<u>5,336,354</u>
Net Position, June 30, 2018	<u>\$ 1,517,333</u>	<u>\$ 1,544,467</u>	<u>\$ 2,026,348</u>	<u>\$ 5,088,148</u>

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2018

	<u>Gas System</u>	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Cash Flows from Operating Activities				
Cash received from customers	\$ 1,901,530	\$ 437,566	\$ 265,255	\$ 2,604,351
Cash payments to suppliers of goods or services	(1,170,294)	(292,392)	(182,027)	(1,644,713)
Cash payments to employees for services	(249,677)	(184,204)	(126,211)	(560,092)
Net cash provided by (used in) operating activities	<u>481,559</u>	<u>(39,030)</u>	<u>(42,983)</u>	<u>399,546</u>
Cash Flows from Noncapital Financing Activities				
Transfers in from other funds	137,152	54,249	44,373	235,774
Transfers to other funds	(397,953)	(98,088)	(41,756)	(537,797)
Net cash provided by (used in) noncapital financing activities	<u>(260,801)</u>	<u>(43,839)</u>	<u>2,617</u>	<u>(302,023)</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	-	(178,868)	(20,126)	(198,994)
Proceeds from capital lease	-	-	-	-
Proceeds from notes payable	-	267,500	-	267,500
Principal paid on capital leases	(30,377)	-	-	(30,377)
Principal paid on notes payable	(5,000)	(115,012)	-	(120,012)
Interest paid on debt	(5,857)	(4,923)	-	(10,780)
Net cash provided by (used in) capital and related financing activities	<u>(41,234)</u>	<u>(31,303)</u>	<u>(20,126)</u>	<u>(92,663)</u>
Cash Flows from Investing Activities				
Interest income	1,012	5,570	520	7,102
Net cash provided by (used in) operating activities	<u>1,012</u>	<u>5,570</u>	<u>520</u>	<u>7,102</u>
Net increase (decrease) in cash and cash equivalents	180,536	(108,602)	(59,972)	11,962
Cash and cash equivalents - beginning	279,164	720,103	76,160	1,075,427
Cash and cash equivalents - ending	<u>\$ 459,700</u>	<u>\$ 611,501</u>	<u>\$ 16,188</u>	<u>\$ 1,087,389</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ 373,106	\$ (126,727)	\$ (188,884)	\$ 57,495
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	90,026	67,009	111,635	268,670
Decrease (increase) in assets				
Accounts receivable	(21,402)	(9,721)	(897)	(32,020)
Inventories	(24,226)	1,303	(535)	(23,458)
Prepaid expenses	(208)	(161)	(113)	(482)
Deferred outflows of resources	(101,200)	(75,297)	(53,473)	(229,970)
Increase (decrease) in liabilities				
Accounts payable	(6,344)	(13,306)	(2,817)	(22,467)
Accrued expenses	595	187	485	1,267
Accrued wages payable	298	21	(312)	7
Unearned revenue	(2,141)	(52)	-	(2,193)
Meter deposits	15,388	4,777	-	20,165
Compensated absences	2,151	1,214	902	4,267
Net OPEB liability	149,922	111,268	79,080	340,270
Net pension liability	(8,612)	(10,017)	4,277	(14,352)
Deferred inflows of resources	14,206	10,472	7,669	32,347
Total Adjustments	<u>108,453</u>	<u>87,697</u>	<u>145,901</u>	<u>342,051</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 481,559</u>	<u>\$ (39,030)</u>	<u>\$ (42,983)</u>	<u>\$ 399,546</u>

See accompanying notes.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

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
JUNE 30, 2018**

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
JUNE 30, 2018**

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
JUNE 30, 2018**

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 \$837 and \$196, 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
JUNE 30, 2018**

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
JUNE 30, 2018**

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.

New Financial Reporting Standards

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. This Statement is effective for the City's fiscal year ended June 30, 2018.

Adoption of this statement had a significant impact on the City's financial position. As a result, the City restated the July 1, 2017 net position in the amount of (\$345,256) as outlined below:

	As Previously		GASB 75
	<u>Reported</u>	<u>As Restated</u>	<u>Adjustment</u>
Statement of Net Position:			
Increase in net OPEB liability	\$ -	\$ (375,701)	\$ (375,701)
Increase in deferred outflows	-	30,445	30,445
Statement of Revenues, Expenses and Changes in Net Position			
Decrease in net position	6,892,396	6,547,140	(345,256)

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018, the reported amount of the City's deposits was \$1,237,556 and the bank balance was \$1,339,234. 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, 2018 consisted of the following:

	Gas System	Water System	Sewer System	Total
Cash	\$ 344,594	\$ 427,852	\$ 16,187	\$ 788,633
Restricted Cash	116,548	183,654	-	300,202
	\$ 461,142	\$ 611,506	\$ 16,187	\$ 1,088,835

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, 2018, the City had sales of \$673,982 (26% of charges for services) to Dal-Tile, a large industrial customer (see Note H).

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE D - CAPITAL ASSETS

Depreciation expense includes \$23,663 in amortization expense for assets purchased under capital leases. Assets purchased under capital lease are as follows

	Cost
Equipment	\$ 7,700
Furniture and fixtures	7,520
Vehicles	158,151
	173,371
Accumulated amortization	(67,020)
Capital assets, net	\$ 106,351

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<u>Governmental Activities</u>				
Capital assets not depreciated:				
Land	\$ 119,452	\$ -	\$ -	\$ 119,452
Total capital assets not depreciated:	119,452	-	-	119,452
Capital assets depreciated:				
Buildings and improvements	1,381,709	-	-	1,381,709
Equipment	312,384	13,041	-	325,425
Land improvements	862,076	17,437	-	879,513
Furniture and fixtures	63,349	-	-	63,349
Vehicles	451,551	-	-	451,551
Total capital assets depreciated	3,071,069	30,478	-	3,101,547
Less accumulated depreciation:				
Buildings and improvements	698,091	34,003	-	732,094
Equipment	225,013	15,747	-	240,760
Land improvements	377,931	43,393	-	421,324
Furniture and fixtures	50,629	1,960	-	52,589
Vehicles	306,288	37,040	-	343,328
Total accumulated depreciation	1,657,952	132,143	-	1,790,095
Total capital assets depreciated, net	1,413,117	(101,665)	-	1,311,452
Total capital assets, net	\$ 1,532,569	\$ (101,665)	\$ -	\$ 1,430,904

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE D - CAPITAL ASSETS (continued)

Business-Type Activities	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not depreciated:				
Land	\$ 292,402	\$ -	\$ -	\$ 292,402
Construction in progress	127,080	-	127,080	-
Total capital assets not depreciated:	<u>419,482</u>	<u>-</u>	<u>127,080</u>	<u>292,402</u>
Capital assets depreciated:				
Distribution/collection systems	9,070,964	305,948	-	9,376,912
Equipment	772,951	20,126	-	793,077
Furniture and fixtures	71,805	-	-	71,805
Improvements	8,209	-	-	8,209
Vehicles	215,109	-	-	215,109
Total capital assets depreciated	<u>10,139,038</u>	<u>326,074</u>	<u>-</u>	<u>10,465,112</u>
Less accumulated depreciation:				
Distribution/collection systems	4,340,048	207,189	-	4,547,237
Equipment	451,530	43,022	-	494,552
Furniture and fixtures	67,706	1,137	-	68,843
Improvements	4,831	697	-	5,528
Vehicles	177,274	16,625	-	193,899
Total accumulated depreciation	<u>5,041,389</u>	<u>268,670</u>	<u>-</u>	<u>5,310,059</u>
Total capital assets depreciated, net	<u>5,097,649</u>	<u>57,404</u>	<u>-</u>	<u>5,155,053</u>
Total capital assets, net	<u>\$ 5,517,131</u>	<u>\$ 57,404</u>	<u>\$ 127,080</u>	<u>\$ 5,447,455</u>

NOTE E - 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 \$.209 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 \$140,000. During the year ended June 30, 2018 the Gas System paid the General Fund \$140,000 for this purpose and the amount was recorded as a transfer.

NOTE F - 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, 2018, will not materially affect the financial condition of the City. Therefore, there are no provisions for estimated claims.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE G - 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 H – LONG-TERM LIABILITIES

Changes in noncurrent liabilities, including current portions, for the year ended June 30, 2018 were as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>Due in One Year</u>
<u>Governmental Activities</u>					
Compensated absences	\$ 63,295	\$ 14,072	\$ (10,846)	\$ 66,521	\$ -
Lease payable	28,162	-	(9,893)	18,269	10,320
Net pension liability	315,040	177,069	(88,230)	403,879	-
Net OPEB liability	110,005	45,990	(17,281)	138,714	-
Total	<u>\$ 406,497</u>	<u>\$ 191,141</u>	<u>\$ (108,969)</u>	<u>\$ 488,669</u>	<u>\$ 10,320</u>
<u>Business-Type Activities</u>					
Meter deposits	\$ 133,583	\$ 32,200	\$ (12,035)	\$ 153,748	\$ -
Compensated absences	16,075	7,870	(929)	23,016	-
Lease payable	94,938	-	(28,935)	66,003	30,109
Note payable	109,951	157,549	(5,061)	262,439	-
Net pension liability	760,917	434,041	(204,228)	990,730	-
Net OPEB liability	265,696	112,816	(38,242)	340,270	-
Total	<u>\$ 1,381,160</u>	<u>\$ 744,476</u>	<u>\$ (251,188)</u>	<u>\$ 1,836,206</u>	<u>\$ 30,109</u>

Compensated absences and net pension and OPEB liabilities 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 – Note Payable

During 2017, the City's Water Fund obtained financing from the Kentucky Infrastructure authority to finance a construction project for the sandblasting, re-coating, chlorinating and painting the interior of a 200,000 gallon water tank in Lewisport, Kentucky. The total amount of the construction note is \$267,500 and bears an interest rate of 2.75% for 20 years. As of June 30, 2018, the balance is 262,439.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE H – LONG-TERM LIABILITIES (continued)

Debt Service Requirements – Note Payable (continued)

Future payments on the note payable are as follows:

Year Ending June 30	Business- type Activities
2019	\$ 10,332
2020	10,618
2021	10,912
2022	11,214
Thereafter	219,363
	<u>\$ 262,439</u>

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, 2018 is as follows:

	Year Ending June 30	Governmental Activities	Business-type Activities
	2019	10,816	37,029
	2020	10,816	37,029
	2021	-	9,762
	2022	-	407
Future Minimum Payments		21,632	84,227
Less Interest		(3,363)	(18,224)
Present Value of Future Minimum Payments		<u>\$ 18,269</u>	<u>\$ 66,003</u>

NOTE I - 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.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

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, 2018.

NOTE J - 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, 2018, 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, 2018, participating employers contributed 19.18% (14.48% pension and 4.70% insurance) of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2018, were 19.18%. Administrative costs of KRS are financed through employer contributions and investment earnings.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - RETIREMENT PLAN (continued)

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.

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, 2018, the City reported a liability of \$1,394,609 for its proportionate share of the net pension liability for CERS. The net pension liability was measured as of June 30, 2017, 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, 2016 through June 30, 2017. At June 30, 2017, the City's proportion was 0.023826%.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - RETIREMENT PLAN (continued)

For the year ended June 30, 2018, the City recognized pension expense of \$246,505 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	\$ 1,730	\$ -
Net difference between projected and actual investment earnings on pension plan investments	17,249	35,401
Changes of assumption	257,343	-
Changes in proportion and differences between City contributions and proportional share of contributions	59,925	13,285
City contributions subsequent to the measurement date	88,709	-
	\$ 424,956	\$ 48,686

The \$88,709 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, 2018. Other amounts reported as deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2019	\$ 119,831
2020	126,869
2021	58,769
2022	(17,908)
2023	-
	\$ 287,561

Actuarial Methods and Assumptions – The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2017 using the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - RETIREMENT PLAN (continued)

The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2017 using the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 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.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - RETIREMENT PLAN (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	<u>100%</u>	<u>5.80%</u>

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. 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, 2018, is based on the June 30, 2017 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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE J - RETIREMENT PLAN (continued)

	1% Decrease 5.25%	Current Discount 6.25%	1% Increase 7.25%
City's proportionate share of the net pension liability	\$ 1,758,903	\$ 1,394,609	\$ 1,089,880

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.

NOTE K – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the Pension Plan

Plan description. Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502)564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Contributions. Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2018 was 4.70% of covered payroll. Contributions to the Insurance Fund from the City were \$28,794 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is 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).

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$478,984 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2017, the City's proportion was 0.023826%.

For the year ended June 30, 2018, the City recognized OPEB expense of \$54,582. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,330
Net difference between projected and actual investment earnings on pension plan investments	-	22,637
Changes of assumption	104,224	-
Changes in proportion and differences between City contributions and proportional share of contributions	-	1,111
City contributions subsequent to the measurement date	34,648	-
	\$ 138,872	\$ 25,078

Of the total amount reported as deferred outflows of resources related to OPEB, \$34,678 resulted from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows

Year Ending June 30	Amount
2019	\$ 13,618
2020	13,618
2021	13,618
2022	13,618
2023	19,277
Thereafter	<u>5,397</u>
	<u>\$ 79,146</u>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified:

Inflation	3.25 percent
Salary increases	4.00 percent, average
Investment rate of return	7.50 percent
Healthcare cost trend rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to (Pre- an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females).

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of July 1, 2008 through June 30, 2013.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study 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

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE K – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

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 (See chart below.). 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 assumptions are intended to be long-term assumptions and are 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.

NOTE K – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	7.63%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	<u>6.50%</u>	<u>100%</u>

Discount rate. The discount rate used to measure the total OPEB liability was 5.84%. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017).

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the collective net OPEB liability as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.84%) or 1 percentage point higher (6.84%) than the current discount rate:

	1% Decrease 4.84%	Current Discount 5.84%	1% Increase 6.84%
City's proportionate share of the net OPEB liability	\$ 609,481	\$ 478,984	\$ 370,390

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS financial report.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE L - 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>
Gas	General	\$ 161,098	Allocated expenses
Gas	General	140,000	In lieu
Sewer	General	1,377	Allocated expenses
Water	General	1,315	Allocated expenses
Water	Gas	96,774	Allocated expenses
Sewer	Gas	40,379	Allocated expenses
Gas	Water	52,482	Allocated expenses
Gas	Sewer	44,374	Allocated expenses
General	Water	1,767	Allocated expenses

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	\$ 35,338
Total Restricted	<u>35,338</u>
Assigned:	
Municipal improvements	17,163
Heritage Festival	7,304
Total Assigned	<u>24,467</u>
Unassigned	<u>65,739</u>

NOTE N – SHORT TERM NOTE PAYABLE

Gas System

The City has a short-term note payable at a local bank. The maturity date of this loan is June 30, 2019 and bears an interest rate of 2.56%. 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 \$93,714 and \$25,980. As of June 30, 2018 the balance of the note payable was \$99,955.

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 \$110,505 for utility services.

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

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE P - GRANTS AND DONATIONS

For the year ended June 30, 2018 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 Q – SUBSEQUENT EVENTS

The City evaluated subsequent events through April 18, 2019, 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, 2018. There were no subsequent events identified requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEWISPORT, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		(Unfavorable)
Revenues				
Property taxes	\$ 117,800	\$ 109,500	\$ 128,401	\$ 18,901
Franchise taxes	19,500	23,100	24,878	1,778
Intergovernmental:				
State grants	15,450	18,900	20,534	1,634
County grants	60,000	60,000	60,000	-
State highway grants	30,000	30,000	33,687	3,687
Local government economic assistance	6,000	9,500	5,618	(3,882)
HB413 revenue	6,000	5,000	5,320	320
Investment earnings	-	-	84	84
Miscellaneous	18,667	32,670	51,881	19,211
Total revenues	<u>273,417</u>	<u>288,670</u>	<u>330,403</u>	<u>41,733</u>
Expenditures				
Current:				
General government	223,050	211,915	203,423	8,492
Public safety	183,750	197,500	273,808	(76,308)
Highways and streets	23,500	30,500	28,027	2,473
Planning and zoning	10,000	10,000	10,000	-
Culture and recreation	32,700	36,130	61,422	(25,292)
Debt service:				
Principal	-	-	9,894	(9,894)
Interest	-	-	1,058	(1,058)
Capital outlay	-	-	30,478	(30,478)
Total expenditures	<u>473,000</u>	<u>486,045</u>	<u>618,110</u>	<u>(132,065)</u>
Deficit of revenues over expenditures	<u>(199,583)</u>	<u>(197,375)</u>	<u>(287,707)</u>	<u>(90,332)</u>
Other Financing Sources (Uses)				
Proceeds from disposal of capital assets	-	-	-	-
Transfers in	220,000	210,943	303,790	92,847
Transfers out	-	-	(1,767)	(1,767)
Total other financing sources (uses)	<u>220,000</u>	<u>210,943</u>	<u>302,023</u>	<u>91,080</u>
Deficit of revenues and other financing sources over expenditures and other financing uses	<u>20,417</u>	<u>13,568</u>	<u>14,316</u>	<u>748</u>
Fund balance, June 30, 2017	<u>111,228</u>	<u>111,228</u>	<u>111,228</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 131,645</u>	<u>\$ 124,796</u>	<u>\$ 125,544</u>	<u>\$ 748</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM				
<u>Non-Hazardous</u>				
City's proportion of the net pension liability	0.023826%	0.021850%	0.224100%	0.023274%
City's proportionate share of the net pension liability	\$ 1,394,609	\$ 1,075,957	\$ 963,626	\$ 755,000
City's covered employee-payroll	\$ 570,065	\$ 532,311	\$ 522,912	\$ 533,942
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	244.64%	202.13%	184.28%	141.40%
Plan fiduciary net position as a percentage of the total pension liability	53.33%	55.50%	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***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM				
<u>Non-Hazardous</u>				
Contractually required contribution	\$ 88,709	\$ 79,524	\$ 90,812	\$ 92,399
Contributions in relation of the contractually required contribution	<u>(88,709)</u>	<u>(79,524)</u>	<u>(90,812)</u>	<u>(92,399)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 612,631	\$ 570,065	\$ 532,311	\$ 522,912
Contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%

* 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 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 LAST 10 FISCAL YEARS***

	2018
COUNTY EMPLOYEES RETIREMENT SYSTEM	
<u>Non-Hazardous</u>	
City's proportion of the net OPEB liability	0.023826%
City's proportionate share of the net OPEB liability	\$ 478,984
City's covered employee-payroll	\$ 570,065
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	84.02%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

Notes:

- 1) The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.
- 2) This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

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

	2018
COUNTY EMPLOYEES RETIREMENT SYSTEM	
<u>Non-Hazardous</u>	
Statutorily required contribution	\$ 28,794
Contributions in relation of the statutorily required contribution	(28,794)
Contribution deficiency (excess)	\$ -
City's contributions as a percentage of statutorily required contribution	100%
City's covered-employee payroll	\$ 612,631
Contributions as a percentage of covered- employee payroll	4.70%

Note:

- 1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, City is presenting information for those years for which information is available.

CITY OF LEWISPORT, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2018

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 C - CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

NOTE D – CHANGES OF ASSUMPTIONS

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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. 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 assumed rates of Retirement, Withdrawal were updated to more accurately reflect experience.

CITY OF LEWISPORT, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2018

NOTE D – CHANGES OF ASSUMPTIONS (continued)

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been rest as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contributions rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, included inflation

2017

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated .

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 (2018-001, 2018-002, and 2018-003).

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Alipada & Company CPAs PSC

Owensboro, Kentucky
April 18, 2019

**CITY OF LEWISPORT, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001 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, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

2018-002 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, 2018**

FINDINGS – FINANCIAL STATEMENT AUDIT

2018-003 Material Weakness:

Maintain Utility Deposit Records

Condition: The City has not reconciled the utility meter deposit records 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 completed their review of the manual cards and are in process of assessing each deposit not assigned to an account. The staff has also entered the majority of the cards into the software so that they are one step closer to being able to reconcile the deposits. We believe the deposits will be reconciled and reported accurately by the next audit.