

CITY OF LEWISPORT, KENTUCKY
FINANCIAL STATEMENTS
AND
ACCOMPANYING INFORMATION
JUNE 30, 2020

CITY OF LEWISPORT, KENTUCKY
Contents
June 30, 2020

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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, 2020, 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

The City did not report donated property in the governmental activities in accordance with GASB 72, which states it is required to be reported at acquisition value. The amount by which the departure would affect assets, net position and revenues of the governmental activities has not been determined.

We were not able to perform sufficient tests and procedures on donated property in the General Fund, and 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 governmental activities, business-type activities and the proprietary funds of the City of Lewisport, Kentucky as of June 30, 2020, 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 fund of the City of Lewisport, Kentucky as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 33 and the pension and OPEB schedules on pages 34–37 and notes to required supplementary information on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2021 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.

Alfred A. Company, CPA, PSC

Owensboro, Kentucky
April 15, 2021

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2020

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 149,475 | \$ 858,576 | \$ 1,008,051 |
| Receivables, net: | | | |
| Taxes | 2,306 | - | 2,306 |
| Accounts - trade | - | 113,559 | 113,559 |
| Miscellaneous | 48,644 | - | 48,644 |
| Inventories | - | 77,880 | 77,880 |
| Prepaid expenses | 5,371 | 24,834 | 30,205 |
| Total current assets | 205,796 | 1,074,849 | 1,280,645 |
| Noncurrent Assets | | | |
| Restricted cash | - | 173,473 | 173,473 |
| Capital assets: | | | |
| Land and construction in progress | 120,552 | 317,902 | 438,454 |
| Other capital assets, net of depreciation | 1,380,411 | 5,421,536 | 6,801,947 |
| Total noncurrent assets | 1,500,963 | 5,912,911 | 7,413,874 |
| Total assets | 1,706,759 | 6,987,760 | 8,694,519 |
| Deferred Outflows of Resources | | | |
| Debt issuance cost, net of amortization | - | 5,290 | 5,290 |
| Deferred amounts related to OPEB | 49,286 | 113,350 | 162,636 |
| Deferred amounts related to pensions | 106,858 | 250,657 | 357,515 |
| Total deferred outflows of resources | 156,144 | 369,297 | 525,441 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | 3,353 | 91,894 | 95,247 |
| Accrued expenses | - | 3,719 | 3,719 |
| Accrued wages payable | 24,123 | 15,416 | 39,539 |
| Unearned revenue | 5,000 | 10,241 | 15,241 |
| Lease payable | 6,368 | 24,729 | 31,097 |
| Notes payable | - | 10,912 | 10,912 |
| Total current liabilities | 38,844 | 156,911 | 195,755 |
| Noncurrent Liabilities | | | |
| Meter deposits | - | 163,050 | 163,050 |
| Compensated absences | 73,755 | 30,240 | 103,995 |
| Lease payable | 17,050 | 180,000 | 197,050 |
| Note payable | - | 262,698 | 262,698 |
| Net OPEB liability | 122,478 | 269,331 | 391,809 |
| Net pension liability | 512,279 | 1,126,491 | 1,638,770 |
| Total noncurrent liabilities | 725,562 | 2,031,810 | 2,757,372 |
| Total liabilities | 764,406 | 2,188,721 | 2,953,127 |
| Deferred Inflows of Resources | | | |
| Deferred inflows-intergovernmental receivable | 45,825 | - | 45,825 |
| Deferred amounts related to OPEB | 49,832 | 109,580 | 159,412 |
| Deferred amounts related to pensions | 26,684 | 58,679 | 85,363 |
| Total deferred inflows of resources | 122,341 | 168,259 | 290,600 |
| NET POSITION | | | |
| Net investment in capital assets | 1,477,545 | 5,255,600 | 6,733,145 |
| Restricted | 26,839 | - | 26,839 |
| Unrestricted | (528,228) | (255,523) | (783,751) |
| Total net position | \$ 976,156 | \$ 5,000,077 | \$ 5,976,233 |

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

| 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 | \$ 256,698 | \$ - | 62,727 | \$ - | \$ (193,971) | \$ - | \$ (193,971) |
| Public safety | 373,818 | 475 | 34,263 | - | (339,080) | - | (339,080) |
| Highways and streets | 8,805 | - | - | 36,007 | 27,202 | - | 27,202 |
| Planning and zoning | 10,000 | - | - | - | (10,000) | - | (10,000) |
| Culture and recreation | 24,156 | - | - | - | (24,156) | - | (24,156) |
| Interest expense | 130 | - | - | - | (130) | - | (130) |
| Depreciation unallocated | 116,095 | - | - | - | (116,095) | - | (116,095) |
| Total governmental activities | 789,702 | 475 | 96,990 | 36,007 | (656,230) | - | (656,230) |
| Business-type Activities | | | | | | | |
| Gas | 1,372,809 | 1,676,106 | - | - | - | 303,297 | 303,297 |
| Water | 594,447 | 514,012 | - | - | - | (80,435) | (80,435) |
| Sewer | 481,649 | 303,257 | - | - | - | (178,392) | (178,392) |
| Total business-type activities | 2,448,905 | 2,493,375 | - | - | - | 44,470 | 44,470 |
| Total Primary Government | \$ 3,238,607 | \$ 2,493,850 | \$ 96,990 | \$ 36,007 | (656,230) | 44,470 | (611,760) |
| General Revenues | | | | | | | |
| Property taxes | | | | | 135,539 | - | 135,539 |
| Franchise taxes | | | | | 23,629 | - | 23,629 |
| Interest income | | | | | 162 | 7,618 | 7,780 |
| Miscellaneous | | | | | 41,185 | - | 41,185 |
| Gain on disposal of capital assets | | | | | (13,734) | - | (13,734) |
| Transfers | | | | | 456,040 | (456,040) | - |
| Total General Revenues and Transfers | | | | | 642,821 | (448,422) | 194,399 |
| Changes in Net Position | | | | | (13,409) | (403,952) | (417,361) |
| Net Position - Beginning of Year | | | | | 989,565 | 5,404,029 | 6,393,594 |
| Net Position - End of Year | | | | | \$ 976,156 | \$ 5,000,077 | \$ 5,976,233 |

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2020

| | <u>General Fund</u> |
|---|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 149,475 |
| Receivables: | |
| Taxes, net | 2,306 |
| Miscellaneous | 48,644 |
| Prepaid expenses | <u>5,371</u> |
| Total assets | <u><u>\$ 205,796</u></u> |
| LIABILITIES AND FUND BALANCES | |
| Liabilities | |
| Accounts payable | \$ 3,353 |
| Accrued wages | 24,123 |
| Unearned revenue | <u>50,825</u> |
| Total liabilities | <u>78,301</u> |
| Fund balance | |
| Restricted | 26,839 |
| Assigned | 52,756 |
| Unassigned | <u>47,900</u> |
| Total fund balances | <u>127,495</u> |
| Total liabilities and fund balance | <u><u>\$ 205,796</u></u> |

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2020

| | | |
|--|--|------------|
| Total Governmental Fund Balance | | \$ 127,495 |
|--|--|------------|

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 | 3,520,737 | |
| Accumulated depreciation | <u>(2,019,774)</u> | 1,500,963 |

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 | 106,858 | |
| Deferred inflows of resources | <u>(26,684)</u> | 80,174 |

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 | 49,286 | |
| Deferred inflows of resources | <u>(49,832)</u> | (546) |

Certain liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.

| | | |
|-----------------------|------------------|------------------|
| Compensated absences | (73,755) | |
| Lease payable | (23,418) | |
| Net OPEB liability | (122,478) | |
| Net pension liability | <u>(512,279)</u> | <u>(731,930)</u> |

| | | |
|--|--|--------------------------|
| Total Net Position of Governmental Activities | | \$ <u>976,156</u> |
|--|--|--------------------------|

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
June 30, 2020

| | <u>General Fund</u> |
|---|---------------------------------|
| Revenues | |
| Property taxes | \$ 135,539 |
| Franchise taxes | 23,629 |
| Intergovernmental: | |
| State grants | 30,463 |
| County grants | 60,000 |
| State highway grants | 36,007 |
| Local government economic assistance | 1,833 |
| HB413 revenue | 4,694 |
| Interest income | 162 |
| Miscellaneous | 39,308 |
| Total revenues | <u>331,635</u> |
| Expenditures | |
| Current: | |
| General government | 225,304 |
| Public safety | 286,725 |
| Highways and streets | 8,805 |
| Planning and zoning | 10,000 |
| Culture and recreation | 24,156 |
| Debt service: | |
| Principal | 7,982 |
| Interest | 130 |
| Capital outlay | 225,124 |
| Total expenditures | <u>788,226</u> |
| Deficiency of revenues over expenditures | <u>(456,591)</u> |
| Other Financing Sources (Uses) | |
| Lease proceeds | 26,510 |
| Transfers in | 464,174 |
| Transfers out | (8,134) |
| Total other financing sources (uses) | <u>482,550</u> |
| Change in fund balance | 25,959 |
| Fund balance, June 30, 2019 | <u>101,536</u> |
| Fund balance, June 30, 2020 | <u><u>\$ 127,495</u></u> |

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, 2020

| | | |
|---|----|--------|
| Change in Fund Balance - Governmental Fund | \$ | 25,959 |
|---|----|--------|

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 | 225,124 | | |
| Depreciation expense | <u>(116,095)</u> | | 109,029 |

In the statement of activities, only the gain on the sale of assets is reported., whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold

| | | | |
|--|----------|--|----------|
| | (13,734) | | (13,734) |
|--|----------|--|----------|

Capital leases provide 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 | (26,520) | | |
| Payments on capital lease | <u>11,074</u> | | (15,446) |

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 | (101,078) | | |
| Pension expense | <u>(13,583)</u> | | (114,661) |

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.

| | | | |
|--------------------------------|----------------|--|----------------|
| Change in compensated absences | <u>(4,556)</u> | | <u>(4,556)</u> |
|--------------------------------|----------------|--|----------------|

| | | |
|--|----|------------------------|
| Change in Net Position of Governmental Activities | \$ | <u><u>(13,409)</u></u> |
|--|----|------------------------|

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2020

| | <u>Gas System</u> | <u>Water System</u> | <u>Sewer System</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|---------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 333,780 | \$ 554,579 | \$ (29,783) | \$ 858,576 |
| Receivables: | | | | |
| Trade | 40,682 | 43,758 | 29,119 | 113,559 |
| Inventories | 32,549 | 28,484 | 16,847 | 77,880 |
| Prepaid expenses | 13,863 | 6,369 | 4,602 | 24,834 |
| Total current assets | <u>420,874</u> | <u>633,190</u> | <u>20,785</u> | <u>1,074,849</u> |
| Noncurrent assets | | | | |
| Restricted cash | 136,933 | 36,540 | - | 173,473 |
| Capital assets: | | | | |
| Land and construction in progress | 208,137 | 101,005 | 8,760 | 317,902 |
| Other capital assets, net of depreciation | 1,426,394 | 1,311,957 | 2,683,185 | 5,421,536 |
| Total noncurrent assets | <u>1,771,464</u> | <u>1,449,502</u> | <u>2,691,945</u> | <u>5,912,911</u> |
| Total assets | <u>2,192,338</u> | <u>2,082,692</u> | <u>2,712,730</u> | <u>6,987,760</u> |
| Deferred outflows of resources | | | | |
| Debt issuance costs, net of amortization | 5,290 | - | - | 5,290 |
| Deferred amounts related to OPEB | 50,885 | 36,554 | 25,911 | 113,350 |
| Deferred amounts related to pensions | 112,721 | 80,803 | 57,133 | 250,657 |
| Total deferred outflows of resources | <u>168,896</u> | <u>117,357</u> | <u>83,044</u> | <u>369,297</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | 51,860 | 26,499 | 13,535 | 91,894 |
| Accrued expenses | 1,807 | 1,912 | - | 3,719 |
| Accrued wages payable | 6,633 | 4,785 | 3,998 | 15,416 |
| Unearned revenue | 9,547 | 500 | 194 | 10,241 |
| Lease payable | 24,729 | - | - | 24,729 |
| Note payable | - | 10,912 | - | 10,912 |
| Total current liabilities | <u>94,576</u> | <u>44,608</u> | <u>17,727</u> | <u>156,911</u> |
| Noncurrent liabilities | | | | |
| Meter deposits | 126,510 | 36,540 | - | 163,050 |
| Compensated absences | 15,248 | 8,599 | 6,393 | 30,240 |
| Lease payable | 180,000 | - | - | 180,000 |
| Note payable | - | 230,578 | 32,120 | 262,698 |
| Net OPEB liability | 120,404 | 86,942 | 61,985 | 269,331 |
| Net pension liability | 503,595 | 363,643 | 259,253 | 1,126,491 |
| Total noncurrent liabilities | <u>945,757</u> | <u>726,302</u> | <u>359,751</u> | <u>2,031,810</u> |
| Total liabilities | <u>1,040,333</u> | <u>770,910</u> | <u>377,478</u> | <u>2,188,721</u> |
| Deferred inflows of resources | | | | |
| Deferred amounts related to OPEB | 48,988 | 35,373 | 25,219 | 109,580 |
| Deferred amounts related to pensions | 26,234 | 18,941 | 13,504 | 58,679 |
| Total deferred inflows of resources | <u>75,222</u> | <u>54,314</u> | <u>38,723</u> | <u>168,259</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 1,429,802 | 1,171,473 | 2,654,325 | 5,255,600 |
| Unrestricted | (184,123) | 203,352 | (274,752) | (255,523) |
| Total net position | <u>\$ 1,245,679</u> | <u>\$ 1,374,825</u> | <u>\$ 2,379,573</u> | <u>\$ 5,000,077</u> |

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2020

| | <u>Gas System</u> | <u>Water System</u> | <u>Sewer System</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|---------------------|
| Operating Revenues | | | | |
| Charges for services | \$ 1,666,392 | \$ 488,114 | \$ 298,892 | \$ 2,453,398 |
| Miscellaneous revenue | 9,714 | 25,898 | 4,365 | 39,977 |
| Total operating revenues | <u>1,676,106</u> | <u>514,012</u> | <u>303,257</u> | <u>2,493,375</u> |
| Operating Expenses | | | | |
| Chemicals | - | 67,336 | 1,311 | 68,647 |
| Depreciation expense | 76,488 | 68,837 | 137,388 | 282,713 |
| Education and training | 6,168 | 5,144 | - | 11,312 |
| Insurance | 21,507 | 12,320 | 6,272 | 40,099 |
| Miscellaneous | 14,734 | 8,864 | 4,389 | 27,987 |
| Natural gas purchases and transportation | 682,527 | - | - | 682,527 |
| Office supplies | 8,116 | 5,110 | 2,524 | 15,750 |
| Professional and legal fees | 6,425 | 6,425 | 5,331 | 18,181 |
| Quality testing | - | 6,374 | 16,891 | 23,265 |
| Repairs and maintenance | 79,657 | 94,910 | 40,045 | 214,612 |
| Salaries and benefits | 415,358 | 276,928 | 215,390 | 907,676 |
| Telephone | 14,154 | - | - | 14,154 |
| Utilities | 33,052 | 25,071 | 47,282 | 105,405 |
| Vehicles expense | 9,058 | 9,769 | 4,826 | 23,653 |
| Total operating expenses | <u>1,367,244</u> | <u>587,088</u> | <u>481,649</u> | <u>2,435,981</u> |
| Operating income (loss) | <u>308,862</u> | <u>(73,076)</u> | <u>(178,392)</u> | <u>57,394</u> |
| Non-operating Revenues and Expenses | | | | |
| Interest income | 1,524 | 6,071 | 23 | 7,618 |
| Interest expense | (5,565) | (7,359) | - | (12,924) |
| Total non-operating revenues and expenses | <u>(4,041)</u> | <u>(1,288)</u> | <u>23</u> | <u>(5,306)</u> |
| Income (Loss) Before Capital Contributions and Transfers | <u>304,821</u> | <u>(74,364)</u> | <u>(178,369)</u> | <u>52,088</u> |
| Transfers in | <u>18,076</u> | <u>61,425</u> | <u>47,765</u> | <u>127,266</u> |
| Transfers out | <u>(539,247)</u> | <u>(24,426)</u> | <u>(19,633)</u> | <u>(583,306)</u> |
| Change in Net Position | <u>(216,350)</u> | <u>(37,365)</u> | <u>(150,237)</u> | <u>(403,952)</u> |
| Net Position, June 30, 2019 | <u>1,462,029</u> | <u>1,412,190</u> | <u>2,529,810</u> | <u>5,404,029</u> |
| Net Position, June 30, 2020 | <u>\$ 1,245,679</u> | <u>\$ 1,374,825</u> | <u>\$ 2,379,573</u> | <u>\$ 5,000,077</u> |

See accompanying notes.

CITY OF LEWISPORT, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2020

| | Gas System | Water System | Sewer System | Total |
|---|-------------------|---------------------|---------------------|---------------------|
| Cash Flows from Operating Activities | | | | |
| Cash received from customers | \$ 1,675,841 | \$ 517,152 | \$ 305,535 | \$ 2,498,528 |
| Cash payments to suppliers of goods or services | (902,842) | (222,155) | (118,396) | (1,243,393) |
| Cash payments to employees for services | (416,223) | (268,387) | (194,125) | (878,735) |
| Net cash provided by (used in) operating activities | 356,776 | 26,610 | (6,986) | 376,400 |
| Cash Flows from Noncapital Financing Activities | | | | |
| Transfers in from other funds | 18,076 | 61,425 | 47,765 | 127,266 |
| Transfers to other funds | (539,247) | (24,426) | (19,633) | (583,306) |
| Net cash provided by (used in) noncapital financing activities | (521,171) | 36,999 | 28,132 | (456,040) |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Acquisition and construction of capital assets | (17,950) | (48,970) | (43,037) | (109,957) |
| Proceeds from capital lease | 205,000 | - | - | 205,000 |
| Proceeds from notes payable | 32,120 | - | 32,120 | 64,240 |
| Principal paid on capital leases | (29,897) | - | - | (29,897) |
| Principal paid on notes payable | (97,500) | (10,766) | - | (108,266) |
| Interest paid on debt | (5,565) | (7,359) | - | (12,924) |
| Net cash provided by (used in) capital and related financing activities | 86,208 | (67,095) | (10,917) | 8,196 |
| Cash Flows from Investing Activities | | | | |
| Interest income | 1,524 | 6,071 | 23 | 7,618 |
| Net cash provided by (used in) operating activities | 1,524 | 6,071 | 23 | 7,618 |
| Net increase (decrease) in cash and cash equivalents | (76,663) | 2,585 | 10,252 | (63,826) |
| Cash and cash equivalents - beginning | 547,376 | 588,534 | (40,035) | 1,095,875 |
| Cash and cash equivalents - ending | \$ 470,713 | \$ 591,119 | \$ (29,783) | \$ 1,032,049 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | | | | |
| Operating income (loss) | \$ 308,862 | \$ (73,076) | \$ (178,392) | \$ 57,394 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | |
| Depreciation | 76,488 | 68,837 | 137,388 | 282,713 |
| Decrease (increase) in assets | | | | |
| Accounts receivable | (10,496) | 2,224 | 2,202 | (6,070) |
| Inventories | 4,163 | - | - | 4,163 |
| Prepaid expenses | (6,049) | (553) | (400) | (7,002) |
| Deferred outflows of resources | (12,957) | (676) | (3,996) | (17,629) |
| Increase (decrease) in liabilities | | | | |
| Accounts payable | (20,828) | 19,822 | 10,875 | 9,869 |
| Accrued expenses | 560 | (101) | 1,373 | 1,832 |
| Accrued wages payable | 1,335 | 1,182 | 76 | 2,593 |
| Unearned revenue | (4) | (139) | - | (143) |
| Meter deposits | 10,235 | 1,055 | - | 11,290 |
| Compensated absences | 3,002 | 1,693 | 1,258 | 5,953 |
| Net OPEB liability | (19,148) | (18,776) | (8,362) | (46,286) |
| Net pension liability | (13,566) | 992 | 17,937 | 5,363 |
| Deferred inflows of resources | 35,179 | 24,126 | 13,055 | 72,360 |
| Total Adjustments | 47,914 | 99,686 | 171,406 | 319,006 |
| Net Cash Provided by (Used in) Operating Activities | \$ 356,776 | \$ 26,610 | \$ (6,986) | \$ 376,400 |

See accompanying notes.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

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 mayor-council 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, 2020**

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, 2020**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and Investments

The City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash.

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, 2020**

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 \$485 and \$13,021, 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 net realizable value, 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, 2020**

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 and OPEB in the Statement of Net Position in this category. Deferred amounts related to pensions and OPEB include pension and OPEB contributions made during the current fiscal year but applicable to a future measurement period of the net pension and OPEB 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 and OPEB in the Statement of Net Position in this category.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions and Other Postemployment Benefits ("OPEB")

For the purpose of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB and pension expense and OPEB, information about the fiduciary net position of the County Employees Retirement System (CERS) of the Kentucky Retirement System (KRS), have been determined on the same basis as they are reported by KRS for the CERS Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms of the CERS Plan of Kentucky.

NOTE B - DEPOSITS 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, 2020, the reported amount of the City's deposits was \$1,181,524 and the bank balance was \$1,219,359. 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, 2020 consisted of the following:

| | Gas System | Water System | Sewer System | Total |
|-----------------|-------------------|-------------------|--------------------|---------------------|
| Cash | \$ 333,780 | \$ 554,579 | \$ (29,783) | \$ 858,576 |
| Restricted Cash | 136,933 | 36,540 | - | 173,473 |
| | <u>\$ 470,713</u> | <u>\$ 591,119</u> | <u>\$ (29,783)</u> | <u>\$ 1,032,049</u> |

NOTE C - CONCENTRATION OF CREDIT RISK

The City operates and grants credit to customers in Lewisport, Kentucky, located in Western Kentucky. The region is highly dependent on aluminum and farming production. One financial instrument that potentially subjects the City to credit risk is accounts receivable. Accounts receivable are not collateralized. During the year ended June 30, 2020, the City had sales of \$601,333 (36% 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, 2020

NOTE D - CAPITAL ASSETS

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

| | Balance July 1, 2019 | Additions | Deletions | Balance June 30, 2020 |
|--|-------------------------|--------------|-----------|--------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 120,552 | \$ - | \$ - | \$ 120,552 |
| Construction in progress | - | - | - | - |
| Total capital assets not depreciated: | 120,552 | - | - | 120,552 |
| Capital assets depreciated: | | | | |
| Buildings and improvements | 1,416,709 | 165,443 | - | 1,582,152 |
| Equipment | 338,699 | 8,817 | - | 347,516 |
| Land improvements | 915,113 | 31,947 | - | 947,060 |
| Furniture and fixtures | 71,980 | - | 2,221 | 69,759 |
| Vehicles | 451,551 | 27,118 | 24,970 | 453,699 |
| Total capital assets depreciated | 3,194,052 | 233,325 | 27,191 | 3,400,186 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 766,613 | 36,231 | - | 802,844 |
| Equipment | 257,409 | 18,286 | - | 275,695 |
| Land improvements | 465,092 | 45,279 | - | 510,371 |
| Furniture and fixtures | 55,196 | 2,823 | 2,221 | 55,798 |
| Vehicles | 372,827 | 13,476 | 11,236 | 375,067 |
| Total accumulated depreciation | 1,917,137 | 116,095 | 13,457 | 2,019,775 |
| Total capital assets depreciated, net | 1,276,915 | 117,230 | 13,734 | 1,380,411 |
| Total capital assets, net | \$ 1,397,467 | \$ 117,230 | \$ 13,734 | \$ 1,500,963 |
| <u>Business-Type Activities</u> | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 292,402 | \$ 20,000 | \$ - | \$ 312,402 |
| Construction in progress | - | 5,500 | - | 5,500 |
| Total capital assets not depreciated: | 292,402 | 25,500 | - | 317,902 |
| Capital assets depreciated: | | | | |
| Distribution/collection systems | 10,005,193 | 67,848 | - | 10,073,041 |
| Equipment | 761,059 | 8,302 | - | 769,361 |
| Furniture and fixtures | 70,743 | 19,270 | 30,130 | 59,883 |
| Improvements | 8,208 | - | - | 8,208 |
| Vehicles | 215,109 | - | - | 215,109 |
| Total capital assets depreciated | 11,060,312 | 95,420 | 30,130 | 11,125,602 |
| Less accumulated depreciation: | | | | |
| Distribution/collection systems | 4,703,573 | 233,722 | - | 4,937,295 |
| Equipment | 469,729 | 36,688 | - | 506,416 |
| Furniture and fixtures | 68,416 | 1,964 | 30,130 | 40,250 |
| Improvements | 6,226 | 697 | - | 6,921 |
| Vehicles | 203,541 | 9,642 | - | 213,183 |
| Total accumulated depreciation | 5,451,485 | 282,712 | 30,130 | 5,704,064 |
| Total capital assets depreciated, net | 5,608,827 | (187,292) | - | 5,421,536 |
| Total capital assets, net | \$ 5,901,228 | \$ (161,792) | \$ - | \$ 5,739,438 |

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

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 \$.204 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, 2020 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, 2020, will not materially affect the financial condition of the City. Therefore, there are no provisions for estimated claims.

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, 2020 were as follows:

| | July 1, 2019 | Additions | Reductions | June 30, 2020 | Due in One Year |
|--|---------------------|-------------------|---------------------|---------------------|--------------------|
| <u>Governmental Activities</u> | | | | | |
| Compensated absences | \$ 69,199 | \$ 15,893 | \$ (11,337) | \$ 73,755 | \$ - |
| Lease payable | 7,982 | 26,510 | (11,074) | 23,418 | 6,368 |
| Net pension liability | 422,717 | 211,650 | (122,088) | 512,279 | - |
| Net OPEB liability | 123,228 | 83,177 | (83,927) | 122,478 | - |
| Total | <u>\$ 623,126</u> | <u>\$ 337,230</u> | <u>\$ (228,426)</u> | <u>\$ 731,930</u> | <u>\$ 6,368</u> |
| <u>Business-Type Activities</u> | | | | | |
| Meter deposits | \$ 151,760 | \$ 33,500 | \$ (22,210) | \$ 163,050 | \$ - |
| Compensated absences | 24,287 | 21,779 | (15,826) | 30,240 | - |
| Lease payable | 35,949 | 205,000 | (36,220) | 204,729 | 24,729 |
| Note payable | 252,108 | 32,120 | (10,618) | 273,610 | 10,912 |
| Net pension liability | 1,082,685 | 339,035 | (295,229) | 1,126,491 | - |
| Net OPEB liability | 315,617 | 148,290 | (194,576) | 269,331 | - |
| Total | <u>\$ 1,862,406</u> | <u>\$ 779,724</u> | <u>\$ (574,679)</u> | <u>\$ 2,067,451</u> | <u>\$ 35,641</u> |

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE H – LONG-TERM LIABILITIES (continued)

Compensated absences, 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 – Notes 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, 2020, the balance is 241,490. Future payments on the note payable are as follows:

| Year Ending 30-Jun | Business-type Activities |
|-----------------------|-----------------------------|
| 2021 | 11,214 |
| 2022 | 11,214 |
| 2023 | 11,524 |
| 2024 | 11,843 |
| Thereafter | 195,695 |
| | <u>\$241,490</u> |

On April 23, 2020, the City signed a construction note payable with the Kentucky Infrastructure Authority for a sewer project. The note has an interest rate of 2.75% and a maximum balance of \$100,000. The project is still in the construction phase. Loan payment is each June 1 and December 1 and commences June 1, 2021. As of June 30, 2020, the balance is \$32,120. The payment will be based on the timing and final cost.

Debt Service Requirements – Lease Payable

Capital leases included in governmental activities includes a capital lease of a fire truck and a police cruiser. Capital leases for business-type activities includes the lease of two police cruisers and a general obligation lease for park improvements. The schedule of future minimum lease payments on the capital lease as of June 30, 2020 is as follows:

| Year Ending June 30 | Governmental Activities | Business-type Activities |
|---|----------------------------|-----------------------------|
| 2021 | 7,169 | 29,831 |
| 2022 | 7,169 | 24,907 |
| 2023 | 7,169 | 24,050 |
| 2024 | 3,584 | 23,600 |
| 2025 | - | 23,150 |
| 2026 | - | 27,700 |
| 2027 | - | 27,138 |
| 2028 | - | 26,575 |
| 2029 | - | 26,012 |
| Future Minimum Payments | 25,090 | 232,963 |
| Less Interest | (1,672) | (28,234) |
| Present Value of Future Minimum Payments | <u>\$ 23,418</u> | <u>\$ 204,729</u> |

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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 unit) and pays market rate for gas purchases.

In August 2008 the City signed an agreement to sell natural gas to Dal-Tile, the City's largest industrial customer accounting for a significant portion of the City's gas revenue (see Note C). 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. During the year, Dal-Tile closed permanently. The letter of credit was allowed to expire prior to year end.

NOTE J - RETIREMENT PLAN

Defined Benefit Plan

Plan Description – All full-time employees of City of Calhoun, Kentucky 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 year ended June 30, 2020, 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 year ended

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE J - RETIREMENT PLAN (continued)

Defined Benefit Plan (continued)

June 30, 2020, participating employers contributed 19.3%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. 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.

The City's total payroll for the years ended June 30, 2020 was \$660,933 and the payroll for employees covered under CERS was \$619,256. The contribution requirement for CERS, for the year ended June 30, 2020 was \$150,471 which consisted of \$119,509 from the City and \$30,962 from the employees, respectively.

The City has met 100% of its contribution funding requirement for the fiscal year ended June 30, 2020.

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

At June 30, 2020, the City reported a liability of \$1,638,770 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE J - RETIREMENT PLAN (continued)

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

The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. As of June 30, 2020, the City's proportion was .0023301 percent, a decrease from .0024718 percent in the prior year.

For the year ended June 30, 2020, the City recognized pension expense of \$173,800 for CERS. At June 30, 2020 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 | \$ 41,843 | \$ 6,924 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 26,418 |
| Changes of assumption | 165,862 | - |
| Changes in proportion and differences between City contributions and proportional share of contributions | 30,301 | 52,021 |
| City contributions subsequent to the measurement date | 119,509 | - |
| | <u>\$ 357,515</u> | <u>\$ 85,363</u> |

The \$119,509 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, 2020. Other amounts reported as deferred inflows related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | Amount |
|------------------------|-------------------|
| 2021 | \$ 117,517 |
| 2022 | 25,331 |
| 2023 | 7,922 |
| 2024 | 1,873 |
| 2025 | - |
| | <u>\$ 152,643</u> |

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE J - RETIREMENT PLAN (continued)

Actuarial Methods and Assumptions – The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2019 using the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions

The total pension liability for KRS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2019, used 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 | 25 years |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 2.30% |
| Salary Increase | 3.05%, average, including inflation |
| Investment Rate of Return | 6.25%, 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.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE J - RETIREMENT PLAN (continued)

Actuarial Methods and Assumptions (Continued)

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

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|----------------------|---|
| US Equity | 18.75% | 4.30% |
| Non-US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 2.60% |
| Core Bonds | 13.50% | 1.35% |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |
| Cash Equivalent | 1.00% | 0.02% |
| | <u>100%</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 6.25%. 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 Outflows and Inflows, 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, 2020, is based on the June 30, 2019, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization.

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.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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 | \$ 2,049,636 | \$ 1,638,770 | \$ 1,296,317 |

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)

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 Statute 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 be 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.

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, 2020 was 4.76% of covered payroll. Contributions to the Insurance Fund from the City were \$28,794 for the year ended June 30, 2020. 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).

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

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

At June 30, 2020, the City reported a liability of \$391,811 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019 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 2019. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2019, the City's proportion was 0.023295%, a decrease from 0.024717% the prior year.

For the year ended June 30, 2020, the City recognized OPEB expense of \$20,447. At June 30, 2020, 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 | \$ - | \$ 118,219 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 17,402 |
| Changes of assumption | 115,941 | 775 |
| Changes in proportion and differences between City contributions and proportional share of contributions | 8,807 | 23,016 |
| City contributions subsequent to the measurement date | <u>37,888</u> | <u>-</u> |
| | <u>\$ 162,636</u> | <u>\$ 159,412</u> |

Of the total amount reported as deferred outflows of resources related to OPEB, \$ 37,888 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, 2020.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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 |
|---------------------------|--------------------|
| 2020 | \$ (5,314) |
| 2021 | (5,314) |
| 2022 | 219 |
| 2023 | (10,375) |
| 2024 | (11,377) |
| Thereafter | (2,503)) |
| | <u>\$ (34,664)</u> |

Actuarial Assumptions

The total other postemployment benefits plan ("OPEB") was determined by an actuarial valuation as of June 30, 2017 rolled forward to 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--------------|
| Price inflation | 2.30 percent |
| Payroll growth rate | 2.00 percent |
| Salary increases | 3.05 percent |
| Investment rate of return | 6.25 percent |

Healthcare Trend Rates (Pre - 65) Initial trend starting at 7.00 percent at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 12 years.

Healthcare Trend Rates (Post - 65) Initial trend starting at 5.00 percent at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05 percent over a period of 10 years.

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

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

Discount rate assumptions:

(a) Discount Rate: The discount rate used to measure the total OPEB liability was 5.85% which was increased from 5.84% discount rate used in the prior year.

(b) Projected Cash Flows: The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability.

(c) Long-Term Rate of Return: The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

(d) Municipal Bond Rate: The discount rate determination used a municipal bond rate of 3.62% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

(e) Period of Projected Benefit Payments: Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

(f) Assumed Asset Allocations: The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|----------------------|---|
| US Equity | 18.75% | 4.30% |
| Non-US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 2.60% |
| Core Bonds | 13.50% | 1.35% |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |
| Cash Equivalent | 1.00% | 0.02% |
| | <u>100%</u> | |

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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

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 (4.85%) or 1 percentage point higher (6.85%) than the current discount rate:

| | <u>1% Decrease 4.85%</u> | <u>Current Discount 5.85%</u> | <u>1% Increase 6.85%</u> |
|---|----------------------------------|---------------------------------------|------------------------------|
| City's proportionate share of the net OPEB liability | \$ 524,866 | \$ 391,811 | \$ 282,183 |

The following presents the Bureau's allocated portion of the net OPEB liability of the System, calculated using the healthcare cost trend rate of percent, as well as what the Bureau's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | <u>1% Decrease</u> | <u>Current Healthcare Cost Trend Rate</u> | <u>1% Increase</u> |
|--------------------|------------------------|---|--------------------|
| Net OPEB liability | \$ 291,392 | \$ 391,811 | \$ 513,582 |

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

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 | \$ 314,483 | Allocated expenses |
| Gas | General | 140,000 | In lieu |
| Sewer | General | 9,690 | Allocated expenses |
| General | Gas | 8,134 | Allocated expenses |
| Water | Sewer | 24,426 | Allocated expenses |
| Gas | Water | 61,426 | Allocated expenses |
| Gas | Sewer | 23,339 | Allocated expenses |
| Sewer | Gas | 9,942 | Allocated expenses |

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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 | \$ 26,839 |
| Total Restricted | <u>26,839</u> |
| Assigned: | |
| Municipal improvements | 29,517 |
| Heritage Festival | <u>23,239</u> |
| Total Assigned | <u>52,756</u> |
| Unassigned | <u>47,900</u> |
| Total Fund Balance | <u>\$ 127,495</u> |

NOTE N - 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 \$130,595 for utility services.

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

NOTE O - GRANTS AND DONATIONS

For the year ended June 30, 2020 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 P - COVID-19 IMPACTS

On January 30, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. Later, on March 11, 2020, the World Health Organization made the assessment that COVID-19 was a global health pandemic. Measures taken by federal, state, and local officials to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of nonessential services have triggered significant disruptions to businesses, resulting in an economic slowdown. On March 16, 2020, The Kentucky Public Service Council ordered all utilities under its jurisdiction to suspend until further notice all disconnections for nonpayment, as well as late payment fees, in order to provide relief for customers during the COVID-19 pandemic. This City has complied with this order.

**CITY OF LEWISPORT, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE Q – SUBSEQUENT EVENTS

COVID-19

The global outbreak of COVID-19 continues to rapidly evolve, and the ultimate impact of the pandemic is highly uncertain. While the City expects that the COVID-19 outbreak may adversely impact the City's cash flow in fiscal year 2021, the City cannot at this time accurately predict the full extent to which the COVID-19 outbreak will affect the City's finances and operations. The City continues to monitor developments and the directives of federal, state and local officials to determine what additional precautions and procedures need to be implemented by the City.

The moratorium on disconnections expired on November 6, 2020, but the City has been urged by the state to work with customers to prevent disconnection.

COVID-related Grant

On August 17, 2020, the City was granted a COVID-19 Relief Fund Grant for up to \$121,881. This grant is to reimburse the City for certain expenses incurred during the COVID 19 pandemic.

MuniGas Plan

On August 24, 2020, the City was moved to a prepayment plan with the MuniGas. This plan calls for the prepayment of two months average volume of gas. The terms require settlement every month thereafter.

Letter of Credit.

On September 16, 2020, the City was released from the Letter of Credit related to Municipal Gas Acquisition.

On October 15, 2020, the city approved installing a ten percent insurance premium tax, with expected revenues to begin in fiscal year 2022.

The City evaluated subsequent events through April 15, 2021, 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, 2020. 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, 2020

| | Budgeted Amounts | | Actual | Variance with |
|---|-------------------|-------------------|-------------------|--|
| | Original | Final | (Budgetary Basis) | Final Budget Favorable (Unfavorable) |
| Revenues | | | | |
| Property taxes | \$ 118,600 | \$ 118,600 | \$ 135,539 | \$ 16,939 |
| Franchise taxes | 18,600 | 18,600 | 23,629 | 5,029 |
| Intergovernmental: | | | | |
| State grants | 57,100 | 57,100 | 30,463 | (26,637) |
| County grants | 50,000 | 50,000 | 60,000 | 10,000 |
| State highway grants | 30,000 | 30,000 | 36,007 | 6,007 |
| Local government economic assistance | 5,500 | 5,500 | 1,833 | (3,667) |
| HB413 revenue | 6,250 | 6,250 | 4,694 | (1,556) |
| Investment earnings | - | - | 162 | 162 |
| Miscellaneous | 198,750 | 198,750 | 39,308 | (159,442) |
| Total revenues | <u>484,800</u> | <u>484,800</u> | <u>331,635</u> | <u>(153,165)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 310,400 | 310,400 | 225,304 | 85,096 |
| Public safety | 200,600 | 200,600 | 286,725 | (86,125) |
| Highways and streets | 32,000 | 32,000 | 8,805 | 23,195 |
| Planning and zoning | 10,000 | 10,000 | 10,000 | - |
| Culture and recreation | 89,750 | 89,750 | 119,191 | (29,441) |
| Debt service: | | | | |
| Principal | - | - | 7,982 | (7,982) |
| Interest | - | - | 130 | (130) |
| Capital outlay | - | - | 130,089 | (130,089) |
| Total expenditures | <u>642,750</u> | <u>642,750</u> | <u>788,226</u> | <u>(145,476)</u> |
| Deficit of revenues over expenditures | <u>(157,950)</u> | <u>(157,950)</u> | <u>(456,591)</u> | <u>(298,641)</u> |
| Other Financing Sources (Uses) | | | | |
| Loan proceeds | - | - | 26,510 | 26,510 |
| Transfers in | 158,000 | 158,000 | 464,174 | 306,174 |
| Transfers out | - | - | (8,134) | (8,134) |
| Total other financing sources (uses) | <u>158,000</u> | <u>158,000</u> | <u>482,550</u> | <u>298,040</u> |
| Deficit of revenues and other financing sources over expenditures and other financing uses | <u>50</u> | <u>50</u> | <u>25,959</u> | <u>25,909</u> |
| Fund balance, June 30, 2018 | <u>101,536</u> | <u>101,536</u> | <u>101,536</u> | <u>-</u> |
| Fund balance, June 30, 2019 | <u>\$ 101,586</u> | <u>\$ 101,586</u> | <u>\$ 127,495</u> | <u>\$ 25,909</u> |

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

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------------|--------------|--------------|--------------|------------|------------|
| COUNTY EMPLOYEES RETIREMENT SYSTEM | | | | | | |
| <u>Non-Hazardous</u> | | | | | | |
| City's proportion of the net pension liability | 0.023301% | 0.024718% | 0.023826% | 0.021850% | 0.224100% | 0.023274% |
| City's proportionate share of the net pension liability | \$ 1,638,770 | \$ 1,505,402 | \$ 1,394,609 | \$ 1,075,957 | \$ 963,626 | \$ 755,000 |
| City's covered employee-payroll | \$ 587,738 | \$ 612,631 | \$ 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 | 278.83% | 245.73% | 244.64% | 202.13% | 184.28% | 141.40% |
| Plan fiduciary net position as a percentage of the total pension liability | 50.45% | 53.34% | 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>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| COUNTY EMPLOYEES RETIREMENT SYSTEM | | | | | | |
| <u>Non-Hazardous</u> | | | | | | |
| Contractually required contribution | \$ 119,509 | \$ 95,315 | \$ 88,709 | \$ 79,524 | \$ 90,812 | \$ 92,399 |
| Contributions in relation of the contractually required contribution | <u>(119,509)</u> | <u>(95,315)</u> | <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> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 619,256 | \$ 587,738 | \$ 612,631 | \$ 570,065 | \$ 532,311 | \$ 522,912 |
| Contributions as a percentage of covered- employee payroll | 19.30% | 16.22% | 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***

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|-------------|
| COUNTY EMPLOYEES RETIREMENT SYSTEM | | | |
| <u>Non-Hazardous</u> | | | |
| City's proportion of the net OPEB liability | 0.023295% | 0.024717% | 0.023826% |
| City's proportionate share of the net OPEB liability | \$ 391,811 | \$ 438,845 | \$ 478,984 |
| City's covered employee-payroll | \$ 587,738 | \$ 612,631 | \$ 570,065 |
| City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 66.66% | 71.63% | 84.02% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 65.26% | 57.62% | 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***

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|-----------------|-----------------|-----------------|
| COUNTY EMPLOYEES RETIREMENT SYSTEM | | | |
| <u>Non-Hazardous</u> | | | |
| Statutorily required contribution | \$ 30,915 | \$ 30,931 | \$ 28,794 |
| Contributions in relation of the statutorily required contribution | <u>(30,915)</u> | <u>(30,931)</u> | <u>(28,794)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's contributions as a percentage of statutorily required contribution | 100% | 100% | 100% |
| City's covered-employee payroll | \$619,256 | \$587,738 | \$ 612,631 |
| Contributions as a percentage of covered- employee payroll | 4.76% | 5.26% | 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
REQUIRED SUPPLEMENTAL INFORMATION
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2020**

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 IN BENEFIT TERMS

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

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates.
2. New retirement eligibility requirements.
3. Different rules for the computation of final average compensation.

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

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%.

**CITY OF LEWISPORT, KENTUCKY
REQUIRED SUPPLEMENTAL INFORMATION
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2020**

NOTE D – CHANGES OF ASSUMPTIONS

- 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.

2017:

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

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.

Changes in Assumptions and Benefit Terms from 2018-2019: During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from the 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.



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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 15, 2021.

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) as a basis for designing 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 as items 2020-001, 2020-002, and 2020-003 that we consider to be material weaknesses.

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 Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Altitude & Company CPAs PSC

Owensboro, Kentucky
April 15, 2021

**CITY OF LEWISPORT, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020**

FINDINGS – FINANCIAL STATEMENT AUDIT

2020-001 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, 2020**

FINDINGS – FINANCIAL STATEMENT AUDIT

2020-002 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, 2020**

FINDINGS – FINANCIAL STATEMENT AUDIT

2020-003 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. During the year, the older deposits were entered into the system. Neither the original manual cards, nor the electronic record has been reconciled to general ledger. Deposits for inactive accounts where the owner cannot be located have not been turned over to the state.

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: 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.