

CUSTOMER NOTICE

City of Lancaster ("Lancaster") is providing notice that it plans to file with the Public Service Commission, on or before December 6, 2023, to increase its wholesale water rate to Garrard County Water Association, Inc. ("Garrard County") effective for water service on and after January 11, 2024 and then on and after January 1 of the next two years. The proposed rates are as follows:

Effective January 11, 2024

WHOLESALE WATER RATES IN THOUSAND GALLONS						
Previous		New		Difference		
First 325,000,000 Gallons Minimum Annual Purchase	\$ 2.49	First 325,000,000 Gallons Minimum Annual Purchase	\$ 2.91	\$ 0.42	16.87%	
All Over 325,000,000 Gallons Annual Purchase	\$ 1.40	All Over 325,000,000 Gallons Annual Purchase	\$ 1.64	\$ 0.24	17.14%	

Effective January 1, 2025

WHOLESALE WATER RATES IN THOUSAND GALLONS						
Previous		New		Difference		
First 325,000,000 Gallons Minimum Annual Purchase	\$ 2.91	First 325,000,000 Gallons Minimum Annual Purchase	\$ 3.40	\$ 0.49	16.84%	
All Over 325,000,000 Gallons Annual Purchase	\$ 1.64	All Over 325,000,000 Gallons Annual Purchase	\$ 1.92	\$ 0.28	17.07%	

Effective January 1, 2026

WHOLESALE WATER RATES IN THOUSAND GALLONS						
Previous		New		Difference		
First 325,000,000 Gallons Minimum Annual Purchase	\$ 3.40	First 325,000,000 Gallons Minimum Annual Purchase	\$ 3.97	\$ 0.57	16.76%	
All Over 325,000,000 Gallons Annual Purchase	\$ 1.92	All Over 325,000,000 Gallons Annual Purchase	\$ 2.24	\$ 0.32	16.67%	

Garrard County purchased 356,889 thousand gallons of water from Lancaster during the Test Year (FYE June 30, 2023). Its average monthly purchases were 29,741 thousand gallons of which 27,083 thousand gallons were at \$2.49 per thousand gallons and 2,658 thousand gallons were at \$1.40 per thousand gallons. Under the current rates, Garrard County's average monthly bill was \$71,157.88. Under the proposed rate effective January 11, 2024, Garrard County's average monthly bill will be \$83,170.66, for an increase of \$12,012.78 per month or 16.88%. Under the proposed rate effective January 1, 2025, Garrard County's average monthly bill will be \$97,185.57, for an increase of \$14,014.91 per month or 16.85%. Under the proposed rate effective January 1, 2026, Garrard County's average monthly bill will be \$113,473.45, for an increase of \$16,287.87 per month or 16.76%.

Water flowing through the meters before the effective date will be charged at the current rate while water flowing through the meters on and after the effective date will be charged at the new rate.

This filing may be examined at the office of Lancaster located at 308 Maple Avenue, Lancaster, Kentucky 40444. Please contact Mayor Michael Gaffney at (859) 792-22241 regarding any questions related to the proposed rate.

The filing may also be examined at the offices of the Public Service Commission located at 211 Sower Boulevard in Frankfort, Kentucky, Monday-Friday from 8:00 am - 4:30 pm or on the Commission website at <http://psc.ky.gov>.

Comments regarding this filing may be submitted by mail to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602; or through its website at <http://psc.ky.gov>.

The new rates are the rates proposed by Lancaster in its filing, but the Public Service Commission may order rates that differ from the proposed rates contained in this Customer Notice.

Intervention by Garrard County or another person with a substantial interest may be requested by submitting a timely written request for intervention by mail to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602. The request for intervention must establish the grounds for the request including the status and interest of the party.

If the Public Service Commission does not receive a written request prior to the effective date of the proposed rate, the Public Service Commission may take final action on the proposed rate.

AREA Garrard County Water Association, Inc.

PSC KY NO. _____

3rd Revised SHEET NO. 1

CANCELLING PSC KY NO. _____

2nd Revised SHEET NO. 1

City of Lancaster
(NAME OF UTILITY)

RATES AND CHARGES

Monthly Wholesale Water Rate: Garrard County Water Association, Inc.
Per paragraphs 3B-D, 9, 11 and 12 of the Water Purchase Agreement dated October 3, 2017
(Agreement):

Effective on and after January 11, 2024

First 325,000,000 gallons minimum annual purchase \$2.91 per 1,000 gallons* (I)
All Over 325,000,000 gallons \$1.64 per 1,000 gallons** (I)

Effective on and after January 1, 2025

First 325,000,000 gallons minimum annual purchase \$3.40 per 1,000 gallons* (I)
All Over 325,000,000 gallons \$1.92 per 1,000 gallons** (I)

Effective on and after January 1, 2026

First 325,000,000 gallons minimum annual purchase \$3.97 per 1,000 gallons* (I)
All Over 325,000,000 gallons \$2.24 per 1,000 gallons** (I)

*If purchases are less than 325,000,000 gallons in any annual period, Garrard County Water Association shall be billed for any deficit in accordance with paragraphs 3C and 3D of the Agreement.

**If purchases are more than 325,000,000 gallons in any annual period, the excess amount shall be billed in accordance with paragraph 3C and 12 of the Agreement at the reduced rate above.

NOTE: In addition to the volumetric wholesale rate expressed above, GCWA shall also pay the KRA withdrawal fees shown on tariff sheet Number 2.

DATE OF ISSUE December 6, 2023
MONTH / DATE / YEAR

DATE EFFECTIVE January 11, 2024
MONTH / DATE / YEAR

ISSUED BY 
SIGNATURE OF OFFICER

TITLE Mayor

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. _____ DATED _____

**CITY OF LANCASTER, KENTUCKY
AUDITED FINANCIAL STATEMENTS**

JUNE 30, 2021

**KERBAUGH, RODES & BUTLER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
DANVILLE, KENTUCKY**

**CITY OF LANCASTER, KENTUCKY
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Kentucky (the City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, historical pension information, and historical other post-employment benefit information on pages 3 through 8 and 39 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
January 27, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021**

The management team for the City of Lancaster (the City) presents this narrative to help our readers review the accompanying annual financial statements for the year ended June 30, 2021. We have prepared this overview and analysis of the City's financial activities to add additional information to the financial schedules and the note disclosures. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

FINANCIAL HIGHLIGHTS

- As of June 30, 2021 the City's Assets (page 9) exceeded liabilities by \$6,792,590. This amount includes \$1,309,124 of resources that are restricted to specific projects by laws, regulations, or contractual agreements. The City has an unrestricted deficit net position of (\$3,550,845) as of June 30, 2021, primarily related to the City's net pension and other post-employment benefit liabilities and related deferrals.
- Unrestricted cash and investment balances (page 9) as of June 30, 2021 were \$1,219,545 and current liabilities payable from unrestricted resources were \$2,246,440.
- Net position increased by \$1,392,680 (page 10).
- Fund balances (A measure of current financial resources) in the governmental funds decreased \$109,852 to \$144,160 (page 13). Of this amount \$109,140 (page 11) is unassigned and available for future programs, \$34,129 is restricted to use for municipal road aid expenditures, and \$891 is committed to use for planning and zoning activities.
- The general fund unassigned fund balance (page 11), as of June 30, 2021 was \$109,140 or about 5% of total general fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the City's basic financial statements. Basic financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide additional information that our readers can use to analyze our finances.

Government-wide financial statements - The government-wide financial statements are designed to provide our readers with an overview of the City's finances, presenting all funds in a more simplified format. This section is similar to financial reporting used by commercial entities.

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as transactions occur, regardless of when the related cash flows are reported. Therefore, some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods.

Government-wide statements are separated into two major categories: 1) *governmental activities* that are principally supported by taxes and intergovernmental revenues, and 2) *business-type activities* that are supported with user fees and charges. Governmental activities include administrative functions, streets, police, fire, recreation and community programs. Business-type activities include the water fund and the sewer fund.

The government-wide statements are found on pages 9 and 10 of this report.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021**

Fund financial statements - Funds are used in governmental accounting to separate resources that are designated for specific programs or activities. The City, like other state and local governments uses fund accounting to demonstrate compliance with the laws, regulations, and contractual agreements that establish the authority for the City's programs and services. Governments use three types of funds: governmental, proprietary, and fiduciary funds.

Governmental funds – Funds are used to account for the City's basic services, the same services that are included in the governmental activities on the government-wide statements. However, the information in the fund statements is measured differently. Governmental funds focus on current financial resources rather than economic resources. Therefore, the statements include the short-term resources, such as cash, investments, receivables that will be collected in the next few months, and liabilities that will be retired with these monies. This information is important for assessing the City's current financial resources.

The reconciliation in the fund statements explains the difference between the governmental funds in the fund statements and the governmental activities found in the government-wide financial statements. These reconciliations are presented on pages 12 and 14 in the fund statements. These reconciliations will explain the adjustments necessary to add the long-term resources and liabilities for the government-wide statements to the current picture presented in the fund statements.

The City maintains three individual governmental funds. Major governmental funds include the General Fund and Municipal Road Aid Fund. The Municipal Road Aid Fund is presented as a major fund this year because it includes significant grant funding from the Commonwealth of Kentucky that provided critical resources for our community.

The larger funds are presented on pages 11 and 13 as major funds. The governmental fund statements include a balance sheet and statement of revenues, expenditures, and changes in fund balances.

The City adopts budgets for all funds in accordance with Kentucky Revised Statutes Section 91A.030. The budgetary comparison for the General Fund and Municipal Road Aid Fund are presented on pages 39 and 40.

Proprietary funds - The City's proprietary funds include two enterprise funds. The enterprise funds include operations for the water utility and the sewer utility. The water and sewer funds are presented as major funds on pages 15 through 18.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements - Notes provide additional information that is essential to a full understanding of the information included in the financial schedules. Notes provide additional details about the balances and transactions in the City's financial statements and are presented on pages 19 through 38.

Other information - The last section of this report includes supplementary information. *Required supplementary Information* must be included to conform to generally accepted accounting principles. The budgetary comparisons for the General and Municipal Road Aid Fund, the Management's Discussion and Analysis, the net pension liability information, and the net other post-employment benefit information are classified as *required supplementary information*.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021**

Government-Wide Financial Analysis

The first statement in the government-wide statements is the Statement of Net Position. The following table summarizes the Statement of Net Position (page 9).

Net Position of Governmental and Business-type Activities (in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 526	\$ 625	\$ 3,890	\$ 2,048	\$ 4,416	\$ 2,673
Capital assets	1,530	1,525	19,952	13,358	21,482	14,883
Total assets	2,056	2,150	23,842	15,406	25,898	17,556
Deferred outflows of resources	955	943	727	690	1,682	1,633
Long-term debt outstanding	-	100	12,448	7,847	12,448	7,947
Net pension liability	2,514	2,162	1,544	1,328	4,058	3,490
Net OPEB liability	812	568	454	304	1,266	872
Other liabilities	367	354	2,331	655	2,698	1,009
Total liabilities	3,693	3,184	16,777	10,134	20,470	13,318
Deferred inflows of resources	196	315	122	156	318	471
Net position:						
Invested in capital assets, net						
of related debt	1,530	1,425	7,504	5,511	9,034	6,936
Restricted	34	151	1,275	1,367	1,309	1,518
Unrestricted (deficit)	(2,442)	(1,982)	(1,109)	(1,072)	(3,551)	(3,054)
Total Net Position	\$ (878)	\$ (406)	\$ 7,670	\$ 5,806	\$ 6,792	\$ 5,400

By far the largest portion of the City's net position (133%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. \$1,309,124 of the City's net position (page 9) are restricted to comply with provisions of various laws, regulations, and contractual agreements. Restricted funds in the business-type activities reflect the reserves required by the water and sewer bonds and loan covenants.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021**

The second statement in the government-wide statements is the Statement of Activities. The following table outlines the major components of this statement.

Change in Net Position of Governmental and Business-type Activities (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 531	\$ 549	\$ 2,465	\$ 2,333	\$ 2,996	\$ 2,882
Operating grants and contributions	298	321	2,267	-	2,565	321
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	487	413	-	-	487	413
License fees and permits	926	892	-	-	926	892
Fines and forfeitures	75	24	-	-	75	24
Interest and investment earnings	1	1	8	7	9	8
Miscellaneous	38	33	88	49	126	82
Sale of asset-gain	24	39	-	-	24	39
Total Revenues	2,380	2,272	4,828	2,389	7,208	4,661
Program Expenses:						
General Government	901	801	-	-	901	801
Public Safety	1,830	1,764	-	-	1,830	1,764
Public Services	191	149	-	-	191	149
Water	-	-	2,076	2,221	2,076	2,221
Sewer system	-	-	817	738	817	738
Interest expense	-	-	-	-	-	-
Total Expenses	2,922	2,714	2,893	2,959	5,815	5,673
Excess (deficiency) before transfers and special items	(542)	(442)	1,935	(570)	1,393	(1,012)
Transfers	70	-	(70)	-	-	-
Increase (decrease) in net position	\$ (472)	\$ (442)	\$ 1,865	\$ (570)	\$ 1,393	\$ (1,012)

Governmental services in the amount of \$1,413,550 are financed with taxes, license fees, and interest earnings.

Governmental activities decreased the City's net position by \$471,971. This is primarily the result of pension and OPEB expense recognized during 2021 for the change in liabilities and related deferrals (\$463,763).

Business-type activities increased the City's net position by \$1,864,651. This increase is primarily related to capital grants of \$2,266,688 for the City's water treatment plant and sewer upgrades projects. This increase is net of depreciation expense of \$450,299 (a non-cash item).

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021**

Financial Analysis of the Government's Funds

The fund statements present the City's financial information in a more detailed format, but there are other differences as well. Fund statements provide important information about the City's compliance with laws and regulations that define the local government environment in Kentucky. The measurement principles in the governmental fund statements are also different than the government-wide statements. Fund statements focus on current resources, while the government-wide statements present the long-term view.

Governmental funds - Financial information for the City's governmental funds is summarized on pages 11 and 13. Governmental fund balances decreased \$109,852.

Proprietary funds - The fund statements for the proprietary funds look much like the business-type activities in the government-wide statements. Proprietary fund financial information is measured with the same principles used by commercial enterprises, so this information does not change from the fund statements to the government-wide statements.

General Fund Budgetary Highlights

Budgetary comparison schedules include information about both the original budget and the amended budget. Generally, budgets are amended to add projects that were not anticipated when the budget was first adopted. Revenue budgets are usually estimated lower to allow budgetary flexibility for additional projects. There were no budget amendments in the general fund during the current year.

Capital Asset and Debt Administration

The City invests substantial resources in capital assets that support the services provided to the public. All of the City's outstanding bonds have been used to acquire or construct capital assets.

Capital Assets

The City's capital assets, net of accumulated depreciation are summarized below:

City of Lancaster, Kentucky Capital Assets (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 69,300	\$ 79,643	\$ 148,943
Plant buildings and maintenance	1,184,977	7,141,717	8,326,694
Equipment and vehicles	275,978	212,443	488,421
Construction in progress	-	12,517,831	12,517,831
Total	\$ 1,530,255	\$ 19,951,634	\$ 21,481,889

The increase in the City's capital assets is the result of multiple construction projects ongoing during the year. See Note L related to the ongoing projects.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021**

Long-Term Debt

The principal outstanding on the City's long-term debt is summarized in the following table.

	Governmental Activities	Business-type Activities	Total
Series 2009 Revenue Bonds-Water	\$	\$ 818,500	\$ 818,500
Series 2010 Revenue Bonds-Water		1,383,500	1,383,500
Series 2019A Revenue Bonds-Water		4,437,000	4,437,000
KLC Bonds - Water		725,242	725,242
KLC Bonds - Sewer		525,175	525,175
KIA Loan - Sewer B08-02		190,662	190,662
KIA Loan - Sewer B16-013		176,078	176,078
KIA Loan - Water F18-007		2,987,242	2,987,242
Whitaker Bank - Interim Financing-Sewer		1,204,179	1,204,179
Total	<u>\$ -</u>	<u>\$ 12,447,578</u>	<u>\$ 12,447,578</u>

The City refinanced a KIA loan of \$314,000 with interim financing with Whitaker Bank. The City also refinanced Kentucky Rural Water Finance Corporation interim financing with the proceeds from Series 2019A bonds in the amount of \$4,500,000. The City also paid off a note payable with a local bank to finance the remodel of the police building. In addition, the City's KIA Loan for the water plant project increased \$3,987,242, but the loan included \$1,000,000 of principal forgiveness. In addition, interim financing on the sewer upgrades project increased \$1,204,179. Outstanding debt increased \$4,600,899 resulting from the new debt issued described above and current year scheduled principal payments.

Economic Factors and Next Year's Budget

The City currently has two large project commitments outstanding as of June 30, 2021. A discussion of these commitments can be found at footnote L on page 37 of the financial statements.

The City's management assesses the financial health of the City's funds on an ongoing basis and will continue to do so going forward. The most significant economic factors identified by the City's management that will have a direct adverse effect on the financial condition of the City next year and beyond are the continued increases in retirement rates mandated by the state related to the hazardous and non-hazardous duty employees. The rates are expected to continue to increase at a significant pace and will make it necessary for management to allocate the necessary funds to meet these higher retirement costs in the future. The funded status of the CERS plan will have a significant impact on the required contributions and the City's proportionate share of the net pension and OPEB liabilities. House Bill 362 passed during the 2018 legislative session caps the CERS employer contribution rate increases to 12 percent per year over the prior fiscal year through 2028.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Mayor or City Clerk's Office, 308 West Maple Avenue, Lancaster, KY 40444, telephone number (859) 792-2241.

BASIC FINANCIAL STATEMENTS

CITY OF LANCASTER, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 301,901	\$ 652,077	\$ 953,978
Investments (certificates of deposit)	34,351	231,216	265,567
Receivables, net of allowance:			
Taxes	97,842		97,842
Customer accounts	35,180	225,070	260,250
Grants	-	219,301	219,301
Other receivables	42,681		42,681
Prepaid expenses	13,530	12,810	26,340
Restricted assets:			
Cash and cash equivalents		2,295,285	2,295,285
Investments (certificates of deposit)		255,012	255,012
Capital assets not being depreciated:			
Land	69,300	79,643	148,943
Construction in progress		12,517,831	12,517,831
Other capital assets	2,594,467	19,717,481	22,311,948
Less: accumulated depreciation	(1,133,512)	(12,363,321)	(13,496,833)
Total assets	<u>2,055,740</u>	<u>23,842,405</u>	<u>25,898,145</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>955,300</u>	<u>727,227</u>	<u>1,682,527</u>
LIABILITIES			
Accounts payable	242,064	97,493	339,557
Accounts payable - contractors		1,677,308	1,677,308
Accrued expenses	39,800	8,063	47,863
Customer deposits		132,056	132,056
Accrued interest payable		49,656	49,656
Unearned grant revenue		452,613	452,613
Internal balances	85,931	(85,931)	-
Noncurrent liabilities:			
Due within one year		248,178	248,178
Due in more than one year		12,199,400	12,199,400
Net Pension Liability	2,513,892	1,544,533	4,058,425
Net OPEB Liability	811,600	454,002	1,265,602
Total liabilities	<u>3,693,287</u>	<u>16,777,371</u>	<u>20,470,658</u>
DEFERRED INFLOWS OF RESOURCES	<u>195,654</u>	<u>121,770</u>	<u>317,424</u>
NET POSITION			
Net investment in capital assets	1,530,255	7,504,056	9,034,311
Restricted for:			
Debt service		1,274,995	1,274,995
Municipal aid projects	34,129		34,129
Unrestricted (deficit)	(2,442,285)	(1,108,560)	(3,550,845)
Total net position	<u>\$ (877,901)</u>	<u>\$ 7,670,491</u>	<u>\$ 6,792,590</u>

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue 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	\$ (901,135)	\$ 531,343	\$	\$	\$ (369,792)	\$	\$ (369,792)
Public safety	(1,829,636)		228,804		(1,600,832)		(1,600,832)
Public services	(191,017)		69,548		(121,469)		(121,469)
Total governmental activities	(2,921,788)	531,343	298,352		(2,092,093)		(2,092,093)
Business-type activities:							
Water	(2,076,100)	1,822,636		2,047,387		1,793,923	1,793,923
Sewer system	(816,627)	642,109		219,301		44,783	44,783
Total business-type activities	(2,892,727)	2,464,745		2,266,688		1,838,706	1,838,706
Total primary government	(5,814,515)	2,996,088	298,352	2,266,688	(2,092,093)	1,838,706	(253,387)
General revenues:							
Taxes, levied for general purposes					487,169		487,169
License fees and permits, levied for general purposes					925,564		925,564
Fines and forfeitures					75,088		75,088
Interest and investment earnings					817	8,128	8,945
Gain on sale of capital assets					23,956		23,956
Miscellaneous					37,478	87,867	125,345
Transfers (to) from other funds					70,050	(70,050)	-
Total general revenues, special items, and transfers					1,620,122	25,945	1,646,067
Change in net position					(471,971)	1,864,651	1,392,680
Net position - beginning					(405,930)	5,805,840	5,399,910
Net position - ending					\$ (877,901)	\$ 7,670,491	\$ 6,792,590

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Fund	Municipal Road Aid Fund	Planning and Zoning	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 189,156	\$ 111,854	\$ 891	\$ 301,901
Investments (certificate of deposit)	34,351			34,351
Receivables (net of allowance):				
Property taxes	8,030			8,030
ABC taxes	23,254			23,254
Utility franchise tax	24,647			24,647
Payroll tax	41,911			41,911
Customer accounts	35,180			35,180
Other receivables	42,681			42,681
Due from (to) other funds	(105,706)	19,775		(85,931)
Total assets	<u>\$ 293,504</u>	<u>\$ 131,629</u>	<u>\$ 891</u>	<u>\$ 426,024</u>
LIABILITIES				
Accounts payable	\$ 144,564	\$ 97,500	\$	\$ 242,064
Accrued expenses	39,800			39,800
Total liabilities	<u>184,364</u>	<u>97,500</u>	<u></u>	<u>281,864</u>
FUND BALANCES				
Unassigned	109,140			109,140
Committed to planning & zoning use			891	891
Restricted to municipal road aid projects		34,129		34,129
Total fund balances	<u>109,140</u>	<u>34,129</u>	<u>891</u>	<u>144,160</u>
Total liabilities and fund balances	<u>\$ 293,504</u>	<u>\$ 131,629</u>	<u>\$ 891</u>	<u>\$ 426,024</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF NET POSITION
 YEAR ENDED JUNE 30, 2021

Total fund balance per fund financial statements	\$	144,160
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>		
<p>Prepaid expenses in governmental funds are a use of financial resources and therefore are not reported as an asset</p>		13,530
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position:</p>		
Governmental capital assets	2,663,767	
Less: accumulated depreciation	<u>(1,133,512)</u>	1,530,255
<p>Certain items related to the City's net pension and OPEB liabilities do not affect available financial resources and therefore are not reported in the funds.</p>		(2,565,846)
Net position for governmental activities	<u>\$</u>	<u>(877,901)</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	General Fund	Municipal Road Aid Fund	Planning And Zoning	Total Governmental Funds
REVENUES:				
Taxes	\$ 487,169	\$	\$	\$ 487,169
Licenses & permits	925,564			925,564
Fines & forfeitures	75,088			75,088
Intergovernmental revenues	228,804	69,548		298,352
Charges for services	531,343			531,343
Interest	511	306		817
Other	36,137	1,341		37,478
Total revenues	<u>2,284,616</u>	<u>71,195</u>		<u>2,355,811</u>
EXPENDITURES:				
Current operating:				
General government	807,874			807,874
Public safety	1,335,982			1,335,982
Public services		188,055	1,762	189,817
Capital outlay	122,350			122,350
Debt service:				
Principal	100,000			100,000
Interest	3,646			3,646
Total expenditures	<u>2,369,852</u>	<u>188,055</u>	<u>1,762</u>	<u>2,559,669</u>
Excess (deficiency) of revenues over expenditures before other sources and uses	<u>(85,236)</u>	<u>(116,860)</u>	<u>(1,762)</u>	<u>(203,858)</u>
Other financing sources (uses):				
Sale of capital assets	23,956			23,956
Transfers (to) from other funds	70,050			70,050
Total other sources and uses	<u>94,006</u>			<u>94,006</u>
Net change in fund balances	8,770	(116,860)	(1,762)	(109,852)
Fund balances--beginning	100,370	150,989	2,653	254,012
Fund balances--ending	<u>\$ 109,140</u>	<u>\$ 34,129</u>	<u>\$ 891</u>	<u>\$ 144,160</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

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

Net change in fund balances - total governmental funds	\$	(109,852)
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Depreciation expense		(116,919)
Capital outlay		122,350

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Principal payments on long-term debt		100,000
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Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred:

Prepaid insurance expense		(3,786)
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In the fund financial statements, pension and OPEB costs are recognized as payments are made to the plans; however, in the government-wide financial statements, pension and OPEB costs are recognized based on the overall changes in the net pension liability, net OPEB liability, and deferred inflows and outflows of resources.		(463,764)
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Change in net assets of governmental activities	\$	<u>(471,971)</u>
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See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 585,051	\$ 67,026	\$ 652,077
Investments (certificates of deposit)	100,753	130,463	231,216
Restricted cash, cash equivalents, and investments:			
Cash and cash equivalents	1,840,006	455,279	2,295,285
Receivables (net of allowance)	160,830	64,240	225,070
Grants receivable	-	219,301	219,301
Due (to) from other funds	108,083	(22,152)	85,931
Prepaid insurance	7,911	4,899	12,810
Total current assets	<u>2,802,634</u>	<u>919,056</u>	<u>3,721,690</u>
Noncurrent assets:			
Restricted certificates of deposit	27,537	227,475	255,012
Total restricted assets	<u>27,537</u>	<u>227,475</u>	<u>255,012</u>
Capital assets:			
Land	65,367	14,276	79,643
Construction in progress	10,736,057	1,781,774	12,517,831
Other capital assets	12,864,170	6,853,311	19,717,481
Less: accumulated depreciation	<u>(7,198,458)</u>	<u>(5,164,863)</u>	<u>(12,363,321)</u>
Capital assets, net	<u>16,467,136</u>	<u>3,484,498</u>	<u>19,951,634</u>
Total noncurrent assets	<u>16,494,673</u>	<u>3,711,973</u>	<u>20,206,646</u>
TOTAL ASSETS	<u>19,297,307</u>	<u>4,631,029</u>	<u>23,928,336</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>525,606</u>	<u>201,621</u>	<u>727,227</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	72,381	25,112	97,493
Accounts payable - contractors	822,540	854,768	1,677,308
Accrued wages	5,956	2,107	8,063
Customer deposits	132,056		132,056
Unearned grant revenue	452,613		452,613
Accrued interest payable	41,238	8,418	49,656
Notes & revenue bonds payable - current	173,600	74,578	248,178
Total current liabilities	<u>1,700,384</u>	<u>964,983</u>	<u>2,665,367</u>
Noncurrent liabilities:			
Notes & revenue bonds payable	10,177,883	2,021,517	12,199,400
Net pension liability	1,136,169	408,364	1,544,533
Net OPEB liability	320,206	133,796	454,002
Total noncurrent liabilities	<u>11,634,258</u>	<u>2,563,677</u>	<u>14,197,935</u>
TOTAL LIABILITIES	<u>13,334,642</u>	<u>3,528,660</u>	<u>16,863,302</u>
DEFERRED INFLOWS OF RESOURCES	84,851	36,919	121,770
NET POSITION			
Net investment in capital assets	6,115,653	1,388,403	7,504,056
Restricted for debt service & bond covenants	1,867,543	682,754	2,550,297
Unrestricted	<u>(1,579,776)</u>	<u>(804,086)</u>	<u>(2,383,862)</u>
TOTAL NET POSITION	<u>\$ 6,403,420</u>	<u>\$ 1,267,071</u>	<u>\$ 7,670,491</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 1,789,346	\$ 642,109	\$ 2,431,455
Connection fees	33,290		33,290
Miscellaneous	74,811	13,056	87,867
Total operating revenues	<u>1,897,447</u>	<u>655,165</u>	<u>2,552,612</u>
Operating expenses:			
Personal services	732,457	231,184	963,641
Contractual services	595,300	215,410	810,710
Materials and supplies	296,973	168,107	465,080
Depreciation	286,231	164,068	450,299
Total operating expenses	<u>1,910,961</u>	<u>778,769</u>	<u>2,689,730</u>
Operating income (loss)	<u>(13,514)</u>	<u>(123,604)</u>	<u>(137,118)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	2,635	5,493	8,128
Interest expense	<u>(165,139)</u>	<u>(37,858)</u>	<u>(202,997)</u>
Total nonoperating revenue (expenses)	<u>(162,504)</u>	<u>(32,365)</u>	<u>(194,869)</u>
Income (loss) before contributions and transfers	(176,018)	(155,969)	(331,987)
Capital contributions - government grants	2,047,387	219,301	2,266,688
Transfers (to) from other funds	<u>(70,050)</u>		<u>(70,050)</u>
Change in net position	1,801,319	63,332	1,864,651
Total net position - beginning	<u>4,602,101</u>	<u>1,203,739</u>	<u>5,805,840</u>
Total net position - ending	<u>\$ 6,403,420</u>	<u>\$ 1,267,071</u>	<u>\$ 7,670,491</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,819,634	\$ 647,711	\$ 2,467,345
Payments to suppliers	(898,212)	(378,853)	(1,277,065)
Payments for personal services	(510,217)	(157,631)	(667,848)
Other receipts (payments)	74,811		74,811
	<u>486,016</u>	<u>111,227</u>	<u>597,243</u>
Net cash provided (used) by operating activities			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	40,522	18,496	59,018
	<u>40,522</u>	<u>18,496</u>	<u>59,018</u>
Net cash used by noncapital financing activities			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	2,047,387		2,047,387
Acquisition and construction of capital assets	(5,115,393)	(752,876)	(5,868,269)
Proceeds from the issuance of debt	8,198,768	1,332,979	9,531,747
Unearned grant proceeds	452,613		452,613
Principal paid on capital debt	(4,531,467)	(399,381)	(4,930,848)
Interest paid on capital debt	(248,442)	(30,126)	(278,568)
	<u>803,466</u>	<u>150,596</u>	<u>954,062</u>
Net cash provided (used) by capital and related financing activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(381)	(4,769)	(5,150)
Interest and dividends	2,635	5,493	8,128
	<u>2,254</u>	<u>724</u>	<u>2,978</u>
Net cash provided (used) by investing activities			
Net increase (decrease) in cash and cash equivalents	1,332,258	281,043	1,613,301
Cash and equivalents - beginning of year	<u>1,092,799</u>	<u>241,262</u>	<u>1,334,061</u>
Cash and equivalents - end of year	<u>\$ 2,425,057</u>	<u>\$ 522,305</u>	<u>\$ 2,947,362</u>

(Continued next page)

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
(Continued)			
Reconciliation of Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities			
Operating income (loss)	\$ (13,514)	\$ (123,604)	\$ (137,118)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	286,231	164,068	450,299
Change in assets and liabilities:			
Receivables, net	(4,056)	(7,454)	(11,510)
Prepaid expenses	4,810	1,631	6,441
Accounts payable	(10,749)	3,033	(7,716)
Accrued wages	(151)	289	138
Customer deposits	1,054		1,054
Net pension and OPEB liabilities and related deferrals	222,391	73,264	295,655
Net cash provided by operating activities	<u>\$ 486,016</u>	<u>\$ 111,227</u>	<u>\$ 597,243</u>
Supplemental Cash Flow Information:			
Construction in progress included in accounts payable	\$ 822,540	\$ 854,768	\$ 1,677,308
Principal debt forgiveness	\$ 1,000,000	\$	\$ 1,000,000

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE A – Summary of Significant Accounting Policies

The accounting policies of the City of Lancaster (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The City of Lancaster, Kentucky, was incorporated on February 23, 1837, under the provisions of the Commonwealth of Kentucky. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, planning and zoning, and general administrative services. Other services include water and sewer operations. The City has evaluated various organizations with which it is related and determined that there are no component units as defined in Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards Section 2100. Therefore, there are no component units included in the City's reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds (if any), even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are an exception, as they are considered available when eligible expenditures have occurred even though they may be collected for up to one year after the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when the liability has matured, with the exception of interest and principal which are recognized as expenditures when funds are transferred to the debt service fund to make payments due shortly after the fiscal year end.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Property taxes, franchise taxes, payroll taxes, licenses, interest revenue, intergovernmental revenue, and charges for services are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Fines, permits, net profit tax revenues and special assessments are considered to be measurable and available only when cash is received by the City.

Funds are classified into these categories; governmental, proprietary and fiduciary.

The City reports the following major governmental funds:

The general fund is the government'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 municipal road aid fund is used to account for revenues and expenditures of funds related to the Kentucky Street Improvement Program.

The City reports the following major proprietary funds:

The water utility fund and the sewer utility fund account for the activities of the utility services provided to the residents of the City and the surrounding areas.

The City follows the guidance provided in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* in the preparation of its financial statements. GASB Statement No. 62 directly incorporates the applicable Pre-November 30, 1989 guidance previously included in FASB and AICPA Pronouncements.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments from the various funds to the general fund to compensate the general fund for administrative services provided.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make use of estimates that affect reported amounts in the basic financial statements. Actual results could differ from estimates.

Assets, liabilities, and net position or equity

1. Cash Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments, which consist of highly liquid investments with original maturities of three months or less from the date of acquisition.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Kentucky Revised Statute 66.480 generally limits the City to investing in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, and interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

Certain cash amounts are classified on the statement of net position as restricted because applicable bond indentures or other legal provisions limit their use. Restricted cash and cash equivalents are included and used for their respective purpose.

For the purpose of the statement of cash flows, the City considers cash equivalents to be highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for un-collectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for un-collectibles. The property tax receivable allowance is based on varying percentages depending on the age of the receivable.

3. Inventories

Inventory of supplies and materials is charged to expenditures when purchased. Therefore, the City does not have any inventory to report.

4. Restricted Assets

Certain resources set aside for the repayment of the Water and Sewer Fund debt have been classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond and loan covenants. The restricted assets have been accounted for in accordance with the provisions of the Water and Sewer Fund revenue bond resolutions, loan agreements, or with state or federal laws and regulations.

Debt Service Reserve - The City is required to set aside the maximum annual debt service. The City must continue deposits into the debt service reserve until the funds equal the amount required to retire all outstanding bonds and related accrued interest.

Depreciation Reserve - Revenue bond covenants require the City to set aside funds monthly into separate depreciation reserve accounts. Also, Kentucky Infrastructure Authority (KIA) covenants require the City to set aside funds monthly into separate replacement reserve accounts.

5. Capital Assets

Capital assets, which include land, property, plant, infrastructure, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected to prospectively report newly acquired or constructed general infrastructure assets, pursuant to the provisions of GASB Statement No. 34.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at fair market value on the date received.

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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Infrastructure, buildings, improvements, plant, equipment, and other capital assets of the government are depreciated using the straight-line method over the following estimated useful lives.

Infrastructure	10-50 Years
Buildings	20-50 Years
Improvements	10-20 Years
Water & Sewer Distribution System	10-50 Years
Machinery & Equipment	5-10 Years
Vehicles	3-10 Years

6. Accumulated Unpaid Vacation and Sick Pay

Accumulated unpaid vacation and sick pay have not been accrued because the employees have no vested or accumulated rights.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the term of the related issues. Bonds payable are reported net of the applicable discounts and issuance costs.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Pensions

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

9. Other Postemployment Benefits (OPEB)

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

10. Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences accrue as they are earned. However, the amount accrued at year-end was not material.

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11. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 27, 2022, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2021, have not been evaluated by the City.

12. Equity Classifications

Government-wide financial statements classify equity as net position. Net position is displayed in three components:

- a. **Net investment in capital assets** consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted net position** consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, and by law through constitutional provisions or enabling legislation.
- c. **Unrestricted net position** consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Fund financial statements report governmental fund equity as fund balance. Fund balance is further classified:

- a. **Non-spendable fund balance** includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. **Restricted fund balance** includes amounts that are restricted to specific purposes either (a) by externally imposed creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. **Committed fund balance** includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The City's highest level of decision-making authority is the City Council.
- d. **Assigned fund balance** includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City's Mayor is authorized to assign the fund balance. The City has not adopted formal procedures to show that the mayor has assigned the fund balance.
- e. **Unassigned fund balance** represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first. In addition, when expenditures could be deemed to have been expended by using committed, assigned or unassigned funds, the City has determined that the funds will be first categorized as assigned, second as committed and third as unassigned.

Proprietary fund equity is classified the same as in government-wide statements.

13. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balances in the governmental funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. Capital assets, prepaid expenses, notes receivable, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual basis of accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with

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depreciation expense. Loans to other entities are added and repayments of those loans are subtracted. Debt proceeds are subtracted, while principal payments on long-term debt are eliminated from the operating costs.

NOTE B - Stewardship, Compliance, and Accountability

Budgetary Information

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

Kentucky Revised Statutes 91A.030 requires the preparation and adoption of an annual budget in the form of an appropriations ordinance before the City may expend any monies from any governmental or proprietary fund and prohibits expenditures or expenses in excess of appropriations. KRS further provides that the full amount of debt service be appropriated. All appropriations lapse at year-end. The City's general fund expenditures exceeded its budget by \$287,552 for the year ended June 30, 2021. The City's municipal road aid fund expenditures exceeded its budget by \$117,995 for the year ended June 30, 2021.

To meet the legal requirements for appropriations, all budgets are presented on a modified accrual basis. For proprietary funds this means that certain capitalized receipts and disbursements are budgeted along with related revenue and expense, that depreciation, a non-cash expenditure, is not budgeted, and that the full amount of debt service is budgeted.

Under Kentucky Revised Statutes, all local government units are required to have a June 30 fiscal year-end. The City of Lancaster has a June 30 fiscal year-end.

Public hearings are conducted to obtain citizen comments and in order to comply with various federal and state mandates.

Prior to June 30, the budget is legally enacted through passage of an ordinance by the city.

Formal budgetary integration is utilized as a management control device for all governmental fund types and the water and sewer funds.

An encumbrance system under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded is maintained. Encumbrances maintained at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are re-appropriated in the next budget year.

Property taxes

The City bills and collects its property taxes through the Garrard County Sheriff's Office. The City elects to use annual property assessments prepared by the Garrard County Property Valuation Administrator. According to the Kentucky Revised Statutes, the assessment date for the City must conform to the January 1 assessment date of Garrard County.

For the year ended June 30, 2021, taxes were levied November 1, 2020 and were payable by December 31, 2020. A 2% penalty was imposed on all taxes delinquent as of January 1, 2021 and a 10% penalty was imposed on all taxes delinquent as of February 1, 2021.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$1.00 per \$100 assessed valuation for general governmental services other than school purposes. Legislation passed by the Kentucky General Assembly imposed severe limits on the ability of a city to significantly increase property tax revenues. A city may not increase its revenues from taxes on real property, exclusive of increases due to assessment growth without giving notice of such an increase and holding a public hearing on the matter. If that increase is less than 4%, that is all that is necessary, but if the increase is more than 4%, residents of the City may petition for an election to be held on the question. If the majority of those voting in a valid election vote against the proposed rate increase, the rate must be rolled back to one which will not produce more than a 4% increase. City tax rates of 15.6 cents per \$100 on real property, 26 cents per \$100 on personal property, and 24.2 cents per \$100 on vehicles for the fiscal year ended June 30, 2021, are within permissible limits under the above legislation.

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NOTE C – Cash Deposits and Investments

Deposits

The City is required by Kentucky Revised Statutes to have the financial institution pledge securities having a current quoted market value at least equal to the uninsured deposits. At year end, the City is fully collateralized and all pledged investments were held in the City's name.

Investments

A reconciliation of cash and investments as shown on the Government-Wide Statement of Net Position at June 30, 2021 is as follows:

	Carrying Value	Bank Balance
Deposits	\$ 3,249,263	\$ 3,250,249
Investments	520,579	520,579
Total	\$ 3,769,842	\$ 3,770,828
Cash and cash equivalents	\$ 953,978	
Investments - CD's	265,567	
Cash and cash equivalents-restricted	2,295,285	
Investments-restricted CD's	255,012	
Total	\$ 3,769,842	

The City's investments at June 30, 2021 are as follows:

Type of Investment	Fair Value	Cost	Interest Rate	Maturity Date	
Governmental Activities:					
Farmers National Bank					
Certificate of Deposit	\$ 34,351	\$ 34,351	0.15%	08/15/22	Fire Dept
Business Type Activities:					
Farmers National Bank					
Certificate of Deposit	\$ 26,309	\$ 26,309	0.15%	07/28/22	sewer & water
Certificate of Deposit	27,537	27,537	0.50%	04/17/23	"
Certificate of Deposit	20,742	20,742	0.12%	11/17/22	"
Certificate of Deposit	130,463	130,463	0.15%	04/13/23	"
Certificate of Deposit	100,753	100,753	0.10%	02/20/22	"
Whitaker Bank					
Certificate of Deposit	180,424	180,424	1.15%	06/27/22	"
	\$ 486,228	\$ 486,228			

Interest Rate Risk. The City does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. One hundred percent of the City's investments are in bank certificates of deposits.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. The City has 100% of its investments in bank certificates of deposit (in 2 different banks).

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Custodial Credit Risk. Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments that are in the possession of the financial institution. The City's investment policy dictates that all cash maintained in any financial institution named as a depository be insured or collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. Collateral must be held by an independent third-party custodian.

Note D – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Land	\$ 60,000	\$ 9,300	\$	\$ 69,300
Buildings	1,497,409	113,050		1,610,459
Equipment and vehicles	984,008			984,008
Total cost	<u>2,541,417</u>	<u>122,350</u>		<u>2,663,767</u>
Less accumulated depreciation:				
Buildings	(382,974)	(42,508)		(425,482)
Equipment and vehicles	(633,619)	(74,411)		(708,030)
Total accumulated depreciation	<u>(1,016,593)</u>	<u>(116,919)</u>		<u>(1,133,512)</u>
Governmental activities capital assets, net	<u>\$ 1,524,824</u>	<u>\$ 5,431</u>	<u>\$</u>	<u>\$ 1,530,255</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Land	\$ 79,643	\$	\$	\$ 79,643
Water and Sewer plant	17,937,135			17,937,135
Equipment	1,494,573	8,060		1,502,633
Vehicles	274,713	3,000		277,713
Construction in progress	5,485,000	7,032,831		12,517,831
Total cost	<u>25,271,064</u>	<u>7,043,891</u>		<u>32,314,955</u>
Less accumulated depreciation:				
Water and Sewer plant	(10,377,773)	(417,645)		(10,795,418)
Equipment	(1,289,132)	(19,655)		(1,308,787)
Vehicles	(246,117)	(12,999)		(259,116)
Total accumulated depreciation	<u>(11,913,022)</u>	<u>(450,299)</u>		<u>(12,363,321)</u>
Business-type activities capital assets, net	<u>\$ 13,358,042</u>	<u>\$ 6,593,592</u>	<u>\$</u>	<u>\$ 19,951,634</u>

CITY OF LANCASTER, KENTUCKY
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 33,974
Public Safety	81,745
Public Services	1,200
	<u>\$ 116,919</u>
Business-type activities:	
Water	\$ 286,231
Sewer	164,068
	<u>\$ 450,299</u>

The City has an active water treatment plant construction project and a sewer system upgrades project at the end of the fiscal year. See Note L for commitments related to these projects. The costs incurred to date for these projects are included in "construction in progress" on the water and sewer fund's balance sheet.

Note E – Retirement Plan

The City is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. 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. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2021, plan members were required to contribute 5.00% of wages for non-hazardous job classifications, and 8.00% for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 the basis of an annual valuation last proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% for hazardous job classifications, which is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members in non-hazardous job classifications contribute 5.00% of wages to their own account and 1% to the health insurance fund. Plan members in hazardous job classifications contribute 8.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each 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,

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their account is credited with a 4% employer pay credit. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2021, the City contributed \$199,403 for non-hazardous job classifications, and \$108,213 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$159,953 to the CERS pension fund and \$39,450 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$82,185 to the CERS pension fund and \$26,028 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2021, the City reported a liability of \$4,058,425 for its proportionate share of the net pension liability. The liability consisted of \$2,649,804 for non-hazardous job classifications and \$1,408,621 for hazardous job classifications. 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 and rolled forward to June 30, 2020. 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. At June 30, 2021, the City’s proportion was .034548% for non-hazardous employees and .046720% for hazardous employees, which was equal to its proportion measured as of June 30, 2020. At June 30, 2020, the City’s proportion was .031426% for non-hazardous employees and .046341% for hazardous employees, which was equal to its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City recognized pension expense of \$621,525. At June 30, 2021, 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
Differences between expected and actual results	\$ 109,765	\$ -
Changes of assumptions	156,893	-
Net difference between projected and actual earnings on Plan investments	168,203	70,162
Changes in proportion and differences between City contributions and proportionate share of contributions	329,814	20,405
City contributions subsequent to the measurement date	242,138	-
Total	\$ 1,006,813	\$ 90,567

The \$242,138 of deferred outflows of resources resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2022	\$ 356,287
2023	209,117
2024	65,440
2025	43,264

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Actuarial Assumptions – The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth	2.00%
Salary increases	3.30% to 10.30% varied by service inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Cash	1.00%	-0.75%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.25% assumes that the funds receive the required employer contributions each future year. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses

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incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis. The discount rate determination does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current rate:

	Discount rate	Hazardous	Nonhazardous	Total
1% decrease	5.25%	1,740,829	3,267,833	5,008,662
Current discount rate	6.25%	1,408,621	2,649,804	4,058,425
1% increase	7.25%	1,137,414	2,138,123	3,275,537

Payable to the Pension Plan – At June 30, 2021, the City reported a payable of \$29,139 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

NOTE F – Other Post-Employment Benefit Plan (OPEB)

The City is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit other postemployment benefit plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. Health insurance benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – For the year ended June 30, 2021, plan members were required to contribute 5.00% of wages for non-hazardous job classifications, and 8.00% for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 the basis of an annual valuation last proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% for hazardous job classifications, which is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members in non-hazardous job classifications contribute 5.00% of wages to their own account and 1% to the health insurance fund. Plan members in hazardous job classifications contribute 8.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an

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actuarial valuation. The employer contributes a set percentage of each 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. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2021, the City contributed \$199,403 for non-hazardous job classifications, and \$108,213 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$159,953 to the CERS pension fund and \$39,450 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$82,185 to the CERS pension fund and \$26,028 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2021, the City reported a liability of \$1,265,602 for its proportionate share of the net OPEB liability. The liability consisted of \$833,989 for non-hazardous job classifications and \$431,613 for hazardous job classifications. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2020. The City's proportion of the net OPEB 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. At June 30, 2021, the City's proportion was .034538 percent for non-hazardous employees and .046706% for hazardous employees, which was equal to its proportion measured as of June 30, 2020. At June 30, 2020, the City's proportion was .031418 percent for non-hazardous employees and .046332% for hazardous employees, which was equal to its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City recognized OPEB expense of \$137,894. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual results	\$ 154,153	\$ 182,552
Changes of assumptions	215,477	1,280
Net difference between projected and actual earnings on Plan investments	76,697	29,818
Changes in proportion and differences between City contributions and proportionate share of contributions	163,909	13,207
City contributions subsequent to the measurement date	<u>65,478</u>	<u>-</u>
Total	<u>\$ 675,714</u>	<u>\$ 226,857</u>

The \$65,478 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2022	\$ 99,278
2023	98,159
2024	94,083
2025	82,627
2026	9,232

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Actuarial Assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% varied by service
Investment rate of return	6.25%
Healthcare trend rates:	
Pre - 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years
Post - 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023 then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. 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.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using the health care trend rate described above, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Total</u>
1% decrease	308,443	645,715	954,158
Current healthcare tend rate	431,613	833,989	1,265,602
1% increase	583,039	1,062,461	1,645,500

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

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	2.95%
Cash	1.00%	-0.75%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.34 percent for non-hazardous and 5.30% for hazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total OPEB liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net OPEB liability calculated using the discount rate of 5.34 percent for non-hazardous and 5.30% for hazardous, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34% for hazardous and 4.30% for nonhazardous) or 1-percentage-point higher (6.34% for hazardous and 6.30% for nonhazardous) than the current rate:

	Hazardous	Nonhazardous	Total
1% decrease	585,903	1,071,429	1,657,332
Current discount rate	431,613	833,989	1,265,602
1% increase	307,286	638,969	946,255

Payable to the Pension Plan – At June 30, 2021, the City reported a payable of \$29,139 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

NOTE G – Long Term Debt

Revenue Bonds – Water and Sewer Funds

Water and Sewer Revenue Bonds outstanding at June 30, 2021 are as follows:

Series	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2021
Series 2009	1,015,000	2.375%	2048	\$ 818,500
Series 2010	1,641,000	2.500%	2050	1,383,500
KLC Bond Series	1,430,000	2.560%	2042	1,250,417
Series 2019A	4,500,000	1.500%	2060	4,437,000
				<u>\$ 7,889,417</u>

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

Revenue Bond Debt Service Requirements

The annual principal and interest requirements of the water and sewer revenue bonds payable as of June 30, 2021, are as follows:

Year Ending June 30,	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 173,600	\$ 140,378	\$ 39,900	\$ 14,326	\$ 213,500	\$ 154,704
2023	178,308	136,714	40,775	13,330	219,083	150,044
2024	184,208	132,953	42,875	12,310	227,083	145,263
2025	188,400	129,065	44,100	11,238	232,500	140,303
2026	193,608	125,083	44,975	10,135	238,583	135,218
2027-2031	893,284	566,515	130,550	36,580	1,023,834	603,095
2032-2036	937,008	475,911	89,075	23,514	1,026,083	499,425
2037-2041	1,052,867	373,700	86,800	9,440	1,139,667	383,140
2042-2046	1,075,959	266,161	6,125	309	1,082,084	266,470
2047-2051	1,015,500	162,210			1,015,500	162,210
2052-2056	773,000	87,855			773,000	87,855
2057-2060	698,500	26,565			698,500	26,565
Total	\$ 7,364,242	\$ 2,623,110	\$ 525,175	\$ 131,182	\$ 7,889,417	\$ 2,754,292

Total Debt Service by Bond Series

	Principal	Interest	Total Payment
Series 2009 Revenue Bonds - Water	\$ 818,500	\$ 303,822	\$ 1,122,322
Series 2010 Revenue Bonds - Water	1,383,500	582,325	1,965,825
KLC Revenue Bonds - Water	725,242	181,149	906,391
KLC Revenue Bonds - Sewer	525,175	131,182	656,357
Series 2019A Revenue Bonds - Water	4,437,000	1,555,814	5,992,814
Total	\$ 7,889,417	\$ 2,754,292	\$ 10,643,709

Bond Covenants and Provisions

Under the various bond ordinances passed for the Water and Sewer Revenue Bonds, certain covenants and provisions for the collection, segregation, and distribution of revenues of the water and sewer system were established. The 2019A Bonds require \$1,560 into a "depreciation fund" until the balance reaches \$187,200. The 2019A Bonds also require \$5,417 to be deposited monthly into a "short-lived water system assets" account.

For the fiscal year ended June 30, 2021, the City is in substantial compliance with all covenants and provisions of the loan agreements.

Kentucky Infrastructure Authority Loans – Water and Sewer Funds

On December 1, 2008, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow \$490,000 with an interest rate of 0.60% to be repaid over a twenty-year period. The proceeds of this loan were used to fund an expansion of the City's Waste Water Treatment Plant.

On June 2, 2016, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow \$406,868 with an interest rate of 0.75% to be repaid over a twenty-year period, beginning December 1, 2018 and maturing June 1, 2038. The proceeds of this loan were used to fund the City's Waste Water Treatment Plant Sand Filter Replacement Project.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

On January 8, 2019, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow \$324,000 with an interest rate of 3.00% to be repaid over a five-year period from project completion. The proceeds of this loan were to fund the planning and design of the Sanitary Sewer Improvements Project. During June 30, 2021, this loan was refunded with the Whitaker Bank Loan discussed below. As of June 30, 2021, this loan was paid in full.

On May 29, 2018, the City entered into an agreement to borrow \$4,000,000 with an interest rate of 0.50% to be repaid over a thirty-year period, beginning six months from the date of the last draw. Subsequent to year end, the amount of the loan was increased by \$400,000 to \$4,400,000. The proceeds of this loan were used to fund a portion of the City's Water Plant Project.

The Kentucky Infrastructure Authority Loans outstanding at June 30, 2021 are as follows:

Issue	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2021
KIA Loan (B08-02)	490,000	0.60%	2029	\$ 190,662
KIA Loan (B16-013)	406,868	0.75%	2038	176,078
KIA Loan (F18-007)	4,400,000	0.50%	2052	2,987,242
				<u>\$ 3,353,982</u>

The annual principal and interest requirements of the above loans are as follows:

Year Ending June 30,	Sewer	
	Principal	Interest
2022	\$ 34,678	\$ 2,778
2023	34,901	2,505
2024	35,126	2,230
2025	35,352	1,953
2026	35,579	1,675
2027-2031	115,879	4,661
2032-2036	53,329	1,927
2037-2038	21,896	206
Total	<u>\$ 366,740</u>	<u>\$ 17,935</u>

The annual principal and interest requirements for the Kentucky Infrastructure Loans above do not include KIA Loan F18-007 because as of June 30, 2021, the loan had not yet been amortized. At June 30, 2021, the City had not yet drawn \$412,758 of the funds available on this loan.

Certain Covenants contained in the above loan agreements are as follows:

- 1) The City shall maintain service charges for water and sewer activities sufficient to pay the Authority the minimum sums set forth in the loan agreement.
- 2) The City shall place \$4,750 into a "replacement reserve account" on or before December 1 of each year. These annual deposits are to be made until the balance reaches \$39,073 and maintained for the life of the loan. The final payment was made October 1, 2007.
- 3) The City shall place \$1,000 into a "replacement reserve account" on or before December 1 of each year. These annual deposits are to be made until the balance reaches \$10,000 and maintained for the life of the loan. This amount is fully funded.
- 4) The City shall place \$11,000 into a "replacement reserve account" on or before December 1 of each year, beginning December 1, 2022. These annual deposits are to be made until the balance reaches \$220,000 and maintained for the life of the loan.
- 5) Other miscellaneous provisions.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

For the fiscal year ended June 30, 2021, the City is in substantial compliance with all covenants and provisions of the KIA loan agreements.

These loans are subordinate to any previous debt of the City, including U.S. Department of Agriculture Rural Development Debt and Kentucky League of Cities Revenue Bonds.

Kentucky Rural Water Finance Corporation Loan - Water Fund

The City entered into a loan agreement with Kentucky Rural Water Finance Corporation in an amount not to exceed \$4,500,000 to serve as interim financing to fund a portion of the Water Treatment Plant Project discussed in Note L. The Loan had an interest rate of 3.40% and matured May 1, 2021. The KRWFC Loan was refunded with permanent financing from Rural Development Series 2019A Bonds. As of June 30, 2021, the KRWFC Loan was paid in full.

Whitaker Bank Loan - Sewer Fund

The City entered into a loan agreement with Whitaker Bank in an amount not to exceed \$2,918,000 to serve as interim financing to fund a portion of the Sewer Upgrades Project discussed in Note L. The Loan bears interest at 2.60% and matures August 2, 2022. The Whitaker Bank Loan will be refunded with permanent financing from Rural Development at the completion of the project. As of June 30, 2021, the City has drawn \$1,204,179 of this loan.

Bank Loans – General Fund

On November 5, 2019, the City borrowed \$100,000 from a local bank for the purpose of remodeling the police station. The interest rate on this loan is 3.00%. The loan agreement requires one payment of principal and interest to be paid at maturity, which is May 21, 2021. The loan was paid off during the year ended June 30, 2021.

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Notes payable - bank	\$ 100,000	\$ -	\$ (100,000)	\$ -	\$ -
Governmental activity long-term liabilities	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type activities:					
Revenue Bonds:					
Revenue Bonds-Water Fund	\$ 2,254,000	\$ 4,500,000	\$ (115,000)	\$ 6,639,000	\$ 118,500
KLC Bonds-Water Fund	795,566	-	(70,324)	725,242	55,100
KLC Bonds-Sewer Fund	576,100	-	(50,925)	525,175	39,900
Total Bonds Payable	<u>3,625,666</u>	<u>4,500,000</u>	<u>(236,249)</u>	<u>7,889,417</u>	<u>213,500</u>
Revenue Bond Anticipation Notes (BANs)					
KRWFC Revenue BANs-Water Fund	3,634,616	711,526	(4,346,142)	-	-
Whitaker Bank Revenue BANs-Sewer Fund	-	1,204,179	-	1,204,179	-
Total Revenue Bond Anticipation Notes	<u>3,634,616</u>	<u>1,915,705</u>	<u>(4,346,142)</u>	<u>1,204,179</u>	<u>-</u>
KIA Loans:					
KIA Loan-Water Fund	-	3,987,242	(1,000,000)	2,987,242	-
KIA Loans-Sewer Fund	586,397	128,800	(348,457)	366,740	34,678
Total KIA Loans	<u>586,397</u>	<u>4,116,042</u>	<u>(1,348,457)</u>	<u>3,353,982</u>	<u>34,678</u>
Business-type activity long-term liabilities	<u>\$ 7,846,679</u>	<u>\$ 10,531,747</u>	<u>\$ (5,930,848)</u>	<u>\$ 12,447,578</u>	<u>\$ 248,178</u>

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE H - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

There are no lawsuits or pending litigation that the City believes will have a material effect on its financial statements.

NOTE I - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation claims. Significant losses are covered by commercial insurance for all major programs except unemployment compensation and workers' compensation, for which the City retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage from prior years. Also, there have been no settlements exceeding insurance coverage for each of the past three years. The City participates in two pooled self-insurance programs sponsored by the Kentucky League of Cities. These include unemployment compensation and workers' compensation.

NOTE J – Economic Dependency

During the fiscal year ended June 30, 2021, approximately 57% of the water fund's operating revenue was derived from two wholesale users. The contract with one of these wholesale users runs through December 31, 2028. The contract with the other wholesale user was renewed during 2018 to extend the contract through June 30, 2062. The new agreement requires a minimum purchase agreement of 325,000,000 gallons when the new Water Treatment Plant Project (discussed in Note L) is substantially completed and placed into service.

NOTE K – Other

During the fiscal year ended June 30, 2012, the City (Lessor) entered into an agreement with the Commonwealth of Kentucky, Department of Corrections, Probation and Parole Division (Lessee) to lease certain premises to the Commonwealth in the amount of \$39,390 per year. The lease called for automatic extensions annually through June 30, 2018. On July 11, 2017, the lease was extended to add six automatic annual extension periods through June 30, 2024 in the amount of \$52,780 annually.

NOTE L – Commitments

As of June 30, 2021, there are three major construction projects in progress.

1. The Water Treatment Plant Project has a budget of \$12,632,455. As of June 30, 2021, \$10,534,298 had been spent on the above project. This project is being funded by the following sources:

1. Rural Development Loan	\$ 4,500,000
2. Rural Development Grant	1,500,000
3. ARC Grant	500,000
4. Kentucky Infrastructure Authority Loan	4,400,000
5. Kentucky Infrastructure Authority Grant	450,752
6. Kentucky Infrastructure Authority Grant 3N-2012	1,132,455
7. Bluegrass Water Supply Commission Grant	100,000
8. City Contribution	49,248
Total Funding	\$ 12,632,455

**CITY OF LANCASTER, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2021**

2. The Sewer Upgrades Project has a budget of \$5,567,303 As of June 30, 2021, \$1,765,974 had been spent on the project. The Project is being funded by the following sources.

1. Rural Development Loan	\$ 2,918,000	
2. Rural Development Grant or Loan	1,274,200	
3. ARC Grant	372,600	
4. CDBG Grant	1,000,000	
5. City Contribution	2,503	
Total Funding	\$ 5,567,303	

3. The City is in the planning and design stage for water upgrades for a Distillery located in the City. As of June 30, 2021, \$201,759 had been spent on the project.

NOTE M - Subsequent Events

In July 2021, the City entered into an agreement to purchase land through a quitclaim deed. The City paid \$225,000 as cash consideration, and \$91,702 was accepted as a donation from the selling entity.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LANCASTER, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 400,000	\$ 400,000	\$ 487,169	\$ 87,169
Licenses & permits	1,001,500	1,001,500	925,564	(75,936)
Fines & forfeitures	62,600	62,600	75,088	12,488
Intergovernmental revenues	90,900	90,900	228,804	137,904
Charges for services	466,390	466,390	531,343	64,953
Interest	100	100	511	411
Other	85,000	85,000	36,137	(48,863)
Total revenues	2,106,490	2,106,490	2,284,616	178,126
EXPENDITURES:				
Current operating:				
General government	701,500	701,500	807,874	(106,374)
Public safety	1,380,800	1,380,800	1,335,982	44,818
Capital outlay			122,350	(122,350)
Debt service:				
Principal			100,000	(100,000)
Interest			3,646	(3,646)
Total expenditures	2,082,300	2,082,300	2,369,852	(287,552)
Excess (deficiency) of revenues over expenditures before transfers and other sources	24,190	24,190	(85,236)	(109,426)
Other financing sources (uses):				
Sale of capital assets			23,956	23,956
Transfers (to) from other funds			70,050	70,050
Total other sources and uses	-	-	94,006	94,006
Excess (deficiency) revenues over expenditures	24,190	24,190	8,770	(15,420)
Fund balances--beginning	100,370	100,370	100,370	-
Fund balances--ending	\$ 124,560	\$ 124,560	\$ 109,140	\$ (15,420)

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
MUNICIPAL ROAD AID FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal road aid	\$ 70,000	\$ 70,000	\$ 69,548	\$ (452)
Interest	60	60	306	246
Other	-	-	1,341	1,341
Total revenues	<u>70,060</u>	<u>70,060</u>	<u>71,195</u>	<u>1,135</u>
EXPENDITURES:				
Current operating:				
Public services	70,060	70,060	188,055	(117,995)
Total expenditures	<u>70,060</u>	<u>70,060</u>	<u>188,055</u>	<u>(117,995)</u>
Excess (deficiency) revenues over expenditures	-	-	(116,860)	(116,860)
Fund balances--beginning	150,989	150,989	150,989	-
Fund balances--ending	<u>\$ 150,989</u>	<u>\$ 150,989</u>	<u>\$ 34,129</u>	<u>\$ (116,860)</u>

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Eight Fiscal Years***

	Hazardous								Non-Hazardous							
	2021	2020	2019	2018	2017	2016	2015	2014	2021	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.046720%	0.046341%	0.048312%	0.050524%	0.055165%	0.057857%	0.063241%	0.063241%	0.034548%	0.031426%	0.024901%	0.019736%	0.017897%	0.017065%	0.017546%	0.017546%
City's proportionate share of the net pension liability (asset)	\$ 1,408,621	\$ 1,280,075	\$ 1,168,405	\$ 1,130,363	\$ 946,598	\$ 888,160	\$ 759,851	\$ 843,582	\$ 2,649,804	\$ 2,210,205	\$ 1,516,548	\$ 1,155,210	\$ 881,160	\$ 733,532	\$ 568,980	\$ 642,288
City's covered employee payroll	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532
City's share of the net pension liability (asset) as a percentage of its covered payroll	515.22%	468.99%	442.71%	417.92%	337.19%	309.68%	256.76%	263.99%	319.73%	247.94%	190.81%	188.34%	183.78%	169.01%	136.76%	159.56%
Plan fiduciary net position as a percentage of the total pension liability	44.11%	50.45%	49.26%	58.99%	53.95%	57.52%	63.46%	57.74%	47.81%	46.63%	53.54%	53.32%	55.50%	59.97%	66.80%	61.22%

* The above schedule will present 10 years of historical data, once available.

CITY OF LANCASTER, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF PENSION PLAN CONTRIBUTIONS
Last Nine Fiscal Years

	Hazardous									Non-Hazardous								
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 82,185	\$ 82,046	\$ 65,637	\$ 60,045	\$ 60,947	\$ 58,105	\$ 61,349	\$ 69,732	\$ 63,533	\$ 159,953	\$ 172,047	\$ 128,940	\$ 88,813	\$ 66,887	\$ 53,903	\$ 53,046	\$ 55,308	\$ 53,405
Contributions relative to contractually required employer contribut	<u>82,185</u>	<u>82,046</u>	<u>65,637</u>	<u>60,045</u>	<u>60,947</u>	<u>58,105</u>	<u>61,349</u>	<u>69,732</u>	<u>63,533</u>	<u>159,953</u>	<u>172,047</u>	<u>128,940</u>	<u>88,813</u>	<u>66,887</u>	<u>53,903</u>	<u>53,046</u>	<u>55,308</u>	<u>53,405</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311	\$ 316,085	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,355	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532	\$ 423,173
Employer contributions as a percentage of covered-employee pay	30.06%	30.06%	24.87%	22.20%	21.71%	20.26%	20.73%	21.77%	20.10%	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%	12.62%

* The above schedule will present 10 years of historical data, once available.

**CITY OF LANCASTER, KENTUCKY
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 Last Five Fiscal Years***

	Hazardous					Non-Hazardous				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
City's proportion of the net OPEB liability	0.046706%	0.046332%	0.048314%	0.050524%	0.055165%	0.034538%	0.031418%	0.024900%	0.019736%	0.017897%
City's proportionate share of the net OPEB liability (asset)	\$ 431,613	\$ 342,793	\$ 344,459	\$ 417,668	\$ 249,572	\$ 833,989	\$ 528,437	\$ 442,095	\$ 396,761	\$ 311,210
City's covered employee payroll	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	157.87%	125.59%	130.52%	154.42%	88.90%	100.63%	59.28%	55.62%	64.69%	64.91%
Plan fiduciary net position as a percentage of the total OPEB liability	58.84%	64.44%	64.24%	58.99%	53.95%	51.67%	60.44%	57.62%	52.39%	55.50%

* The above schedule will present 10 years of historical data, once available.

CITY OF LANCASTER, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF OPEB PLAN CONTRIBUTIONS
Last Five Fiscal Years

	Hazardous					Non-Hazardous				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
Contractually required employer contribution	\$ 26,028	\$ 25,984	\$ 27,632	\$ 25,289	\$ 26,248	\$ 39,450	\$ 42,343	\$ 41,814	\$ 28,828	\$ 22,679
Contributions relative to contractually required employer contribution	<u>26,028</u>	<u>25,984</u>	<u>27,632</u>	<u>25,289</u>	<u>26,248</u>	<u>39,450</u>	<u>42,343</u>	<u>41,814</u>	<u>28,828</u>	<u>22,679</u>
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered employee payroll	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474
Employer contributions as a percentage of covered-employee payroll	9.52%	9.52%	10.47%	9.35%	9.35%	4.76%	4.76%	5.26%	4.70%	4.73%

* The above schedule will present 10 years of historical data, once available.

CITY OF LANCASTER, KENTUCKY
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
JUNE 30, 2021

Note 1. General Information

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

Measurement Date

The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Note 2. Changes of Assumptions (Measurement Date)

June 30, 2020 – OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for pre-65. The healthcare trend rate starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for post-65.

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for either pension or OPEB.

June 30, 2017 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.

CITY OF LANCASTER, KENTUCKY
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
JUNE 30, 2021

- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the 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.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

June 30, 2013 – Pension – Hazardous and Nonhazardous

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

COMPLIANCE SECTION

CITY OF LANCASTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

<u>Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>	<u>Passed Through To Subrecipients</u>
A. U.S. Department of Transportation: Passed through Commonwealth of Kentucky, Kentucky Transportation Cabinet: Highway Safety Program	20.600	PT 19-20	\$ <u>837</u>	\$ <u>-</u>
B. U.S. Department of Agriculture Rural Development: Direct: RUS Loan/Grant	10.760	N/A	<u>2,646,228</u>	<u>-</u>
C. U.S. Department of Housing and Urban Development: Passed through Commonwealth of Kentucky, Department for Local Government Community Development Block Grant	14.228	19-011	<u>219,301</u>	<u>-</u>
D. U.S. Department of Environmental Protection Passed through Commonwealth of Kentucky, Kentucky Infrastructure Authority Drinking Water Revolving Loan Fund	66.468	F18-017	<u>1,613,461</u>	<u>-</u>
E. U.S. Department of the Treasury: Passed through Commonwealth of Kentucky, Department for Local Government: Coronavirus Relief Funds for States	21.019	Lancaster CRF C179	<u>127,728</u> \$ <u>4,607,555</u>	<u>-</u> \$ <u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF LANCASTER, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operation of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and Members of the City
Council
Lancaster, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Kentucky (the City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 27, 2022.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 with 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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies. We consider the following deficiencies to be material weaknesses.

1. Due to the limited number of employees within the City, there exists a lack of adequate segregation of duties related to recordkeeping and custody of assets. Due to the fact that the City is not in the financial position to hire additional employees, we recommend that the council continue to be involved in the financial review process on an ongoing basis and continue to review all procedures to assure that maximum segregation of accounting and asset custodial duties occurs whenever possible.

2. All transactions should be recorded in the general ledger. The City's transactions are recorded in the general ledger for the main operating bank account of each fund. However, there are several other bank accounts that have activity that is only tracked through the checkbook and not maintained in the general ledger. The City hires an accountant to adjust its books to be in accordance with accounting principles generally accepted in the United States of America. During this process, summary entries are made to record this activity into the general ledger. During the past few years, there has been significantly more activity in these accounts. By not appropriately maintaining these accounts in the general ledger in detail, activity can be misclassified or not recorded in the correct period. It also makes year-end cash to accrual conversions increasingly more difficult. During our audit procedures, we proposed multiple audit adjustments for activity in these accounts that were not correctly recorded or not included as receivables or payables. The adjustments resulted in additions to capital assets of \$1,386,633 that were the result of outstanding checks or accounts payable; an understatement of accounts payable of \$1,677,371; an understatement of cash for two checks incorrectly recorded as outstanding of \$290,738 and one bank account that was not recorded on the City's books totaling \$10,004; an understatement of unearned grant revenue of \$439,507; and an understatement of grants receivable of \$219,301. We recommend that activity from all bank accounts be recorded in the general ledger in detail to ensure that all transactions are appropriately recorded in the correct accounts and the correct period.

Management's Response

1. Management does not believe the addition of an employee for the purpose of improving segregation of duties is cost-beneficial to the City, but will continue to review our procedures to assure we segregate duties whenever possible.
2. Management agrees with the auditor's recommendation and will begin recording the detail activity for all bank accounts in the general ledger in a timely manner.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 the following noncompliance that is required to be reported under *Government Auditing Standards*:

1. During the fiscal year ended June 30, 2021, the City's expenditures exceeded its appropriations in the amount of \$287,552 in the general fund and \$117,995 in the municipal road aid fund. According to KRS 91A.030, "No city shall expend any moneys from any governmental or proprietary fund, except in accordance with a budget ordinance adopted pursuant to this section". Therefore, the expenditures in excess of budget represent a violation of KRS 91A.030.

City's Response to Findings

The City's response to the findings identified in our audit is described above. 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
January 27, 2022

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Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Mayor and City Council
City of Lancaster, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Lancaster, Kentucky's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

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

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

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

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

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
January 27, 2022

**CITY OF LANCASTER, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	USDA, Rural Development Water & Waste Disposal Systems For Rural Communities Grant and Loan Program
66.468	U.S. Department of Environmental Protection Capitalization Grants for Drinking Water State Revolving Loan Funds
14.228	U.S. Department of Housing and Urban Development Community Development Block grants

Dollar threshold used to distinguish Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? No

**CITY OF LANCASTER, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

Section II – Financial Statement Findings

See 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* on pages 49-50.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

Prior year financial statement finding related to issues concerning the segregation of duties. Management has determined that the addition of an employee(s) to segregate processes would not be cost effective for the City. Therefore, the finding related to segregation of duties was repeated in the current year audit.

Prior year financial statement finding related to all checking account activity being maintained in the general ledger. Management did not add all checking account detailed activity to the general ledger system. Therefore, the finding related to all activity being maintained in the general ledger system was repeated in the current year audit.

**CITY OF LANCASTER, KENTUCKY
AUDITED FINANCIAL STATEMENTS**

JUNE 30, 2022

**KERBAUGH, RODES & BUTLER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
DANVILLE, KENTUCKY**

**CITY OF LANCASTER, KENTUCKY
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JUNE 30, 2022**

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Kentucky (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note K to the financial statements, in 2022, the City adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, historical pension information, and historical other post-employment benefit information on pages 4-9 and 40-47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
January 19, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

The management team for the City of Lancaster (the City) presents this narrative to help our readers review the accompanying annual financial statements for the year ended June 30, 2022. We have prepared this overview and analysis of the City's financial activities to add additional information to the financial schedules and the note disclosures. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

FINANCIAL HIGHLIGHTS

- As of June 30, 2022 the City's Assets (page 10) exceeded liabilities by \$9,704,858. This amount includes \$1,011,462 of resources that are restricted to specific projects by laws, regulations, or contractual agreements. The City has an unrestricted deficit net position of (\$3,860,238) as of June 30, 2022, primarily related to the City's net pension and other post-employment benefit liabilities and related deferrals.
- Unrestricted cash and investment balances (page 10) as of June 30, 2022 were \$837,704 and current liabilities payable from unrestricted resources were \$1,596,765.
- Net position increased by \$2,912,268 (page 11).
- Fund balances (A measure of current financial resources) in the governmental funds increased \$212 to \$144,372 (page 14). Of this amount \$21,373 (page 12) is unassigned and available for future programs, \$121,187 is restricted to use for municipal road aid expenditures, and \$1,812 is committed to use for planning and zoning activities.
- The general fund unassigned fund balance (page 12), as of June 30, 2022 was \$21,373 or about 1% of total general fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the City's basic financial statements. Basic financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide additional information that our readers can use to analyze our finances.

Government-wide financial statements - The government-wide financial statements are designed to provide our readers with an overview of the City's finances, presenting all funds in a more simplified format. This section is similar to financial reporting used by commercial entities.

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

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as transactions occur, regardless of when the related cash flows are reported. Therefore, some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods.

Government-wide statements are separated into two major categories: 1) *governmental activities* that are principally supported by taxes and intergovernmental revenues, and 2) *business-type activities* that are supported with user fees and charges. Governmental activities include administrative functions, streets, police, fire, recreation and community programs. Business-type activities include the water fund and the sewer fund.

The government-wide statements are found on pages 10 and 11 of this report.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

Fund financial statements - Funds are used in governmental accounting to separate resources that are designated for specific programs or activities. The City, like other state and local governments uses fund accounting to demonstrate compliance with the laws, regulations, and contractual agreements that establish the authority for the City's programs and services. Governments use three types of funds: governmental, proprietary, and fiduciary funds.

Governmental funds - Funds are used to account for the City's basic services, the same services that are included in the governmental activities on the government-wide statements. However, the information in the fund statements is measured differently. Governmental funds focus on current financial resources rather than economic resources. Therefore, the statements include the short-term resources, such as cash, investments, receivables that will be collected in the next few months, and liabilities that will be retired with these monies. This information is important for assessing the City's current financial resources.

The reconciliation in the fund statements explains the difference between the governmental funds in the fund statements and the governmental activities found in the government-wide financial statements. These reconciliations are presented on pages 13 and 15 in the fund statements. These reconciliations will explain the adjustments necessary to add the long-term resources and liabilities for the government-wide statements to the current picture presented in the fund statements.

The City maintains three individual governmental funds. Major governmental funds include the General Fund and Municipal Road Aid Fund. The Municipal Road Aid Fund is presented as a major fund this year because it includes significant grant funding from the Commonwealth of Kentucky that provided critical resources for our community.

The larger funds are presented on pages 12 and 14 as major funds. The governmental fund statements include a balance sheet and statement of revenues, expenditures, and changes in fund balances.

The City adopts budgets for all funds in accordance with Kentucky Revised Statutes Section 91A.030. The budgetary comparison for the General Fund and Municipal Road Aid Fund are presented on pages 40 and 41.

Proprietary funds - The City's proprietary funds include two enterprise funds. The enterprise funds include operations for the water utility and the sewer utility. The water and sewer funds are presented as major funds on pages 16 through 19.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the financial statements - Notes provide additional information that is essential to a full understanding of the information included in the financial schedules. Notes provide additional details about the balances and transactions in the City's financial statements and are presented on pages 20 through 39.

Other information - The last section of this report includes supplementary information. *Required supplementary Information* must be included to conform to generally accepted accounting principles. The budgetary comparisons for the General and Municipal Road Aid Fund, the Management's Discussion and Analysis, the net pension liability information, and the net other post-employment benefit information are classified as *required supplementary information*.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

Government-Wide Financial Analysis

The first statement in the government-wide statements is the Statement of Net Position. The following table summarizes the Statement of Net Position (page 10).

Net Position of Governmental and Business-type Activities (in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 661	\$ 526	\$ 3,104	\$ 3,890	\$ 3,765	\$ 4,416
Capital assets	1,866	1,530	24,642	19,952	26,508	21,482
Total assets	2,527	2,056	27,746	23,842	30,273	25,898
Deferred outflows of resources	694	955	551	727	1,245	1,682
Long-term debt outstanding	-	-	13,954	12,448	13,954	12,448
Net pension liability	2,010	2,514	1,286	1,544	3,296	4,058
Net OPEB liability	635	812	359	454	994	1,266
Other liabilities	411	367	1,901	2,331	2,312	2,698
Total liabilities	3,056	3,693	17,500	16,777	20,556	20,470
Deferred inflows of resources	861	196	396	122	1,257	318
Net position:						
Invested in capital assets, net of related debt	1,866	1,530	10,687	7,504	12,553	9,034
Restricted	121	34	890	1,275	1,011	1,309
Unrestricted (deficit)	(2,683)	(2,442)	(1,177)	(1,109)	(3,860)	(3,551)
Total Net Position	\$ (696)	\$ (878)	\$ 10,400	\$ 7,670	\$ 9,704	\$ 6,792

By far the largest portion of the City's net position (129%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. \$1,011,462 of the City's net position (page 10) are restricted to comply with provisions of various laws, regulations, and contractual agreements. Restricted funds in the business-type activities reflect the reserves required by the water and sewer bonds and loan covenants.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

The second statement in the government-wide statements is the Statement of Activities. The following table outlines the major components of this statement.

Change in Net Position of Governmental and Business-type Activities (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 544	\$ 531	\$ 2,500	\$ 2,465	\$ 3,044	\$ 2,996
Operating grants and contributions	253	298	-	2,267	253	2,565
Capital grants and contributions	-	-	3,212	-	3,212	-
General revenues:						
Property taxes	503	487	-	-	503	487
License fees and permits	954	926	-	-	954	926
Fines and forfeitures	262	75	-	-	262	75
Interest and investment earnings	1	1	7	8	8	9
Miscellaneous	59	38	60	88	119	126
Sale of asset-gain	(3)	24	-	-	(3)	24
Total Revenues	2,573	2,380	5,779	4,828	8,352	7,208
Program Expenses:						
General Government	876	901	-	-	876	901
Public Safety	1,657	1,830	-	-	1,657	1,830
Public Services	78	191	-	-	78	191
Water	-	-	1,998	2,076	1,998	2,076
Sewer system	-	-	831	817	831	817
Interest expense	-	-	-	-	-	-
Total Expenses	2,611	2,922	2,829	2,893	5,440	5,815
Excess (deficiency) before transfers and special items	(38)	(542)	2,950	1,935	2,912	1,393
Transfers	220	70	(220)	(70)	-	-
Increase (decrease) in net position	\$ 182	\$ (472)	\$ 2,730	\$ 1,865	\$ 2,912	\$ 1,393

Governmental services in the amount of \$1,456,847 are financed with taxes, license fees, and interest earnings.

Governmental activities increased the City's net position by \$182,347. This is primarily the result of lower pension and OPEB expense recognized during 2022 for the change in liabilities and related deferrals, government forfeiture sales of (\$258,438).

Business-type activities increased the City's net position by \$2,729,921. This increase is primarily related to capital grants of \$3,212,335 for the City's water treatment plant and sewer upgrades projects. This increase is net of depreciation expense of \$427,267 (a non-cash item).

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

Financial Analysis of the Government's Funds

The fund statements present the City's financial information in a more detailed format, but there are other differences as well. Fund statements provide important information about the City's compliance with laws and regulations that define the local government environment in Kentucky. The measurement principles in the governmental fund statements are also different than the government-wide statements. Fund statements focus on current resources, while the government-wide statements present the long-term view.

Governmental funds - Financial information for the City's governmental funds is summarized on pages 12 and 14. Governmental fund balances increased \$212.

Proprietary funds - The fund statements for the proprietary funds look much like the business-type activities in the government-wide statements. Proprietary fund financial information is measured with the same principles used by commercial enterprises, so this information does not change from the fund statements to the government-wide statements.

General Fund Budgetary Highlights

Budgetary comparison schedules include information about both the original budget and the amended budget. Generally, budgets are amended to add projects that were not anticipated when the budget was first adopted. Revenue budgets are usually estimated lower to allow budgetary flexibility for additional projects. There were no budget amendments in the general fund during the current year.

Capital Asset and Debt Administration

The City invests substantial resources in capital assets that support the services provided to the public. All of the City's outstanding bonds have been used to acquire or construct capital assets.

Capital Assets

The City's capital assets, net of accumulated depreciation are summarized below:

City of Lancaster, Kentucky Capital Assets (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 289,300	\$ 93,189	\$ 382,489
Plant buildings and maintenance	1,136,813	18,646,696	19,783,509
Equipment and vehicles	439,939	255,752	695,691
Construction in progress	-	5,646,193	5,646,193
Total	\$ 1,866,052	\$ 24,641,830	\$ 26,507,882

The increase in the City's capital assets is the result of multiple construction projects ongoing during the year. See Note M related to the ongoing projects.

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

Long-Term Debt

The principal outstanding on the City's long-term debt is summarized in the following table.

	Governmental Activities	Business-type Activities	Total
Series 2009 Revenue Bonds-Water	\$	\$ 798,000	\$ 798,000
Series 2010 Revenue Bonds-Water		1,351,000	1,351,000
Series 2019A Revenue Bonds-Water		4,372,000	4,372,000
Series 2021A Revenue Bonds-Water		2,865,500	2,865,500
KLC Bonds - Water		670,142	670,142
KLC Bonds - Sewer		485,275	485,275
KIA Loan - Sewer B08-02		165,734	165,734
KIA Loan - Sewer B16-013		166,328	166,328
KIA Loan - Water F18-007		3,080,269	3,080,269
Total	\$ -	\$ 13,954,248	\$ 13,954,248

The City refinanced interim financing on the sewer upgrades project with the proceeds from Series 2021A bonds in the amount of \$2,918,000. In addition, the City's KIA Loan for the water plant project increased \$93,027. Outstanding debt increased \$1,506,670 resulting from the new debt issued described above and current year scheduled principal payments.

Economic Factors and Next Year's Budget

The City currently has two large project commitments outstanding as of June 30, 2022. A discussion of these commitments can be found at footnote M on page 39 of the financial statements.

The City's management assesses the financial health of the City's funds on an ongoing basis and will continue to do so going forward. The most significant economic factors identified by the City's management that will have a direct adverse effect on the financial condition of the City next year and beyond are the continued increases in retirement rates mandated by the state related to the hazardous and non-hazardous duty employees. The rates are expected to continue to increase at a significant pace and will make it necessary for management to allocate the necessary funds to meet these higher retirement costs in the future. The funded status of the CERS plan will have a significant impact on the required contributions and the City's proportionate share of the net pension and OPEB liabilities. House Bill 362 passed during the 2018 legislative session caps the CERS employer contribution rate increases to 12 percent per year over the prior fiscal year through 2028.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Mayor or City Clerk's Office, 308 West Maple Avenue, Lancaster, KY 40444, telephone number (859) 792-2241.

BASIC FINANCIAL STATEMENTS

CITY OF LANCASTER, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 364,575	\$ 207,252	\$ 571,827
Investments (certificates of deposit)	34,390	231,487	265,877
Receivables, net of allowance:			
Taxes	82,625		82,625
Customer accounts	33,181	219,537	252,718
Grants	-	280,299	280,299
Other receivables	41,377		41,377
Lease receivable	104,738	-	104,738
Restricted assets:			
Cash and cash equivalents		1,908,291	1,908,291
Investments (certificates of deposit)		257,286	257,286
Capital assets not being depreciated:			
Land	69,300	93,189	162,489
Construction in progress		5,646,193	5,646,193
Other capital assets	2,907,439	31,693,036	34,600,475
Less: accumulated depreciation	(1,110,687)	(12,790,588)	(13,901,275)
Total assets	<u>2,526,938</u>	<u>27,745,982</u>	<u>30,272,920</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>694,497</u>	<u>550,789</u>	<u>1,245,286</u>
LIABILITIES			
Accounts payable	166,240	120,828	287,068
Accounts payable - contractors		1,086,918	1,086,918
Accrued expenses	39,606	9,981	49,587
Customer deposits		133,190	133,190
Accrued interest payable		40,002	40,002
Unearned grant revenue		715,834	715,834
Internal balances	205,930	(205,930)	-
Noncurrent liabilities:			
Due within one year		306,984	306,984
Due in more than one year		13,647,264	13,647,264
Net Pension Liability	2,009,612	1,285,985	3,295,597
Net OPEB Liability	634,664	358,954	993,618
Total liabilities	<u>3,056,052</u>	<u>17,500,010</u>	<u>20,556,062</u>
DEFERRED INFLOWS OF RESOURCES	<u>860,937</u>	<u>396,349</u>	<u>1,257,286</u>
NET POSITION			
Net investment in capital assets	1,866,052	10,687,582	12,553,634
Restricted for:			
Debt service		890,275	890,275
Municipal aid projects	121,187		121,187
Unrestricted (deficit)	(2,682,793)	(1,177,445)	(3,860,238)
Total net position	<u>\$ (695,554)</u>	<u>\$ 10,400,412</u>	<u>\$ 9,704,858</u>

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities						
General government	\$ (876,499)	\$ 544,346	\$	\$	\$ (332,153)	\$ (332,153)
Public safety	(1,656,831)		97,674		(1,559,157)	(1,559,157)
Public services	(78,084)		155,700		77,616	77,616
Total governmental activities	(2,611,414)	544,346	253,374		(1,813,694)	(1,813,694)
Business-type activities:						
Water	(1,997,869)	1,811,022		1,255,672		1,068,825
Sewer system	(830,919)	688,619		1,956,663		1,814,363
Total business-type activities	(2,828,788)	2,499,641		3,212,335		2,883,188
Total primary government	(5,440,202)	3,043,987	253,374	3,212,335	(1,813,694)	2,883,188
General revenues:						
Taxes, levied for general purposes					503,147	503,147
License fees and permits, levied for general purposes					953,700	953,700
Fines and forfeitures					261,920	261,920
Interest and investment earnings					1,288	7,139
Loss on sale of capital assets					(2,600)	(2,600)
Miscellaneous					58,586	59,594
Transfers (to) from other funds					220,000	(220,000)
Total general revenues, special items, and transfers					1,996,041	(153,267)
Change in net position					182,347	2,729,921
Net position - beginning					(877,901)	7,670,491
Net position - ending					\$ (695,554)	\$ 10,400,412

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022**

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Planning and Zoning</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 261,351	\$ 101,412	\$ 1,812	\$ 364,575
Investments (certificate of deposit)	34,390			34,390
Receivables (net of allowance):				
Property taxes	3,950			3,950
ABC taxes	8,629			8,629
Utility franchise tax	30,658			30,658
Payroll tax	39,388			39,388
Customer accounts	33,181			33,181
Other receivables	41,377			41,377
Lease receivable	52,205			52,205
Due from (to) other funds	(225,705)	19,775		(205,930)
 Total assets	<u>\$ 279,424</u>	<u>\$ 121,187</u>	<u>\$ 1,812</u>	<u>\$ 402,423</u>
LIABILITIES				
Accounts payable	\$ 166,240	\$	\$	\$ 166,240
Accrued expenses	39,606			39,606
 Total liabilities	<u>205,846</u>			<u>205,846</u>
DEFERRED INFLOWS OF RESOURCES				
Leases	52,205			52,205
 Total Deferred Inflows of Resources	<u>52,205</u>			<u>52,205</u>
FUND BALANCES				
Unassigned	21,373			21,373
Committed to planning & zoning use			1,812	1,812
Restricted to municipal road aid projects		121,187		121,187
 Total fund balances	<u>21,373</u>	<u>121,187</u>	<u>1,812</u>	<u>144,372</u>
 Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 279,424</u>	<u>\$ 121,187</u>	<u>\$ 1,812</u>	<u>\$ 402,423</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF NET POSITION
 YEAR ENDED JUNE 30, 2022

Total fund balance per fund financial statements	\$	144,372
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Amounts reported for *governmental activities* in the statement of net position are different because:

The Long-term portion of lease receivables are not current financial resources, but are recorded in the government-wide financial statements.

Long-term portion of lease receivable		52,533
Long-term portion of deferred inflow of resources		(52,533)

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position:

Governmental capital assets	2,976,739	
Less: accumulated depreciation	<u>(1,110,687)</u>	1,866,052

Certain items related to the City's net pension and OPEB liabilities do not affect available financial resources and therefore are not reported in the funds.		(2,705,978)
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Net position for governmental activities	<u>\$</u>	<u>(695,554)</u>
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See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

	General Fund	Municipal Road Aid Fund	Planning And Zoning	Total Governmental Funds
REVENUES:				
Taxes	\$ 503,147	\$	\$	\$ 503,147
Licenses & permits	953,700			953,700
Fines & forfeitures	261,920			261,920
Intergovernmental revenues	97,674	155,700		253,374
Charges for services	539,803		4,543	544,346
Interest	1,026	246	16	1,288
Other	57,228	1,358		58,586
Total revenues	2,414,498	157,304	4,559	2,576,361
EXPENDITURES:				
Current operating:				
General government	814,057			814,057
Public safety	1,427,010			1,427,010
Public services		70,246	6,638	76,884
Capital outlay	478,198			478,198
Total expenditures	2,719,265	70,246	6,638	2,796,149
Excess (deficiency) of revenues over expenditures before other sources and uses	(304,767)	87,058	(2,079)	(219,788)
Other financing sources (uses):				
Transfers (to) from other funds	217,000		3,000	220,000
Total other sources and uses	217,000		3,000	220,000
Net change in fund balances	(87,767)	87,058	921	212
Fund balances--beginning	109,140	34,129	891	144,160
Fund balances--ending	\$ 21,373	\$ 121,187	\$ 1,812	\$ 144,372

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

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

Net change in fund balances - total governmental funds	\$	212
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Depreciation expense		(139,801)
Capital outlay		478,198
Governmental funds report sales of capital assets as revenues while governmental activities report the sale less the undepreciated basis of the property		
		(2,600)
Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred:		
Prepaid insurance expense		(13,530)
In the fund financial statements, pension and OPEB costs are recognized as payments are made to the plans; however, in the government-wide financial statements, pension and OPEB costs are recognized based on the overall changes in the net pension liability, net OPEB liability, and deferred inflows and outflows of resources.		
		(140,132)
 Change in net assets of governmental activities	 \$	 <u>182,347</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 150,697	\$ 56,555	\$ 207,252
Investments (certificates of deposit)	100,828	130,659	231,487
Restricted cash, cash equivalents, and investments:			
Cash and cash equivalents	1,659,043	249,248	1,908,291
Receivables (net of allowance)	159,330	60,207	219,537
Grants receivable	6,247	274,052	280,299
Due (to) from other funds	(22,168)	228,098	205,930
Total current assets	<u>2,053,977</u>	<u>998,819</u>	<u>3,052,796</u>
Noncurrent assets:			
Restricted certificates of deposit	<u>27,675</u>	<u>229,611</u>	<u>257,286</u>
Total restricted assets	<u>27,675</u>	<u>229,611</u>	<u>257,286</u>
Capital assets:			
Land	78,913	14,276	93,189
Construction in progress	510,509	5,135,684	5,646,193
Other capital assets	24,839,725	6,853,311	31,693,036
Less: accumulated depreciation	<u>(7,471,701)</u>	<u>(5,318,887)</u>	<u>(12,790,588)</u>
Capital assets, net	<u>17,957,446</u>	<u>6,684,384</u>	<u>24,641,830</u>
Total noncurrent assets	<u>17,985,121</u>	<u>6,913,995</u>	<u>24,899,116</u>
TOTAL ASSETS	<u>20,039,098</u>	<u>7,912,814</u>	<u>27,951,912</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>394,770</u>	<u>156,019</u>	<u>550,789</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	81,385	39,443	120,828
Accounts payable - contractors	409,486	677,432	1,086,918
Accrued wages	7,724	2,257	9,981
Customer deposits	133,190		133,190
Unearned grant revenue	715,834		715,834
Accrued interest payable	30,860	9,142	40,002
Notes & revenue bonds payable - current	178,308	128,676	306,984
Total current liabilities	<u>1,556,787</u>	<u>856,950</u>	<u>2,413,737</u>
Noncurrent liabilities:			
Notes & revenue bonds payable	10,093,103	3,554,161	13,647,264
Net pension liability	944,445	341,540	1,285,985
Net OPEB liability	249,724	109,230	358,954
Total noncurrent liabilities	<u>11,287,272</u>	<u>4,004,931</u>	<u>15,292,203</u>
TOTAL LIABILITIES	<u>12,844,059</u>	<u>4,861,881</u>	<u>17,705,940</u>
DEFERRED INFLOWS OF RESOURCES	<u>288,463</u>	<u>107,886</u>	<u>396,349</u>
NET POSITION			
Net investment in capital assets	7,686,035	3,001,547	10,687,582
Restricted for debt service & bond covenants	1,686,718	478,859	2,165,577
Unrestricted	<u>(2,071,407)</u>	<u>(381,340)</u>	<u>(2,452,747)</u>
TOTAL NET POSITION	<u>\$ 7,301,346</u>	<u>\$ 3,099,066</u>	<u>\$ 10,400,412</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 1,777,702	\$ 688,619	\$ 2,466,321
Connection fees	33,320		33,320
Miscellaneous	45,414	14,180	59,594
Total operating revenues	<u>1,856,436</u>	<u>702,799</u>	<u>2,559,235</u>
Operating expenses:			
Personal services	625,042	197,785	822,827
Contractual services	679,752	226,858	906,610
Materials and supplies	282,477	188,905	471,382
Depreciation	273,243	154,024	427,267
Total operating expenses	<u>1,860,514</u>	<u>767,572</u>	<u>2,628,086</u>
Operating income (loss)	<u>(4,078)</u>	<u>(64,773)</u>	<u>(68,851)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	3,687	3,452	7,139
Interest expense	<u>(137,355)</u>	<u>(63,347)</u>	<u>(200,702)</u>
Total nonoperating revenue (expenses)	<u>(133,668)</u>	<u>(59,895)</u>	<u>(193,563)</u>
Income (loss) before contributions and transfers	(137,746)	(124,668)	(262,414)
Capital contributions - government grants	1,255,672	1,956,663	3,212,335
Transfers (to) from other funds	<u>(220,000)</u>		<u>(220,000)</u>
Change in net position	897,926	1,831,995	2,729,921
Total net position - beginning	<u>6,403,420</u>	<u>1,267,071</u>	<u>7,670,491</u>
Total net position - ending	<u>\$ 7,301,346</u>	<u>\$ 3,099,066</u>	<u>\$ 10,400,412</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,813,656	\$ 706,832	\$ 2,520,488
Payments to suppliers	(945,314)	(396,533)	(1,341,847)
Payments for personal services	(551,032)	(172,456)	(723,488)
Other receipts (payments)	45,414		45,414
	<u>362,724</u>	<u>137,843</u>	<u>500,567</u>
Net cash provided (used) by operating activities			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	(89,749)	(250,250)	(339,999)
	<u>(89,749)</u>	<u>(250,250)</u>	<u>(339,999)</u>
Net cash used by noncapital financing activities			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	1,249,426	1,901,675	3,151,101
Change in unearned grant proceeds	263,221	-	263,221
Acquisition and construction of capital assets	(2,176,608)	(3,531,247)	(5,707,855)
Proceeds from the issuance of debt	93,027	4,648,200	4,741,227
Principal paid on capital debt	(173,100)	(3,061,457)	(3,234,557)
Interest paid on capital debt	(144,471)	(63,598)	(208,069)
	<u>(888,505)</u>	<u>(106,427)</u>	<u>(994,932)</u>
Net cash provided (used) by capital and related financing activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(3,474)	(1,120)	(4,594)
Interest and dividends	3,687	3,452	7,139
	<u>213</u>	<u>2,332</u>	<u>2,545</u>
Net cash provided (used) by investing activities			
Net increase (decrease) in cash and cash equivalents	(615,317)	(216,502)	(831,819)
Cash and equivalents - beginning of year	<u>2,425,057</u>	<u>522,305</u>	<u>2,947,362</u>
Cash and equivalents - end of year	<u>\$ 1,809,740</u>	<u>\$ 305,803</u>	<u>\$ 2,115,543</u>

(Continued next page)

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2022

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
(Continued)			
Reconciliation of Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities			
Operating income (loss)	\$ (4,078)	\$ (64,773)	\$ (68,851)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	273,243	154,024	427,267
Change in assets and liabilities:			
Receivables, net	1,500	4,033	5,533
Prepaid expenses	7,911	4,899	12,810
Accounts payable	9,004	14,331	23,335
Accrued wages	1,768	150	1,918
Customer deposits	1,134		1,134
Net pension and OPEB liabilities and related deferrals	72,242	25,179	97,421
Net cash provided by operating activities	<u>\$ 362,724</u>	<u>\$ 137,843</u>	<u>\$ 500,567</u>
Supplemental Cash Flow Information:			
Construction in progress included in accounts payable	\$ 409,486	\$ 677,432	\$ 1,086,918

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE A – Summary of Significant Accounting Policies

The accounting policies of the City of Lancaster (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The City of Lancaster, Kentucky, was incorporated on February 23, 1837, under the provisions of the Commonwealth of Kentucky. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, planning and zoning, and general administrative services. Other services include water and sewer operations. The City has evaluated various organizations with which it is related and determined that there are no component units as defined in Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards Section 2100. Therefore, there are no component units included in the City's reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds (if any), even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are an exception, as they are considered available when eligible expenditures have occurred even though they may be collected for up to one year after the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when the liability has matured, with the exception of interest and principal which are recognized as expenditures when funds are transferred to the debt service fund to make payments due shortly after the fiscal year end.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Property taxes, franchise taxes, payroll taxes, licenses, interest revenue, intergovernmental revenue, and charges for services are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Fines, permits, net profit tax revenues and special assessments are considered to be measurable and available only when cash is received by the City.

Funds are classified into these categories; governmental, proprietary and fiduciary.

The City reports the following major governmental funds:

The general fund is the government'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 municipal road aid fund is used to account for revenues and expenditures of funds related to the Kentucky Street Improvement Program.

The City reports the following major proprietary funds:

The water utility fund and the sewer utility fund account for the activities of the utility services provided to the residents of the City and the surrounding areas.

The City follows the guidance provided in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* in the preparation of its financial statements. GASB Statement No. 62 directly incorporates the applicable Pre-November 30, 1989 guidance previously included in FASB and AICPA Pronouncements.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments from the various funds to the general fund to compensate the general fund for administrative services provided.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The water and sewer fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make use of estimates that affect reported amounts in the basic financial statements. Actual results could differ from estimates.

Assets, liabilities, and net position or equity

1. Cash Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments, which consist of highly liquid investments with original maturities of three months or less from the date of acquisition.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Kentucky Revised Statute 66.480 generally limits the City to investing in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, and interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

Certain cash amounts are classified on the statement of net position as restricted because applicable bond indentures or other legal provisions limit their use. Restricted cash and cash equivalents are included and used for their respective purpose.

For the purpose of the statement of cash flows, the City considers cash equivalents to be highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

2. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for un-collectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for un-collectibles. The property tax receivable allowance is based on varying percentages depending on the age of the receivable.

3. Inventories

Inventory of supplies and materials is charged to expenditures when purchased. Therefore, the City does not have any inventory to report.

4. Restricted Assets

Certain resources set aside for the repayment of the Water and Sewer Fund debt have been classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond and loan covenants. The restricted assets have been accounted for in accordance with the provisions of the Water and Sewer Fund revenue bond resolutions, loan agreements, or with state or federal laws and regulations.

Debt Service Reserve - The City is required to set aside the maximum annual debt service. The City must continue deposits into the debt service reserve until the funds equal the amount required to retire all outstanding bonds and related accrued interest.

Depreciation Reserve - Revenue bond covenants require the City to set aside funds monthly into separate depreciation reserve accounts. Also, Kentucky Infrastructure Authority (KIA) covenants require the City to set aside funds monthly into separate replacement reserve accounts.

5. Capital Assets

Capital assets, which include land, property, plant, infrastructure, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected to prospectively report newly acquired or constructed general infrastructure assets, pursuant to the provisions of GASB Statement No. 34.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at fair market value on the date received.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Infrastructure, buildings, improvements, plant, equipment, and other capital assets of the government are depreciated using the straight-line method over the following estimated useful lives.

Infrastructure	10-50 Years
Buildings	20-50 Years
Improvements	10-20 Years
Water & Sewer Distribution System	10-50 Years
Machinery & Equipment	5-10 Years
Vehicles	3-10 Years

6. Accumulated Unpaid Vacation and Sick Pay

Accumulated unpaid vacation and sick pay have not been accrued because the employees have no vested or accumulated rights.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the term of the related issues. Bonds payable are reported net of the applicable discounts and issuance costs.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Pensions

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

9. Other Postemployment Benefits (OPEB)

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

10. Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences accrue as they are earned. However, the amount accrued at year-end was not material.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

11. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 19, 2023, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2022, have not been evaluated by the City.

12. Equity Classifications

Government-wide financial statements classify equity as net position. Net position is displayed in three components:

- a. **Net investment in capital assets** consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. **Restricted net position** consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, and by law through constitutional provisions or enabling legislation.
- c. **Unrestricted net position** consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Fund financial statements report governmental fund equity as fund balance. Fund balance is further classified:

- a. **Non-spendable fund balance** includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. **Restricted fund balance** includes amounts that are restricted to specific purposes either (a) by externally imposed creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. **Committed fund balance** includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The City's highest level of decision-making authority is the City Council.
- d. **Assigned fund balance** includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City's Mayor is authorized to assign the fund balance. The City has not adopted formal procedures to show that the mayor has assigned the fund balance.
- e. **Unassigned fund balance** represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City has determined that when both restricted and unrestricted funds are available, that they will use the restricted resources first. In addition, when expenditures could be deemed to have been expended by using committed, assigned or unassigned funds, the City has determined that the funds will be first categorized as assigned, second as committed and third as unassigned.

Proprietary fund equity is classified the same as in government-wide statements.

13. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balances in the governmental funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. Capital assets, prepaid expenses, notes receivable, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual basis of accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

depreciation expense. Loans to other entities are added and repayments of those loans are subtracted. Debt proceeds are subtracted, while principal payments on long-term debt are eliminated from the operating costs.

NOTE B - Stewardship, Compliance, and Accountability

Budgetary Information

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

Kentucky Revised Statutes 91A.030 requires the preparation and adoption of an annual budget in the form of an appropriations ordinance before the City may expend any monies from any governmental or proprietary fund and prohibits expenditures or expenses in excess of appropriations. KRS further provides that the full amount of debt service be appropriated. All appropriations lapse at year-end. The City's general fund expenditures exceeded its budget by \$563,165 for the year ended June 30, 2022.

To meet the legal requirements for appropriations, all budgets are presented on a modified accrual basis. For proprietary funds this means that certain capitalized receipts and disbursements are budgeted along with related revenue and expense, that depreciation, a non-cash expenditure, is not budgeted, and that the full amount of debt service is budgeted.

Under Kentucky Revised Statutes, all local government units are required to have a June 30 fiscal year-end. The City of Lancaster has a June 30 fiscal year-end.

Public hearings are conducted to obtain citizen comments and in order to comply with various federal and state mandates.

Prior to June 30, the budget is legally enacted through passage of an ordinance by the city.

Formal budgetary integration is utilized as a management control device for all governmental fund types and the water and sewer funds.

An encumbrance system under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded is maintained. Encumbrances maintained at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are re-appropriated in the next budget year.

Property taxes

The City bills and collects its property taxes through the Garrard County Sheriff's Office. The City elects to use annual property assessments prepared by the Garrard County Property Valuation Administrator. According to the Kentucky Revised Statutes, the assessment date for the City must conform to the January 1 assessment date of Garrard County.

For the year ended June 30, 2022, taxes were levied November 1, 2021 and were payable by December 31, 2021. A 2% penalty was imposed on all taxes delinquent as of January 1, 2022 and a 10% penalty was imposed on all taxes delinquent as of February 1, 2022.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$1.00 per \$100 assessed valuation for general governmental services other than school purposes. Legislation passed by the Kentucky General Assembly imposed severe limits on the ability of a city to significantly increase property tax revenues. A city may not increase its revenues from taxes on real property, exclusive of increases due to assessment growth without giving notice of such an increase and holding a public hearing on the matter. If that increase is less than 4%, that is all that is necessary, but if the increase is more than 4%, residents of the City may petition for an election to be held on the question. If the majority of those voting in a valid election vote against the proposed rate increase, the rate must be rolled back to one which will not produce more than a 4% increase. City tax rates of 15.6 cents per \$100 on real property, 26 cents per \$100 on personal property, and 24.2 cents per \$100 on vehicles for the fiscal year ended June 30, 2022, are within permissible limits under the above legislation.

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NOTE C – Cash Deposits and Investments

Deposits

The City is required by Kentucky Revised Statutes to have the financial institution pledge securities having a current quoted market value at least equal to the uninsured deposits. At year end, the City is fully collateralized and all pledged investments were held in the City's name.

Investments

A reconciliation of cash and investments as shown on the Government-Wide Statement of Net Position at June 30, 2022 is as follows:

	Carrying Value	Bank Balance
Deposits	\$ 2,480,118	\$ 3,031,366
Investments	523,163	523,163
Total	\$ 3,003,281	\$ 3,554,529
Cash and cash equivalents	\$ 571,827	
Investments - CD's	265,877	
Cash and cash equivalents-restricted	1,908,291	
Investments-restricted CD's	257,286	
Total	\$ 3,003,281	

The City's investments at June 30, 2022 are as follows:

Type of Investment	Fair Value	Cost	Interest Rate	Maturity Date
Governmental Activities:				
Farmers National Bank				
Certificate of Deposit	\$ 34,390	\$ 34,390	0.10%	08/15/22
Business Type Activities:				
Farmers National Bank				
Certificate of Deposit	\$ 26,338	\$ 26,338	0.10%	07/28/22
Certificate of Deposit	27,675	27,675	0.50%	11/17/23
Certificate of Deposit	20,765	20,765	0.10%	11/17/22
Certificate of Deposit	130,659	130,659	0.15%	04/13/23
Certificate of Deposit	100,828	100,828	0.05%	08/20/22
Whitaker Bank				
Certificate of Deposit	182,508	182,508	0.55%	06/27/27
	\$ 488,773	\$ 488,773		

Interest Rate Risk. The City does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. One hundred percent of the City's investments are in bank certificates of deposits.

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. The City has 100% of its investments in bank certificates of deposit (in 2 different banks).

CITY OF LANCASTER, KENTUCKY
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Custodial Credit Risk. Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits and investments that are in the possession of the financial institution. The City's investment policy dictates that all cash maintained in any financial institution named as a depository be insured or collateralized, the collateral held in the name of the City, and that investments be registered in the name of the City. Collateral must be held by an independent third-party custodian.

Note D – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Land	\$ 69,300	\$ 220,000	\$	\$ 289,300
Buildings	1,610,459			1,610,459
Equipment and vehicles	984,008	258,198	(165,226)	1,076,980
Total cost	<u>2,663,767</u>	<u>478,198</u>	<u>(165,226)</u>	<u>2,976,739</u>
Less accumulated depreciation:				
Buildings	(425,482)	(48,164)		(473,646)
Equipment and vehicles	(708,030)	(91,637)	162,626	(637,041)
Total accumulated depreciation	<u>(1,133,512)</u>	<u>(139,801)</u>	<u>162,626</u>	<u>(1,110,687)</u>
Governmental activities capital assets, net	<u><u>\$ 1,530,255</u></u>	<u><u>\$ 338,397</u></u>	<u><u>\$ (2,600)</u></u>	<u><u>\$ 1,866,052</u></u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Land	\$ 79,643	\$ 13,546	\$	\$ 93,189
Water and Sewer plant	17,937,135	11,899,675		29,836,810
Equipment	1,502,633	75,880		1,578,513
Vehicles	277,713			277,713
Construction in progress	12,517,831	5,028,037	(11,899,675)	5,646,193
Total cost	<u>32,314,955</u>	<u>17,017,138</u>	<u>(11,899,675)</u>	<u>37,432,418</u>
Less accumulated depreciation:				
Water and Sewer plant	(10,795,418)	(394,696)		(11,190,114)
Equipment	(1,308,787)	(19,923)		(1,328,710)
Vehicles	(259,116)	(12,648)		(271,764)
Total accumulated depreciation	<u>(12,363,321)</u>	<u>(427,267)</u>		<u>(12,790,588)</u>
Business-type activities capital assets, net	<u><u>\$ 19,951,634</u></u>	<u><u>\$ 16,589,871</u></u>	<u><u>\$ (11,899,675)</u></u>	<u><u>\$ 24,641,830</u></u>

CITY OF LANCASTER, KENTUCKY
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 38,644
Public Safety	99,957
Public Services	<u>1,200</u>
	<u>\$ 139,801</u>
Business-type activities:	
Water	\$ 273,243
Sewer	<u>154,024</u>
	<u>\$ 427,267</u>

The City has an active water treatment plant construction project and a sewer system upgrades project at the end of the fiscal year. See Note M for commitments related to these projects. The costs incurred to date for these projects are included in "construction in progress" on the water and sewer fund's balance sheet.

Note E – Retirement Plan

The City is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. 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. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2022, plan members were required to contribute 5.00% of wages for non-hazardous job classifications, and 8.00% for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 the basis of an annual valuation last proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2022, participating employers contributed 26.95% of each employee's wages for non-hazardous job classifications (24.06% for the year ended June 30, 2021) and 44.33% for hazardous job classifications (39.58% for the year ended June 30, 2021), which is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members in non-hazardous job classifications contribute 5.00% of wages to their own account and 1% to the health insurance fund. Plan members in hazardous job classifications contribute 8.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each 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,

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their account is credited with a 4% employer pay credit. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2022, the City contributed \$241,670 for non-hazardous job classifications, and \$116,447 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$189,839 to the CERS pension fund and \$51,831 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$88,944 to the CERS pension fund and \$27,503 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2022, the City reported a liability of \$3,295,597 for its proportionate share of the net pension liability. The liability consisted of \$2,078,378 for non-hazardous job classifications and \$1,217,219 for hazardous job classifications. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2021. 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. At June 30, 2022, the City's proportion was .032598% for non-hazardous employees and .045722% for hazardous employees, which was equal to its proportion measured as of June 30, 2021. At June 30, 2021, the City's proportion was .034548% for non-hazardous employees and .046720% for hazardous employees, which was equal to its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the City recognized pension expense of \$189,325. At June 30, 2022, 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
Differences between expected and actual results	\$ 57,433	\$ 20,172
Changes of assumptions	43,097	-
Net difference between projected and actual earnings on Plan investments	119,496	527,180
Changes in proportion and differences between City contributions and proportionate share of contributions	122,906	110,268
City contributions subsequent to the measurement date	278,783	-
Total	\$ 621,715	\$ 657,620

The \$278,783 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2023	\$ 23,239
2024	(118,026)
2025	(91,477)
2026	(128,424)

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Actuarial Assumptions – The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth	2.00%
	3.30% to 10.30% varied by service inflation for nonhazardous
Salary increases	3.55% to 19.05% varied by service inflation for hazardous
Investment rate of return	6.25%, net of Plan investment expense, including inflation

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The 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 Nominal Real Rate of Return
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Cash	1.50%	-0.60%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.25% for assumes that the funds receive

CITY OF LANCASTER, KENTUCKY
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the required employer contributions each future year. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of the total pension liability and only impacted the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis. The discount rate determination does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current rate:

	Discount rate	Hazardous	Nonhazardous	Total
1% decrease	5.25%	1,551,514	2,665,619	4,217,133
Current discount rate	6.25%	1,217,219	2,078,378	3,295,597
1% increase	7.25%	944,770	1,592,451	2,537,221

Payable to the Pension Plan – At June 30, 2022, the City reported a payable of \$32,760 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022. The payable includes both the pension and insurance contribution allocation.

NOTE F – Other Post-Employment Benefit Plan (OPEB)

The City is a participating employer of the County Employees' Retirement System (CERS). The provisions of House Bill 484 during the 2020 Regular Session of the Kentucky General Assembly and House Bill 9 passed during the 2021 Regular Session of the Kentucky General Assembly changed the governance and administration of the plan. Governance of the CERS has been transferred to a separate 9-member board and the administrative entity has changed its name to the Kentucky Public Pensions Authority. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit other postemployment benefit plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for health insurance benefits to plan members. Health insurance benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – For the year ended June 30, 2022, plan members were required to contribute 5.00% of wages for non-hazardous job classifications, and 8.00% for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 the basis of an annual valuation last proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2022, participating employers contributed 26.95% of each employee's wages for non-hazardous job classifications (24.06% for the year ended June 30, 2021) and 44.33% for hazardous job classifications (39.58% for the year ended June 30, 2021), which is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and

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a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members in non-hazardous job classifications contribute 5.00% of wages to their own account and 1% to the health insurance fund. Plan members in hazardous job classifications contribute 8.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each 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. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2022, the City contributed \$241,670 for non-hazardous job classifications, and \$116,447 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$189,839 to the CERS pension fund and \$51,831 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$88,944 to the CERS pension fund and \$27,503 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2022, the City reported a liability of \$993,618 for its proportionate share of the net OPEB liability. The liability consisted of \$623,919 for non-hazardous job classifications and \$369,699 for hazardous job classifications. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2021. The City's proportion of the net OPEB 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. At June 30, 2022, the City's proportion was .032590 percent for non-hazardous employees and .045723% for hazardous employees, which was equal to its proportion measured as of June 30, 2021. At June 30, 2021, the City's proportion was .034538 percent for non-hazardous employees and .046706% for hazardous employees, which was equal to its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the City recognized OPEB expense of \$48,228. At June 30, 2022, 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
Differences between expected and actual results	\$ 109,663	\$ 226,055
Changes of assumptions	258,125	718
Net difference between projected and actual earnings on Plan investments	54,754	221,944
Changes in proportion and differences between City contributions and proportionate share of contributions	121,695	46,211
City contributions subsequent to the measurement date	79,334	-
Total	\$ 623,571	\$ 494,928

The \$79,334 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,		
2023	\$	36,445
2024		33,089
2025		21,762
2026		(48,348)
2027		6,362

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Actuarial Assumptions – The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% varied by service for nonhazardous 3.55% to 19.05% varied by service for hazardous
Investment rate of return	6.25%
Healthcare trend rates:	
Pre - 65	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. 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.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using the health care trend rate described above, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Hazardous	Nonhazardous	Total
1% decrease	242,246	449,148	691,394
Current healthcare tend rate	369,699	623,919	993,618
1% increase	525,795	834,871	1,360,666

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Cash	1.50%	-0.60%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.20% (5.34% in prior year) for non-hazardous and 5.05% (5.30% in prior year) for hazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of the total OPEB liability and only impacted the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis.

The discount rate uses an expected rate of return of 6.25%, and a municipal bond rate of 1.92%, as reported in the Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2021. However, the cost associated with the implicit employer subsidy was not included in the calculation of the actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The City’s proportionate share of the implicit subsidy was \$23,163 at June 30, 2022.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net OPEB liability calculated using the discount rate of 5.20% for non-hazardous and 5.05% for hazardous, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.05% for hazardous and 4.20% for nonhazardous) or 1-percentage-point higher (6.05% for hazardous and 6.20% for nonhazardous) than the current rate:

	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Total</u>
1% decrease	535,991	856,636	1,392,627
Current discount rate	369,699	623,919	993,618
1% increase	236,090	432,936	669,026

Payable to the Pension Plan – At June 30, 2022, the City reported a payable of \$32,760 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2022. The payable includes both the pension and insurance contribution allocation.

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NOTE G – Long Term Debt

Revenue Bonds – Water and Sewer Funds

Water and Sewer Revenue Bonds outstanding at June 30, 2022 are as follows:

Series	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2022
Series 2009	1,015,000	2.375%	2048	\$ 798,000
Series 2010	1,641,000	2.500%	2050	1,351,000
KLC Bond Series 2020	1,430,000	2.560%	2042	1,155,417
Series 2019A	4,500,000	1.500%	2060	4,372,000
Series 2021A	2,918,000	1.250%	2061	2,865,500
				<u>\$ 10,541,917</u>

Revenue Bond Debt Service Requirements

The annual principal and interest requirements of the water and sewer revenue bonds payable as of June 30, 2022, are as follows:

Year Ending June 30,	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 178,308	\$ 136,714	\$ 93,775	\$ 49,149	\$ 272,083	\$ 185,863
2024	184,208	132,953	96,875	47,563	281,083	180,516
2025	188,400	129,065	99,100	45,719	287,500	174,784
2026	193,608	125,083	100,975	43,929	294,583	169,012
2027	198,800	120,993	103,200	42,105	302,000	163,098
2028-2032	872,183	548,150	398,650	187,999	1,270,833	736,149
2033-2037	963,116	456,728	414,550	156,423	1,377,666	613,151
2038-2042	1,060,019	351,838	423,650	121,214	1,483,669	473,052
2043-2047	1,096,000	245,184	379,500	91,972	1,475,500	337,156
2048-2052	930,500	143,686	411,000	67,499	1,341,500	211,185
2053-2057	795,000	76,260	445,500	40,901	1,240,500	117,161
2058-2061	531,000	16,080	384,000	12,119	915,000	28,199
Total	<u>\$ 7,191,142</u>	<u>\$ 2,482,734</u>	<u>\$ 3,350,775</u>	<u>\$ 906,592</u>	<u>\$ 10,541,917</u>	<u>\$ 3,389,326</u>

Total Debt Service by Bond Series

	Principal	Interest	Total Payment
Series 2009 Revenue Bonds - Water	\$ 798,000	\$ 284,371	\$ 1,082,371
Series 2010 Revenue Bonds - Water	1,351,000	547,738	1,898,738
KLC Revenue Series 2020 Bonds - Water	670,142	161,365	831,507
KLC Revenue Series 2020 Bonds - Sewer	485,275	116,856	602,131
Series 2019A Revenue Bonds - Water	4,372,000	1,489,260	5,861,260
Series 2021A Revenue Bonds - Sewer	2,865,500	789,735	3,655,235
Total	<u>\$ 10,541,917</u>	<u>\$ 3,389,325</u>	<u>\$ 13,931,242</u>

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Bond Covenants and Provisions

Under the various bond ordinances passed for the Water and Sewer Revenue Bonds, certain covenants and provisions for the collection, segregation, and distribution of revenues of the water and sewer system were established. The 2019A Bonds require \$1,560 into a "depreciation fund" until the balance reaches \$187,200. The 2019A Bonds also require \$5,417 to be deposited monthly into a "short-lived water system assets" account.

For the fiscal year ended June 30, 2022, the City is in substantial compliance with all covenants and provisions of the loan agreements.

Kentucky Infrastructure Authority Loans – Water and Sewer Funds

On December 1, 2008, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow \$490,000 with an interest rate of 0.60% to be repaid over a twenty-year period. The proceeds of this loan were used to fund an expansion of the City's Waste Water Treatment Plant.

On June 2, 2016, the City entered into an agreement with the Kentucky Infrastructure Authority to borrow \$406,868 with an interest rate of 0.75% to be repaid over a twenty-year period, beginning December 1, 2018 and maturing June 1, 2038. The proceeds of this loan were used to fund the City's Waste Water Treatment Plant Sand Filter Replacement Project.

On May 29, 2018, the City entered into an agreement to borrow \$4,000,000 with an interest rate of 0.50% to be repaid over a thirty-year period, beginning six months from the date of the last draw. The amount of the loan was increased by \$400,000 to \$4,400,000. This loan qualified for \$1,000,000 of principal forgiveness, which was recognized in the prior year. The proceeds of this loan are being used to fund a portion of the City's Water Plant Project.

The Kentucky Infrastructure Authority Loans outstanding at June 30, 2022 are as follows:

Issue	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2022
KIA Loan (B08-02)	490,000	0.60%	2029	\$ 165,734
KIA Loan (B16-013)	406,868	0.75%	2038	166,328
KIA Loan (F18-007)	4,400,000	0.50%	2052	3,080,269
				<u>\$ 3,412,331</u>

The annual principal and interest requirements of the above loans are as follows:

Year Ending June 30,	Sewer	
	Principal	Interest
2023	\$ 34,901	\$ 2,505
2024	35,126	2,230
2025	35,352	1,953
2026	35,579	1,675
2027	35,809	1,395
2028-2032	90,576	3,811
2033-2037	53,730	1,527
2038-2038	10,989	62
Total	<u>\$ 332,062</u>	<u>\$ 15,158</u>

The annual principal and interest requirements for the Kentucky Infrastructure Loans above do not include KIA Loan F18-007 because as of June 30, 2022, the loan had not yet been amortized. At June 30, 2022, the City had not yet drawn \$319,731 of the funds available on this loan.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

Certain Covenants contained in the above loan agreements are as follows:

- 1) The City shall maintain service charges for water and sewer activities sufficient to pay the Authority the minimum sums set forth in the loan agreement.
- 2) The City shall place \$4,750 into a "replacement reserve account" on or before December 1 of each year. These annual deposits are to be made until the balance reaches \$39,073 and maintained for the life of the loan. The final payment was made October 1, 2007.
- 3) The City shall place \$1,000 into a "replacement reserve account" on or before December 1 of each year. These annual deposits are to be made until the balance reaches \$10,000 and maintained for the life of the loan. This amount is fully funded.
- 4) The City shall place \$11,000 into a "replacement reserve account" on or before December 1 of each year, beginning December 1, 2022. These annual deposits are to be made until the balance reaches \$220,000 and maintained for the life of the loan.
- 5) Other miscellaneous provisions.

For the fiscal year ended June 30, 2022, the City is in substantial compliance with all covenants and provisions of the KIA loan agreements.

These loans are subordinate to any previous debt of the City, including U.S. Department of Agriculture Rural Development Debt and Kentucky League of Cities Revenue Bonds.

Whitaker Bank Loan - Sewer Fund

The City entered into a loan agreement with Whitaker Bank in an amount not to exceed \$2,918,000 to serve as interim financing to fund a portion of the Sewer Upgrades Project discussed in Note M. The Loan had an interest rate of 2.60% and matured February 7, 2022. The Whitaker Bank Loan was refunded with permanent financing from Rural Development Series 2021A Revenue Bonds. As of June 30, 2022, the Whitaker Bank Loan was paid in full.

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue Bonds:					
Revenue Bonds-Water Fund	\$ 6,639,000	\$ -	\$ (118,000)	\$ 6,521,000	\$ 122,000
Revenue Bonds-Sewer Fund	-	2,918,000	(52,500)	2,865,500	53,000
KLC Bonds-Water Fund	725,242	-	(55,100)	670,142	56,308
KLC Bonds-Sewer Fund	525,175	-	(39,900)	485,275	40,775
Total Bonds Payable	<u>7,889,417</u>	<u>2,918,000</u>	<u>(265,500)</u>	<u>10,541,917</u>	<u>272,083</u>
Revenue Bond Anticipation Notes (BANs)					
Whitaker Bank Revenue BANs-Sewer Fund	1,204,179	1,730,200	(2,934,379)	-	-
Total Revenue Bond Anticipation Notes	<u>1,204,179</u>	<u>1,730,200</u>	<u>(2,934,379)</u>	<u>-</u>	<u>-</u>
KIA Loans:					
KIA Loan-Water Fund	2,987,242	93,027	-	3,080,269	-
KIA Loans-Sewer Fund	366,740	-	(34,678)	332,062	34,901
Total KIA Loans	<u>3,353,982</u>	<u>93,027</u>	<u>(34,678)</u>	<u>3,412,331</u>	<u>34,901</u>
Business-type activity long-term liabilities	<u>\$ 12,447,578</u>	<u>\$ 4,741,227</u>	<u>\$ (3,234,557)</u>	<u>\$ 13,954,248</u>	<u>\$ 306,984</u>

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE H - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

There are no lawsuits or pending litigation that the City believes will have a material effect on its financial statements.

NOTE I - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation claims. Significant losses are covered by commercial insurance for all major programs except unemployment compensation and workers' compensation, for which the City retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage from prior years. Also, there have been no settlements exceeding insurance coverage for each of the past three years. The City participates in two pooled self-insurance programs sponsored by the Kentucky League of Cities. These include unemployment compensation and workers' compensation.

NOTE J – Economic Dependency

During the fiscal year ended June 30, 2022, approximately 58% of the water fund's operating revenue was derived from two wholesale users. The contract with one of these wholesale users runs through December 31, 2028. The contract with the other wholesale user was renewed during 2018 to extend the contract through June 30, 2062. The new agreement requires a minimum purchase agreement of 325,000,000 gallons when the new Water Treatment Plant Project is substantially completed and placed into service, which occurred during 2022.

NOTE K – Lease

During the fiscal year ended June 30, 2022, the City adopted GASB Statement No. 87, *Leases*. This standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The City has a lease agreement with the Commonwealth of Kentucky, Department of Corrections, Probation and Parole Division (Lessee) to lease certain premises to the Commonwealth in the amount of \$39,390 per year. The lease called for automatic extensions annually through June 30, 2024 in the amount of \$52,780 annually. Upon adoption of GASB Statement No. 87, the City recognized a lease receivable and corresponding deferred inflow of resources in the statement of net position at the present value of the remaining lease payments, using a discount rate of 0.75%. At June 30, 2022, the lease receivable was \$104,738. There was no impact on beginning net position resulting from implementing this new standard. Future payments to be received on the lease are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2023	\$ 52,204	\$ 576	\$ 52,780
2024	52,534	246	52,780
	<u>\$ 104,738</u>	<u>\$ 822</u>	<u>\$ 105,560</u>

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE L – Internal Balances and Transfers

The following interfund payables and receivables occurred as of June 30, 2022:

Fund	Due from Other Funds	Due to Other Funds	Fund Total Due From (To)
General Fund	\$ -	\$ (225,705)	\$ (225,705)
Municipal Road Aid Fund	19,775	-	19,775
Water Fund	381,211	(403,379)	(22,168)
Sewer Fund	405,879	(177,781)	228,098
	<u>\$ 806,865</u>	<u>\$ (806,865)</u>	<u>\$ -</u>

The general fund internal balance is made up of \$2,500 due to the sewer fund and \$2,500 due to the water fund for a transfer from the short-lived asset bank account to cover expenses. The general fund also owes the water fund \$203,430 transferred to the general fund to cover payroll and related operating expenses. The general fund also owes the municipal road aid fund \$19,775 for state road aid amounts that were electronically deposited to general fund bank account incorrectly.

The water fund internal balance is made up of \$403,379 deposited into a water fund bank account that relate to sewer grant revenues. The water fund is also owed \$108,780 from the sewer fund for debt service paid out of a water bank account for sewer debt payments and \$69,001 paid out of a water bank account for sewer construction projects.

Transfers of \$220,000 from the water fund to the general fund, represent land purchased by the City for the Parks and Recreation Department that was paid for out of excess funds in the water fund bank account. This represents a transfer and will not be repaid by the general fund.

NOTE M – Commitments

As of June 30, 2022, there are three major construction projects in progress.

1. The Sewer Upgrades Project has a budget of \$5,567,303. As of June 30, 2022, \$5,050,893 had been spent on the project. The Project is being funded by the following sources.

1. Rural Development Loan	\$ 2,918,000
2. Rural Development Grant or Loan	1,274,200
3. ARC Grant	372,600
4. CDBG Grant	1,000,000
5. City Contribution	2,503
Total Funding	<u>\$ 5,567,303</u>

2. The City is in the planning and design stage for water upgrades for a Distillery located in the City. As of June 30, 2022, \$201,759 had been spent on the project.
3. The City has a construction project (“Pleasant Retreat Water Main Extension”) in progress for water a water main extension. As of June 30, 2022, \$303,060 had been spent on the project. The estimated budget for the project is \$568,544 and is being funded with Coronavirus State and Local Recovery Funds (ARPA).

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LANCASTER, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 475,000	\$ 475,000	\$ 503,147	\$ 28,147
Licenses & permits	979,000	979,000	953,700	(25,300)
Fines & forfeitures	12,600	12,600	261,920	249,320
Intergovernmental revenues	204,400	204,400	97,674	(106,726)
Charges for services	494,390	494,390	539,803	45,413
Interest	100	100	1,026	926
Other	150,000	150,000	57,228	(92,772)
Total revenues	<u>2,315,490</u>	<u>2,315,490</u>	<u>2,414,498</u>	<u>99,008</u>
EXPENDITURES:				
Current operating:				
General government	709,000	709,000	814,057	(105,057)
Public safety	1,283,100	1,283,100	1,427,010	(143,910)
Capital outlay	164,000	164,000	478,198	(314,198)
Total expenditures	<u>2,156,100</u>	<u>2,156,100</u>	<u>2,719,265</u>	<u>(563,165)</u>
Excess (deficiency) of revenues over expenditures before transfers and other sources	159,390	159,390	(304,767)	(464,157)
Other financing sources (uses):				
Transfers (to) from other funds			217,000	217,000
Total other sources and uses	<u>-</u>	<u>-</u>	<u>217,000</u>	<u>217,000</u>
Excess (deficiency) revenues over expenditures	159,390	159,390	(87,767)	(247,157)
Fund balances--beginning	109,140	109,140	109,140	-
Fund balances--ending	<u>\$ 268,530</u>	<u>\$ 268,530</u>	<u>\$ 21,373</u>	<u>\$ (247,157)</u>

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY
MUNICIPAL ROAD AID FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2022**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal road aid	\$ 80,000	\$ 80,000	\$ 155,700	\$ 75,700
Interest	60	60	246	186
Other	-	-	1,358	1,358
Total revenues	<u>80,060</u>	<u>80,060</u>	<u>157,304</u>	<u>77,244</u>
EXPENDITURES:				
Current operating:				
Public services	80,000	80,000	70,246	9,754
Total expenditures	<u>80,000</u>	<u>80,000</u>	<u>70,246</u>	<u>9,754</u>
Excess (deficiency) revenues over expenditures	60	60	87,058	86,998
Fund balances--beginning	34,129	34,129	34,129	-
Fund balances--ending	<u>\$ 34,189</u>	<u>\$ 34,189</u>	<u>\$ 121,187</u>	<u>\$ 86,998</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Nine Fiscal Years*

	Hazardous								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.045722%	0.046720%	0.046341%	0.048312%	0.050524%	0.055165%	0.057857%	0.063241%	0.063241%
City's proportionate share of the net pension liability (asset)	\$ 1,217,219	\$ 1,408,621	\$ 1,280,075	\$ 1,168,405	\$ 1,130,363	\$ 946,598	\$ 888,160	\$ 759,851	\$ 845,582
City's covered employee payroll	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311
City's share of the net pension liability (asset) as a percentage of its covered payroll	463.38%	515.22%	468.99%	442.71%	417.92%	337.19%	309.68%	256.76%	263.99%
Plan fiduciary net position as a percentage of the total pension liability	52.26%	44.11%	50.45%	49.26%	58.99%	53.95%	57.52%	63.46%	57.74%
	Non-Hazardous								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.032598%	0.034548%	0.031426%	0.024901%	0.019736%	0.017897%	0.017065%	0.017546%	0.017546%
City's proportionate share of the net pension liability (asset)	\$ 2,078,378	\$ 2,649,804	\$ 2,210,205	\$ 1,516,548	\$ 1,155,210	\$ 881,160	\$ 733,532	\$ 568,980	\$ 642,288
City's covered employee payroll	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532
City's share of the net pension liability (asset) as a percentage of its covered payroll	231.77%	319.73%	247.94%	190.81%	188.34%	183.78%	169.01%	136.76%	159.56%
Plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	46.63%	53.54%	53.32%	55.50%	59.97%	66.80%	61.22%

* The above schedule will present 10 years of historical data, once available

CITY OF LANCASTER, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF PENSION PLAN CONTRIBUTIONS
Last Ten Fiscal Years

Hazardous

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 88,944	\$ 82,185	\$ 82,046	\$ 65,637	\$ 60,045	\$ 60,947	\$ 58,105	\$ 61,349	\$ 69,732	\$ 63,533
Contributions relative to contractually required employer contribution	<u>88,944</u>	<u>82,185</u>	<u>82,046</u>	<u>65,637</u>	<u>60,045</u>	<u>60,947</u>	<u>58,105</u>	<u>61,349</u>	<u>69,732</u>	<u>63,533</u>
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered employee payroll	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311	\$ 316,085
Employer contributions as a percentage of covered-employee payroll	33.86%	30.06%	30.06%	24.87%	22.20%	21.71%	20.26%	20.73%	21.77%	20.10%

Non-Hazardous

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 189,839	\$ 159,953	\$ 172,047	\$ 128,940	\$ 88,813	\$ 66,887	\$ 53,903	\$ 53,046	\$ 55,308	\$ 53,405
Contributions relative to contractually required employer contribution	<u>189,839</u>	<u>159,953</u>	<u>172,047</u>	<u>128,940</u>	<u>88,813</u>	<u>66,887</u>	<u>53,903</u>	<u>53,046</u>	<u>55,308</u>	<u>53,405</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532	\$ 423,173
Employer contributions as a percentage of covered-employee payroll	21.17%	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%	12.62%

* The above schedule will present 10 years of historical data, once available.

**CITY OF LANCASTER, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Six Fiscal Years***

	Hazardous						Non-Hazardous					
	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017
City's proportion of the net OPEB liability	0.045723%	0.046706%	0.046332%	0.048314%	0.050524%	0.055165%	0.032590%	0.034538%	0.031418%	0.024900%	0.019736%	0.017897%
City's proportionate share of the net OPEB liability (asset)	\$ 369,699	\$ 431,613	\$ 342,793	\$ 344,459	\$ 417,668	\$ 249,572	\$ 623,919	\$ 833,989	\$ 528,437	\$ 442,095	\$ 396,761	\$ 311,210
City's covered employee payroll	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	140.74%	157.87%	125.59%	130.52%	154.42%	88.90%	69.58%	100.63%	59.28%	55.62%	64.69%	64.91%
Plan fiduciary net position as a percentage of the total OPEB liability	66.81%	58.84%	64.44%	64.24%	58.99%	53.95%	62.91%	51.67%	60.44%	57.62%	52.39%	55.50%

* The above schedule will present 10 years of historical data, once available.

CITY OF LANCASTER, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF OPEB PLAN CONTRIBUTIONS
Last Six Fiscal Years

	Hazardous						Non-Hazardous					
	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	\$ 27,503	\$ 26,028	\$ 25,984	\$ 27,632	\$ 25,289	\$ 26,248	\$ 51,831	\$ 39,450	\$ 42,343	\$ 41,814	\$ 28,828	\$ 22,679
Contributions relative to contractually required employer contribution	<u>27,503</u>	<u>26,028</u>	<u>25,984</u>	<u>27,632</u>	<u>25,289</u>	<u>26,248</u>	<u>51,831</u>	<u>39,450</u>	<u>42,343</u>	<u>41,814</u>	<u>28,828</u>	<u>22,679</u>
Contribution deficiency (excess)	<u>\$ -</u>											
City's covered employee payroll	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474
Employer contributions as a percentage of covered-employee payroll	10.47%	9.52%	9.52%	10.47%	9.35%	9.35%	5.78%	4.76%	4.76%	5.26%	4.70%	4.73%

* The above schedule will present 10 years of historical data, once available.

CITY OF LANCASTER, KENTUCKY
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
JUNE 30, 2022

Note 1. General Information

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

Measurement Date

The amounts presented for each fiscal year were determined (measured) as of the previous fiscal year.

Note 2. Changes of Assumptions (Measurement Date)

June 30, 2021 –OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate used to calculate the OPEB liability was decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous.
- The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for pre-65. The healthcare trend rate starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

June 30, 2020 –OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The healthcare trend rate starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for pre-65. The healthcare trend rate starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years for post-65.

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for either pension or OPEB.

June 30, 2017 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

CITY OF LANCASTER, KENTUCKY
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
JUNE 30, 2022

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the 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.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

June 30, 2013 – Pension – Hazardous and Nonhazardous

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

COMPLIANCE SECTION

CITY OF LANCASTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

Grant/Program Title	Federal CFDA Number	Contract Number	Expenditures	Passed Through To Subrecipients
A. U.S. Department of Agriculture Rural Development: Direct:				
RUS Loan/Grant	10.760	N/A	\$ 2,998,152	\$ -
B. U.S. Department of Housing and Urban Development: Passed through Commonwealth of Kentucky, Department for Local Government				
Community Development Block Grant	14.228	19-011	780,699	-
C. Appalachian Regional Commission: Appalachian Area Development - Project Grants	23.002	N/A	501,742	-
D. U.S. Department of Environmental Protection Passed through Commonwealth of Kentucky, Kentucky Infrastructure Authority				
Drinking Water Revolving Loan Fund	66.468	F18-017	412,758	-
E. U.S. Department of Homeland Security Passed through Commonwealth of Kentucky, Department of Military Affairs Division of Emergency Management:				
Hazard Mitigation Grants	97.039	FEMA-DR-4216-011	65,620	-
F. U.S. Department of the Treasury: Passed through Commonwealth of Kentucky, Department for Local Government:				
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027		303,060	-
			<u>\$ 5,062,031</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF LANCASTER, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (schedule) includes the federal award activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operation of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and Members of the City
Council
Lancaster, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Kentucky (the City) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 19, 2023.

Report on 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 with 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 have not been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies. We consider the following deficiencies to be material weaknesses.

1. Due to the limited number of employees within the City, there exists a lack of adequate segregation of duties related to recordkeeping and custody of assets. Due to the fact that the City is not in the financial position to hire additional employees, we recommend that the council continue to be involved in the financial review process on an ongoing basis and continue to review all procedures to assure that maximum segregation of accounting and asset custodial duties occurs whenever possible.

- All transactions should be recorded in the general ledger. The City's transactions are recorded in the general ledger for the main operating bank account of each fund. However, there are several other bank accounts that have activity that is only tracked through the checkbook and not maintained in the general ledger. The City hires an accountant to adjust its books to be in accordance with accounting principles generally accepted in the United States of America. During this process, summary entries are made to record this activity into the general ledger. During the past few years, there has been significantly more activity in these accounts. By not appropriately maintaining these accounts in the general ledger in detail, activity can be misclassified or not recorded in the correct period. It also makes year-end cash to accrual conversions increasingly more difficult. During our audit procedures, we proposed multiple audit adjustments for activity in these accounts that were not correctly recorded or not included as receivables or payables. The adjustments were as follows:

	General Fund		Water Fund		Sewer Fund		Total
	DR	CR	DR	CR	DR	CR	
Accounts payable	\$ -	\$ -	\$ 413,054	\$ -	\$ 177,336	\$ -	590,390
Construction in progress	-	-	-	1,595,754	595,130	-	(1,000,624)
Property and equipment	220,000	-	89,426	-	-	-	309,426
Grants receivable	-	-	6,247	-	274,052	-	280,299
Due (to) from	-	-	-	334,378	334,378	-	-
Unearned revenue	-	-	-	263,221	-	-	(263,221)
Interest expense	-	-	-	8,598	16,379	-	7,781
Transfer	-	220,000	220,000	-	-	-	-
Miscellaneous revenue	-	-	17,089	-	-	-	17,089
Grant revenue	-	-	1,456,135	-	-	1,397,275	58,860
Increase (decrease)	\$ 220,000	\$ 220,000	\$ 2,201,951	\$ 2,201,951	\$ 1,397,275	\$ 1,397,275	\$ -

We recommend that activity from all bank accounts be recorded in the general ledger in detail to ensure that all transactions are appropriately recorded in the correct accounts and the correct period.

Management's Response

- Management does not believe the addition of an employee for the purpose of improving segregation of duties is cost-beneficial to the City, but will continue to review our procedures to assure we segregate duties whenever possible.
- Management agrees with the auditor's recommendation and will begin recording the detail activity for all bank accounts in the general ledger in a timely manner.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 the following noncompliance that is required to be reported under *Government Auditing Standards*:

- During the fiscal year ended June 30, 2022, the City's expenditures exceeded its appropriations in the amount of \$563,165 in the general fund. According to KRS 91A.030, "No city shall expend any moneys from any governmental or proprietary fund, except in accordance with a budget ordinance adopted pursuant to this section". Therefore, the expenditures in excess of budget represent a violation of KRS 91A.030.

City's Response to Findings

The City's response to the findings identified in our audit is described above. 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 results of that testing, and not to provide an opinion on the effectiveness of the City'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.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
January 19, 2023

Kerbaugh, Rodes & Butler, PLLC

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Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Mayor and City Council
City of Lancaster, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Lancaster, Kentucky's (the City's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards,

Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
January 19, 2023

**CITY OF LANCASTER, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	USDA, Rural Development Water & Waste Disposal Systems For Rural Communities Grant and Loan Program
23.002	Appalachian Regional Commission Appalachian Area Development
21.027	U.S. Department of the Treasury Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish Between type A and type B programs:	\$ <u>750,000</u>
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Auditee qualified as low-risk auditee?	No
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**CITY OF LANCASTER, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022**

Section II – Financial Statement Findings

See 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* on pages 50-52.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

Prior year financial statement finding related to issues concerning the segregation of duties. Management has determined that the addition of an employee(s) to segregate processes would not be cost effective for the City. Therefore, the finding related to segregation of duties was repeated in the current year audit.

Prior year financial statement finding related to all checking account activity being maintained in the general ledger. Management did not add all checking account detailed activity to the general ledger system. Therefore, the finding related to all activity being maintained in the general ledger system was repeated in the current year audit.