

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

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**JUNE 30, 2019**

**KERBAUGH, RODES & BUTLER, PLLC**

**CERTIFIED PUBLIC ACCOUNTANTS**

**DANVILLE, KENTUCKY**

**CITY OF LANCASTER, KENTUCKY**  
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# Kerbaugh, Rodes & Butler, PLLC

Certified Public Accountants

Glyn D. Kerbaugh, Jr. CPA  
John B. Rodes, CPA  
Craig A. Butler, CPA  
Robin A. Meeks, CPA  
Martha K. King, CPA  
Lori-Anne Clark, CPA  
Chad Robinson, CPA

132 North Second Street  
P.O. Box 729  
Danville, Kentucky 40422  
859/236-3924  
FAX 859/236-6435  
  
52 Liberty Square  
Liberty, Kentucky 42539  
606/787-9928  
kerbaughandrades.com

## 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, 2019, 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, 2019, 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 38 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2020, 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, Rodas & Butler, PLLC*

Kerbaugh, Rodas & Butler, PLLC  
Certified Public Accountants

Danville, Kentucky  
March 12, 2020

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

**CITY OF LANCASTER, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. 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, 2019 the City's Assets (page 9) exceeded liabilities by \$6,411,355. This amount includes \$1,735,123 of resources that are restricted to specific projects by laws, regulations, or contractual agreements. The City has an unrestricted deficit net position of (\$2,197,218) as of June 30, 2019, primarily related to the increase in 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, 2019 were \$775,695 and current liabilities payable from unrestricted resources were \$517,948.
- Net position decreased by \$743,194 (page 10).
- Fund balances (A measure of current financial resources) in the governmental funds decreased \$296,641 to \$355,049 (page 13). Of this amount \$136,860 (page 11) is unassigned and available for future programs, \$216,319 is restricted to use for municipal road aid expenditures, and \$1,870 is committed to use for planning and zoning activities.
- The general fund unassigned fund balance (page 11), as of June 30, 2019 was \$136,860 or about 6% 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 and liabilities, including long-term debt and capital assets in the governmental funds. The difference between assets and liabilities 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.

**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

**CITY OF LANCASTER, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

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 38 and 39.

**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 37.

**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, 2019**

**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).

<b>Net Position of Governmental and Business-type Activities (in thousands)</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 566	\$ 770	\$ 2,123	\$ 2,296	\$ 2,689	\$ 3,066
Capital assets	1,393	1,350	9,641	9,823	11,034	11,173
Total assets	1,959	2,120	11,764	12,119	13,723	14,239
Deferred outflows of resources	783	786	490	373	1,273	1,159
Long-term debt outstanding	-	44	4,160	4,231	4,160	4,275
Net pension liability	1,698	1,479	987	807	2,685	2,286
Net OPEB liability	525	576	261	238	786	814
Other liabilities	193	99	355	460	548	559
Total liabilities	2,416	2,198	5,763	5,736	8,179	7,934
Deferred inflows of resources	290	225	116	84	406	309
Net position:						
Invested in capital assets, net						
of related debt	1,393	1,307	5,480	5,592	6,873	6,899
Restricted	216	226	1,519	1,498	1,735	1,724
Unrestricted (deficit)	(1,573)	(1,050)	(624)	(418)	(2,197)	(1,468)
Total Net Position	\$ 36	\$ 483	\$ 6,375	\$ 6,672	\$ 6,411	\$ 7,155

By far the largest portion of the City's net position (107%) 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. \$1,735,123 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 bond and loan covenants.



**CITY OF LANCASTER, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

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)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2019	2018	2019	2018	2019	2018
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 431	\$ 353	\$ 2,245	\$ 1,962	\$ 2,676	\$ 2,315
Operating grants and contributions	145	152	-	-	145	152
Capital grants and contributions	-	-	-	419	-	419
<b>General revenues:</b>						
Property taxes	408	367	-	-	408	367
License fees and permits	883	915	-	-	883	915
Fines and forfeitures	19	40	-	-	19	40
Interest and investment earnings	1	1	2	4	3	5
Miscellaneous	28	45	14	19	42	64
Sale of asset-gain	59	44	-	-	59	44
<b>Total Revenues</b>	<b>1,974</b>	<b>1,917</b>	<b>2,261</b>	<b>2,404</b>	<b>4,235</b>	<b>4,321</b>
<b>Program Expenses:</b>						
General Government	790	710	-	-	790	710
Public Safety	1,543	1,278	-	-	1,543	1,278
Public Services	87	56	-	-	87	56
Water	-	-	1,863	1,538	1,863	1,538
Sewer system	-	-	694	672	694	672
Interest expense	1	4	-	-	1	4
<b>Total Expenses</b>	<b>2,421</b>	<b>2,048</b>	<b>2,557</b>	<b>2,210</b>	<b>4,978</b>	<b>4,258</b>
<b>Excess (deficiency) before transfers and special items</b>	<b>(447)</b>	<b>(131)</b>	<b>(296)</b>	<b>194</b>	<b>(743)</b>	<b>63</b>
<b>Increase (decrease) in net position</b>	<b>\$ (447)</b>	<b>\$ (131)</b>	<b>\$ (296)</b>	<b>\$ 194</b>	<b>\$ (743)</b>	<b>\$ 63</b>

Governmental services in the amount of \$1,291,210 are financed with taxes, license fees, and interest earnings.

Governmental activities decreased the City's net position by \$446,712. This is primarily the result of police vehicle purchases (\$90,368) and a building purchase (\$64,750) in the general fund as well as pension and OPEB expense recognized during 2019 for the change in liabilities and related deferrals (\$236,418).

Business-type activities decreased the City's net position by \$296,482. This decrease is net of depreciation expense of \$457,469 (a non-cash item).

**CITY OF LANCASTER, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

**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 \$296,641.

**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)**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 60,000	\$ 79,643	\$ 139,643
Plant buildings and maintenance	843,436	7,980,929	8,824,365
Equipment and vehicles	424,800	266,321	691,121
Construction in progress	64,750	1,313,975	1,378,725
Total	<u>\$ 1,392,986</u>	<u>\$ 9,640,868</u>	<u>\$ 11,033,854</u>

**CITY OF LANCASTER, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

**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 1988 Revenue Bonds-Sewer	\$	\$ 546,000	\$ 546,000
Series 2000 Revenue Bonds-Sewer		442,500	442,500
Series 2005 Revenue Bonds-Sewer		351,400	351,400
Series 2009 Revenue Bonds-Sewer		859,000	859,000
Series 2010 Revenue Bonds-Sewer		1,446,000	1,446,000
KIA Loan - Sewer 2008		240,076	240,076
KIA Loan - Sewer 2016		195,357	195,357
KIA Loan - Sewer 2019		31,680	31,680
KRWFC - Interim Financing		48,391	48,391
Total	\$ -	\$ 4,160,404	\$ 4,160,404

The City's outstanding debt decreased \$114,384 during the current year as a result of scheduled principal payments.

**Economic Factors and Next Year's Budget**

The City currently has two large project commitments outstanding as of June 30, 2019. A discussion of these commitments can be found at footnote L, 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, 2019**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 248,527	\$ 245,128	\$ 493,655
Investments (certificates of deposit)	157,040	125,000	282,040
Receivables, net of allowance:			
Taxes	77,423		77,423
Customer accounts	30,406	215,032	245,438
Other receivables	34,532		34,532
Prepaid expenses	18,422	19,628	38,050
Restricted assets:			
Cash and cash equivalents		1,268,301	1,268,301
Investments (certificates of deposit)		250,503	250,503
Capital assets not being depreciated:			
Land	60,000	79,643	139,643
Construction in progress	64,750	1,313,975	1,378,725
Other capital assets	2,176,268	19,706,421	21,882,689
Less: accumulated depreciation	(908,032)	(11,459,171)	(12,367,203)
Total assets	<u>1,959,336</u>	<u>11,764,460</u>	<u>13,723,796</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>783,377</u>	<u>489,721</u>	<u>1,273,098</u>
<b>LIABILITIES</b>			
Accounts payable	123,554	89,551	213,105
Accounts payable - contractors		156,284	156,284
Accrued expenses	19,325	3,811	23,136
Customer deposits		125,423	125,423
Accrued interest payable		29,900	29,900
Internal balances	50,000	(50,000)	-
Noncurrent liabilities:			
Due within one year		155,737	155,737
Due in more than one year		4,004,667	4,004,667
Net Pension Liability	1,698,441	986,512	2,684,953
Net OPEB Liability	525,476	261,078	786,554
Total liabilities	<u>2,416,796</u>	<u>5,762,963</u>	<u>8,179,759</u>
DEFERRED INFLOWS OF RESOURCES	<u>289,772</u>	<u>116,008</u>	<u>405,780</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,392,986	5,480,464	6,873,450
Restricted for:			
Debt service		1,518,804	1,518,804
Municipal aid projects	216,319		216,319
Unrestricted (deficit)	(1,573,160)	(624,058)	(2,197,218)
Total net position	<u>\$ 36,145</u>	<u>\$ 6,375,210</u>	<u>\$ 6,411,355</u>

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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	\$ (789,696)	\$ 430,592	\$	\$	\$ (359,104)	\$	\$ (359,104)
Public safety	(1,543,361)		79,728		(1,463,633)		(1,463,633)
Public services	(86,792)		64,887		(21,905)		(21,905)
Interest on long-term debt	(1,144)				(1,144)		(1,144)
Total governmental activities	(2,420,993)	430,592	144,615		(1,845,786)		(1,845,786)
Business-type activities:							
Water	(1,863,258)	1,698,687				(164,571)	(164,571)
Sewer system	(693,644)	546,232				(147,412)	(147,412)
Total business-type activities	(2,556,902)	2,244,919				(311,983)	(311,983)
Total primary government	(4,977,895)	2,675,511	144,615		(1,845,786)	(311,983)	(2,157,769)
General revenues:							
Taxes, levied for general purposes					408,113		408,113
License fees and permits, levied for general purposes					882,519		882,519
Fines and forfeitures					19,410		19,410
Interest and investment earnings					578	1,782	2,360
Gain on sale of capital assets					59,558		59,558
Miscellaneous					28,896	13,719	42,615
Total general revenues, special items, and transfers					1,399,074	15,501	1,414,575
Change in net position					(446,712)	(296,482)	(743,194)
Net position - beginning					482,857	6,671,692	7,154,549
Net position - ending					\$ 36,145	\$ 6,375,210	\$ 6,411,355

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Planning and Zoning</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 125,773	\$ 120,884	\$ 1,870	\$ 248,527
Investments (certificate of deposit)	34,248	122,792		157,040
Receivables (net of allowance):				
Property taxes	7,756			7,756
ABC taxes	19,032			19,032
Utility franchise tax	24,813			24,813
Payroll tax	25,822			25,822
Customer accounts	30,406			30,406
Other receivables	24,532	10,000		34,532
Total assets	<u>\$ 292,382</u>	<u>\$ 253,676</u>	<u>\$ 1,870</u>	<u>\$ 547,928</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 86,197	\$ 37,357		\$ 123,554
Accrued expenses	19,325			19,325
Due to other funds	50,000			50,000
Total liabilities	<u>155,522</u>	<u>37,357</u>		<u>192,879</u>
<b>FUND BALANCES</b>				
Unassigned	136,860			136,860
Committed to planning & zoning use			1,870	1,870
Restricted to municipal road aid projects		216,319		216,319
Total fund balances	<u>136,860</u>	<u>216,319</u>	<u>1,870</u>	<u>355,049</u>
Total liabilities and fund balances	<u>\$ 292,382</u>	<u>\$ 253,676</u>	<u>\$ 1,870</u>	<u>\$ 547,928</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, 2019**

Total fund balance per fund financial statements	\$	355,049
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Amounts reported for *governmental activities* in the statement of net position are different because:

Prepaid expenses in governmental funds are a use of financial resources and therefore are not reported as an asset		18,422
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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	2,301,018	
Less: accumulated depreciation	(908,032)	1,392,986

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.		(1,730,312)
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Net position for governmental activities	\$	36,145
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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, 2019**

	General Fund	Municipal Road Aid Fund	Planning And Zoning	Total Governmental Funds
REVENUES:				
Taxes	\$ 408,113	\$	\$	\$ 408,113
Licenses & permits	882,519			882,519
Fines & forfeitures	19,410			19,410
Intergovernmental revenues	79,728	64,887		144,615
Charges for services	430,592			430,592
Interest	308	270		578
Other	18,896	10,000		28,896
Total revenues	<u>1,839,566</u>	<u>75,157</u>		<u>1,914,723</u>
EXPENDITURES:				
Current operating:				
General government	733,155			733,155
Public safety	1,252,176			1,252,176
Public services		84,923	669	85,592
Capital outlay	155,118			155,118
Debt service:				
Principal	43,737			43,737
Interest	1,144			1,144
Total expenditures	<u>2,185,330</u>	<u>84,923</u>	<u>669</u>	<u>2,270,922</u>
Excess (deficiency) of revenues over expenditures before other sources and uses	<u>(345,764)</u>	<u>(9,766)</u>	<u>(669)</u>	<u>(356,199)</u>
Other financing sources (uses):				
Sale of capital assets	59,558			59,558
Total other sources and uses	<u>59,558</u>			<u>59,558</u>
Net change in fund balances	<u>(286,206)</u>	<u>(9,766)</u>	<u>(669)</u>	<u>(296,641)</u>
Fund balances--beginning	423,066	226,085	2,539	651,690
Fund balances--ending	<u>\$ 136,860</u>	<u>\$ 216,319</u>	<u>\$ 1,870</u>	<u>\$ 355,049</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, 2019**

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

Net change in fund balances - total governmental funds	\$	(296,641)
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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		(112,467)
Capital outlay		155,118

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		43,737
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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		(41)
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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.		(236,418)
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Change in net assets of governmental activities	\$	(446,712)
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See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 222,156	\$ 22,972	\$ 245,128
Investments (certificates of deposit)		125,000	125,000
Restricted cash, cash equivalents, and investments:			
Cash and cash equivalents	1,085,387	182,914	1,268,301
Receivables (net of allowance)	158,949	56,083	215,032
Due from other funds	50,000		50,000
Prepaid insurance	13,529	6,099	19,628
Total current assets	<u>1,530,021</u>	<u>393,068</u>	<u>1,923,089</u>
Noncurrent assets:			
Restricted certificates of deposit	27,263	223,240	250,503
Total restricted assets	<u>27,263</u>	<u>223,240</u>	<u>250,503</u>
Capital assets:			
Land	65,367	14,276	79,643
Construction in progress	1,202,775	111,200	1,313,975
Other capital assets	12,864,170	6,842,251	19,706,421
Less: accumulated depreciation	<u>(6,625,272)</u>	<u>(4,833,899)</u>	<u>(11,459,171)</u>
Capital assets, net	<u>7,507,040</u>	<u>2,133,828</u>	<u>9,640,868</u>
Total noncurrent assets	<u>7,534,303</u>	<u>2,357,068</u>	<u>9,891,371</u>
<b>TOTAL ASSETS</b>	<u>9,064,324</u>	<u>2,750,136</u>	<u>11,814,460</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>342,763</u>	<u>146,958</u>	<u>489,721</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	67,614	21,937	89,551
Accounts payable - contractors	76,764	79,520	156,284
Accrued wages	2,966	845	3,811
Customer deposits	125,423		125,423
Accrued interest payable	22,830	7,070	29,900
Notes & revenue bonds payable - current	71,500	84,237	155,737
Total current liabilities	<u>367,097</u>	<u>193,609</u>	<u>560,706</u>
Noncurrent liabilities:			
Notes & revenue bonds payable	3,075,791	928,876	4,004,667
Net pension liability	709,280	277,232	986,512
Net OPEB liability	174,200	86,878	261,078
Total noncurrent liabilities	<u>3,959,271</u>	<u>1,292,986</u>	<u>5,252,257</u>
<b>TOTAL LIABILITIES</b>	<u>4,326,368</u>	<u>1,486,595</u>	<u>5,812,963</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>79,684</u>	<u>36,324</u>	<u>116,008</u>
<b>NET POSITION</b>			
Net investment in capital assets	4,359,749	1,120,715	5,480,464
Restricted for debt service & bond covenants	1,112,650	406,154	1,518,804
Unrestricted	<u>(471,364)</u>	<u>(152,694)</u>	<u>(624,058)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 5,001,035</u>	<u>\$ 1,374,175</u>	<u>\$ 6,375,210</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, 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 1,663,008	\$ 546,232	\$ 2,209,240
Connection fees	35,679		35,679
Miscellaneous	7,311	6,408	13,719
Total operating revenues	<u>1,705,998</u>	<u>552,640</u>	<u>2,258,638</u>
Operating expenses:			
Personal services	577,435	185,525	762,960
Contractual services	561,972	176,394	738,366
Materials and supplies	341,747	130,990	472,737
Depreciation	289,873	167,596	457,469
Total operating expenses	<u>1,771,027</u>	<u>660,505</u>	<u>2,431,532</u>
Operating income (loss)	<u>(65,029)</u>	<u>(107,865)</u>	<u>(172,894)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	1,266	516	1,782
Interest expense	(92,231)	(33,139)	(125,370)
Total nonoperating revenue (expenses)	<u>(90,965)</u>	<u>(32,623)</u>	<u>(123,588)</u>
Change in net position	(155,994)	(140,488)	(296,482)
Total net position - beginning	<u>5,157,029</u>	<u>1,514,663</u>	<u>6,671,692</u>
Total net position - ending	<u>\$ 5,001,035</u>	<u>\$ 1,374,175</u>	<u>\$ 6,375,210</u>

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,666,521	\$ 546,467	\$ 2,212,988
Payments to suppliers	(902,768)	(311,402)	(1,214,170)
Payments for personal services	(489,735)	(154,904)	(644,639)
Other receipts (payments)	7,311		7,311
	<u>281,329</u>	<u>80,161</u>	<u>361,490</u>
Net cash provided (used) by operating activities			
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(50,000)		(50,000)
	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Net cash used by noncapital financing activities			
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	241,772		241,772
Acquisition and construction of capital assets	(267,573)	(70,086)	(337,659)
Proceeds from the issuance of debt	48,391	31,680	80,071
Principal paid on capital debt	(69,700)	(81,018)	(150,718)
Interest paid on capital debt	(92,702)	(33,741)	(126,443)
	<u>(139,812)</u>	<u>(153,165)</u>	<u>(292,977)</u>
Net cash provided (used) by capital and related financing activities			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(12,000)	(125,000)	(137,000)
Redemption of certificate of deposit		9,868	9,868
Interest and dividends	1,266	516	1,782
	<u>(10,734)</u>	<u>(114,616)</u>	<u>(125,350)</u>
Net cash provided (used) by investing activities			
Net increase (decrease) in cash and cash equivalents	80,783	(187,620)	(106,837)
Cash and equivalents - beginning of year	<u>1,226,760</u>	<u>393,506</u>	<u>1,620,266</u>
Cash and equivalents - end of year	<u>\$ 1,307,543</u>	<u>\$ 205,886</u>	<u>\$ 1,513,429</u>

(Continued next page)

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
(Continued)			
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>			
<b>Provided (Used) by Operating Activities</b>			
Operating income (loss)	\$ (65,029)	\$ (107,865)	\$ (172,894)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	289,873	167,596	457,469
Change in assets and liabilities:			
Receivables, net	(38,489)	(6,173)	(44,662)
Prepaid expenses	(2,931)	(769)	(3,700)
Accounts payable	3,882	(3,249)	633
Accrued wages	559	(17)	542
Customer deposits	6,323		6,323
Net pension and OPEB liabilities and related deferrals	87,141	30,638	117,779
Net cash provided by operating activities	<u>\$ 281,329</u>	<u>\$ 80,161</u>	<u>\$ 361,490</u>
<b>Supplemental Cash Flow Information:</b>			
Construction in progress included in accounts payable	\$ 76,764	\$ 79,520	\$ 156,284

See accompanying notes to financial statements.

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

**CITY OF LANCASTER, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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 Statement No.14, "The Financial Reporting Entity" and as amended by Statement No.39, "Determining Whether Certain Organizations are Component Units". 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, 2019**

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, 2019**

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 covenants. The restricted assets have been accounted for in accordance with the provisions of the Water and Sewer Fund revenue bond resolutions 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 transfer annually \$4,750 to a replacement reserve until \$39,073 is accumulated in the account. The City made its final payment on October 1, 2007. The City is in substantial compliance with its bond and KIA covenants at year-end.

The City's KIA loan requires City to transfer annually \$1,000 to a replacement reserve until \$10,000 is accumulated in the account.

**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.

**CITY OF LANCASTER, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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.

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

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**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

**CITY OF LANCASTER, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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.

**11. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through March 12, 2020, 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, 2019, 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

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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 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 \$266,180 for the year ended June 30, 2019.

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, 2019, taxes were levied November 1, 2018 and were payable by December 31, 2018. A 2% penalty was imposed on all taxes delinquent as of January 1, 2019 and a 10% penalty was imposed on all taxes delinquent as of February 1, 2019.

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

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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, 2019, are within permissible limits under the above legislation.

**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, 2019 is as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Deposits	\$ 1,761,956	\$ 1,910,510
Investments	532,543	532,543
Total	<u>\$ 2,294,499</u>	<u>\$ 2,443,053</u>
 Cash and cash equivalents	 \$ 493,655	
Investments - CD's	282,040	
Cash and cash equivalents-restricted	1,268,301	
Investments-restricted CD's	250,503	
Total	<u>\$ 2,294,499</u>	

The City's investments at June 30, 2019 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<b>Governmental Activities:</b>				
Farmers National Bank				
Certificate of Deposit	\$ 34,248	\$ 34,248	0.15%	08/15/19
Certificate of Deposit	122,792	122,792	0.15%	05/19/20
	<u>\$ 157,040</u>	<u>\$ 157,040</u>		
<b>Business Type Activities:</b>				
Farmers National Bank				
Certificate of Deposit	\$ 27,263	\$ 27,263	0.50%	11/17/23
Certificate of Deposit	26,230	26,230	0.15%	07/28/19
Certificate of Deposit	20,683	20,683	0.15%	11/17/19
Certificate of Deposit	125,000	125,000	2.23%	05/13/21
Whitaker Bank				
Certificate of Deposit	176,327	176,327	1.15%	06/27/20
	<u>\$ 375,503</u>	<u>\$ 375,503</u>		

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*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).

*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**

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

Governmental activities:	
General government	\$ 32,950
Public Safety	78,318
Public Services	1,200
	<u>\$ 112,468</u>
Business-type activities:	
Water	\$ 289,873
Sewer	167,596
	<u>\$ 457,469</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.

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Land	\$ 60,000	\$	\$	\$ 60,000
Buildings	1,102,425	89,835		1,192,260
Equipment and vehicles	1,015,887	90,368	(122,247)	984,008
Construction in progress	89,835	64,750	(89,835)	64,750
Total cost	<u>2,135,059</u>	<u>244,953</u>	<u>(212,082)</u>	<u>2,301,018</u>
Less accumulated depreciation:				
Buildings	(314,674)	(34,150)		(348,824)
Equipment and vehicles	(603,137)	(78,318)	122,247	(559,208)
Total accumulated depreciation	<u>(870,211)</u>	<u>(112,468)</u>	<u>122,247</u>	<u>(908,032)</u>
Governmental activities capital assets, net	<u>\$ 1,264,848</u>	<u>\$ 132,485</u>	<u>\$ (89,835)</u>	<u>\$ 1,392,986</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Land	\$ 79,643	\$	\$	\$ 79,643
Water and Sewer plant	17,930,535	6,600		17,937,135
Equipment	1,494,573			1,494,573
Vehicles	242,908	31,805		274,713
Construction in progress	1,076,768	237,207		1,313,975
Total cost	20,824,427	275,612		21,100,039
Less accumulated depreciation:				
Water and Sewer plant	(9,531,769)	(424,437)		(9,956,206)
Equipment	(1,252,253)	(18,206)		(1,270,459)
Vehicles	(217,680)	(14,826)		(232,506)
Total accumulated depreciation	(11,001,702)	(457,469)		(11,459,171)
Business-type activities capital assets, net	\$ 9,778,665	\$ (181,857)	\$	\$ 9,640,868

**Note E – Retirement Plan**

The City is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems 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, 2019, 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, 2019, participating employers contributed 21.48% (19.18% for the year ended June 30, 2018) of each employee's wages for non-hazardous job classifications and 35.34% (31.55% for the year ended June 30, 2018) for hazardous job classifications, which is equal to the actuarially determined rates set by the Board. Administrative costs of Kentucky Retirement System 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, 2019, the City contributed \$170,754 for non-hazardous job classifications, and \$93,269 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$128,940 to the CERS pension fund and \$41,814 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$65,637 to the CERS pension fund and \$27,632 to the CERS insurance fund.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2019, the City reported a liability of \$2,684,953 for its proportionate share of the net pension liability. The liability consisted of \$1,516,547 for non-hazardous job classifications and \$1,168,405 for hazardous job classifications. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date and rolled forward to June 30, 2018. 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, 2019, the City's proportion was .024901% for non-hazardous employees and .048312% for hazardous employees, which was equal to its proportion measured as of June 30, 2018. At June 30, 2018, the City's proportion was .019736% for non-hazardous employees and .050524% for hazardous employees, which was equal to its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$302,655. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 142,451	\$ 22,199
Changes of assumptions	272,583	-
Net difference between projected and actual earnings on Plan investments	113,828	145,191
Changes in proportion and differences between City contributions and proportionate share of contributions	215,215	71,007
City contributions subsequent to the measurement date	194,577	-
<b>Total</b>	<b>\$ 938,654</b>	<b>\$ 238,397</b>

The \$194,577 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2020	\$ 320,208
2021	192,895
2022	5,993
2023	(13,416)

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*Actuarial Assumptions* – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for all active members, retired members, and beneficiaries.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
US Large Cap Equity	5.0%	4.50%
US Mid Cap Equity	6.0%	4.50%
US Small Cap Equity	6.5%	5.50%
International Equity	12.5%	6.50%
Emerging Markets Equity	5.0%	7.25%
Global Bonds	4.0%	3.00%
Global Credit	2.0%	3.75%
High Yield	7.0%	5.50%
Emerging Market Debt	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Private Equity	10.0%	6.50%
Cash	2.0%	1.50%
<b>Total</b>	<b>100%</b>	<b>6.09%</b>

*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 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rates are determined on an annual basis. The discount rate does not use a municipal bond rate.

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*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:

	<b>Discount rate</b>	<b>City's proportionate share of net pension liability</b>
1% decrease	5.25%	\$ 3,373,110
Current discount rate	6.25%	\$ 2,684,953
1% increase	7.25%	\$ 2,111,686

*Payable to the Pension Plan* – At June 30, 2019, the City reported a payable of \$26,878 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019. 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). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems 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, 2019, 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, 2019, participating employers contributed 21.48% (19.18% for the year ended June 30, 2018) of each employee's wages for non-hazardous job classifications and 35.34% (31.55% for the year ended June 30, 2018) for hazardous job classifications, which is equal to the actuarially determined rates set by the Board. Administrative costs of Kentucky Retirement System 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, 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.

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For the year ended June 30, 2019, the City contributed \$170,754 for non-hazardous job classifications, and \$93,269 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$128,940 to the CERS pension fund and \$41,814 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$65,637 to the CERS pension fund and \$27,632 to the CERS insurance fund.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2019, the City reported a liability of \$786,554 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, 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, 2018. 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, 2019, the City's proportion was .024900 percent for non-hazardous employees and .048314% for hazardous employees, which was equal to its proportion measured as of June 30, 2017. At June 30, 2018, the City's proportion was .019736 percent for non-hazardous employees and .050524% for hazardous employees, which was equal to its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized OPEB expense of \$51,540. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 90,014
Changes of assumptions	193,998	1,963
Net difference between projected and actual earnings on Plan investments	-	63,199
Changes in proportion and differences between City contributions and proportionate share of contributions	71,000	12,207
City contributions subsequent to the measurement date	<u>69,446</u>	<u>-</u>
Total	<u>\$ 334,444</u>	<u>\$ 167,383</u>

The \$69,446 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<b>Year ending June 30,</b>	
2020	\$ 32,240
2021	32,240
2022	13,228
2023	9,449
2024	9,449
Thereafter	1,009

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2018 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	3.05%, average, including inflation
Investment rate of return	6.25%

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Healthcare trend rates:

Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

Mortality rates were based on the RP-2000 Combined Mortality Table for all active members, retired members, and beneficiaries.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2008 - June 30, 2013.

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:

	<b>City's proportionate share of net OPEB liability</b>
1% decrease	\$ 563,737
Current healthcare trend rate	\$ 786,554
1% increase	\$ 1,055,764

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
US Large Cap Equity	5.0%	4.50%
US Mid Cap Equity	6.0%	4.50%
US Small Cap Equity	6.5%	5.50%
International Equity	12.5%	6.50%
Emerging Markets Equity	5.0%	7.25%
Global Bonds	4.0%	3.00%
Global Credit	2.0%	3.75%
High Yield	7.0%	5.50%
Emerging Market Debt	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%

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Real Return	10.0%	7.00%
Private Equity	10.0%	6.50%
Cash	2.0%	1.50%
Total	100%	6.09%

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.85 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 25-year amortization period of the unfunded actuarial accrued liability. 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 3.62%, as reported in the Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. 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 \$5,760 at June 30, 2019.

*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 5.85 percent, 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 (4.85 percent) or 1-percentage-point higher (6.83 percent) than the current rate:

	Discount rate	City’s proportionate share of net OPEB liability
1% decrease	4.85%	\$ 1,053,025
Current discount rate	5.85%	\$ 786,554
1% increase	6.85%	\$ 566,459

*Payable to the Pension Plan* – At June 30, 2019, the City reported a payable of \$26,878 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2019. 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, 2019 are as follows:

Series	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2019
Series 1988	1,300,000	5.000%	2028	\$ 546,000
Series 2000	600,000	4.375%	2040	442,500
Series 2005A	250,000	4.375%	2045	209,900
Series 2005B	170,000	4.250%	2045	141,500
Series 2009	1,015,000	2.375%	2048	859,000
Series 2010	1,641,000	2.500%	2050	1,446,000
				<u>\$ 3,644,900</u>

**CITY OF LANCASTER, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**Revenue Bond Debt Service Requirements**

The annual principal and interest requirements of the water and sewer revenue bonds payable as of June 30, 2019, are as follows:

Year Ending June 30,	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 71,500	\$ 91,119	\$ 50,000	\$ 27,300	\$ 121,500	\$ 118,419
2021	73,800	88,977	52,000	24,800	125,800	113,777
2022	76,200	86,752	55,000	22,200	131,200	108,952
2023	78,500	84,453	57,000	19,450	135,500	103,903
2024	80,900	82,080	60,000	16,600	140,900	98,680
2025-2029	444,700	371,882	272,000	34,850	716,700	406,732
2030-2034	521,900	299,161			521,900	299,161
2035-2039	610,500	212,909			610,500	212,909
2040-2044	581,200	119,222			581,200	119,222
2045-2049	493,700	42,589			493,700	42,589
2050-2050	66,000	1,663			66,000	1,663
Total	<u>\$ 3,098,900</u>	<u>\$ 1,480,807</u>	<u>\$ 546,000</u>	<u>\$ 145,200</u>	<u>\$ 3,644,900</u>	<u>\$ 1,626,007</u>

**Total Debt Service by Bond Series**

	Principal	Interest	Total Payment
Series 1988 Revenue Bonds - Sewer	\$ 546,000	\$ 145,200	\$ 691,200
Series 2000 Revenue Bonds - Water	442,500	243,076	685,576
Series 2005 Revenue Bonds - Water	351,400	241,332	592,732
Series 2009 Revenue Bonds - Water	859,000	344,174	1,203,174
Series 2010 Revenue Bonds - Water	1,446,000	652,225	2,098,225
Total	<u>\$ 3,644,900</u>	<u>\$ 1,626,007</u>	<u>\$ 5,270,907</u>

**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.

For the fiscal year ended June 30, 2019, 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 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 are

**CITY OF LANCASTER, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

to fund the planning and design of the Sanitary Sewer Improvements Project. As of June 30, 2019, the City had drawn \$31,680 of this loan.

The Kentucky Infrastructure Authority Loans outstanding at June 30, 2019 are as follows:

Issue	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2019
KIA Loan (B08-02)	490,000	0.60%	2029	\$ 240,076
KIA Loan (B16-013)	406,868	0.75%	2038	195,357
KIA Loan (A19-011)	324,000	3.00%	2025	31,680
				<u>\$ 467,113</u>

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

Year Ending June 30,	Sewer	
	Principal	Interest
2020	\$ 34,237	\$ 3,318
2021	34,457	3,049
2022	34,678	2,778
2023	34,901	2,505
2024	35,126	2,230
2025-2029	166,031	6,966
2030-2034	52,536	2,720
2035-2038	43,467	737
Total	<u>\$ 435,433</u>	<u>\$ 24,303</u>

The annual principal and interest requirements for the Kentucky Infrastructure Authority Loans above do not include KIA Loan A19-011 because the loan has not yet been amortized. As of June 30, 2019, the City has not yet drawn \$292,320 of the funds available for the project.

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, beginning December 1, 2018. These annual deposits are to be made until the balance reaches \$10,000 and maintained for the life of the loan.
- 4) The City shall maintain a 1.1 debt service coverage ratio throughout the life of KIA Loan A19-011.
- 5) Other miscellaneous provisions.

For the fiscal year ended June 30, 2019, 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.

**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.



**CITY OF LANCASTER, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

The Loan bears interest at 3.40% and matures May 1, 2021. The KRWFC Loan will be refunded with permanent financing from Rural Development at the completion of the project. As of June 30, 2019, the City has drawn \$48,391 of this loan.

**Bank Loans – General Fund**

On July 29, 2013 through December 5, 2013, the City borrowed \$235,186 from a local bank for the purpose of purchasing a new fleet of police cruisers and related equipment. The interest rate on this loan is 3.75%. The loan agreement requires annual installment payments of \$53,075 through maturity, which is November 8, 2018. The loan was paid off during 2019.

**Summary of Debt Transactions**

Long-term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Notes payable - banks	\$ 43,737	\$	\$ (43,737)	\$ -	\$ -
Governmental activity long-term liabilities	<u>\$ 43,737</u>	<u>\$</u>	<u>\$ (43,737)</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Business-type activities:</b>					
Revenue Bonds:					
Revenue Bonds-Water Fund	\$ 3,168,600	\$	\$ (69,700)	\$ 3,098,900	\$ 71,500
Revenue Bonds-Sewer Fund	593,000		(47,000)	546,000	50,000
Total Bonds Payable	<u>3,761,600</u>	<u>-</u>	<u>(116,700)</u>	<u>3,644,900</u>	<u>121,500</u>
KRWFC Revenue Bond Anticipation Notes	-	48,391	-	48,391	-
KIA Loans:					
KIA Loans-Sewer Fund	469,451	31,680	(34,018)	467,113	34,237
Total KIA Loans	<u>469,451</u>	<u>31,680</u>	<u>(34,018)</u>	<u>467,113</u>	<u>34,237</u>
Business-type activity long-term liabilities	<u>\$ 4,231,051</u>	<u>\$ 80,071</u>	<u>\$ (150,718)</u>	<u>\$ 4,160,404</u>	<u>\$ 155,737</u>

**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.

**CITY OF LANCASTER, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE J – Economic Dependency**

During the fiscal year ended June 30, 2019, approximately 49% 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, 2019, there are two major construction projects in progress.

1. The Water Treatment Plant Project has a budget of \$11,632,455. As of June 30, 2019, \$1,375,584 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	4,000,000
5. Kentucky Infrastructure Authority Grant 3N-2012	1,132,455
6. Bluegrass Water Supply Commission Grant	100,000
Total Funding	<u>\$ 11,732,455</u>

2. The Sewer Upgrades Project is in the planning and design phase. It is being funded with a planning and design loan from Kentucky Infrastructure Authority (A19-011). As of June 30, 2019, \$111,200 had been spent on the project.

**NOTE M – Subsequent Event**

On January 9, 2020, the City refinanced four of its outstanding revenue bonds through the Kentucky League of City's Kentucky Bond Corporation. The Series 1988, Series 2000, Series 2000A, and Series 2000B were refinanced with \$1,430,000 bonds that bear interest at 0.46% and mature January 1, 2042.

## **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, 2019**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 321,000	\$ 321,000	\$ 408,113	\$ 87,113
Licenses & permits	788,000	1,054,600	882,519	(172,081)
Fines & forfeitures	2,300	2,300	19,410	17,110
Intergovernmental revenues	74,450	74,450	79,728	5,278
Charges for services	355,390	355,390	430,592	75,202
Interest	80	80	308	228
Other	122,000	122,000	18,896	(103,104)
Total revenues	<u>1,663,220</u>	<u>1,929,820</u>	<u>1,839,566</u>	<u>(90,254)</u>
EXPENDITURES:				
Current operating:				
General government	707,500	707,500	733,155	(25,655)
Public safety	951,050	1,211,650	1,252,176	(40,526)
Capital outlay			155,118	(155,118)
Debt service:				
Principal			43,737	(43,737)
Interest			1,144	(1,144)
Total expenditures	<u>1,658,550</u>	<u>1,919,150</u>	<u>2,185,330</u>	<u>(266,180)</u>
Excess (deficiency) of revenues over expenditures before transfers and other sources	4,670	10,670	(345,764)	(356,434)
Other financing sources (uses):				
Sale of capital assets			59,558	59,558
Total other sources and uses	<u>-</u>	<u>-</u>	<u>59,558</u>	<u>59,558</u>
Excess (deficiency) revenues over expenditures	4,670	10,670	(286,206)	(296,876)
Fund balances--beginning	423,066	423,066	423,066	-
Fund balances--ending	<u>\$ 427,736</u>	<u>\$ 433,736</u>	<u>\$ 136,860</u>	<u>\$ (296,876)</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, 2019**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Municipal road aid	\$ 69,000	\$ 69,000	\$ 64,887	\$ (4,113)
Interest	60	60	270	210
Other	50,000	50,000	10,000	(40,000)
Total revenues	<u>119,060</u>	<u>119,060</u>	<u>75,157</u>	<u>(43,903)</u>
EXPENDITURES:				
Current operating:				
Public services	118,650	118,650	84,923	33,727
Total expenditures	<u>118,650</u>	<u>118,650</u>	<u>84,923</u>	<u>33,727</u>
Excess (deficiency) revenues over expenditures	410	410	(9,766)	(10,176)
Fund balances--beginning	226,085	226,085	226,085	-
Fund balances--ending	<u>\$ 226,495</u>	<u>\$ 226,495</u>	<u>\$ 216,319</u>	<u>\$ (10,176)</u>

See accompanying notes to financial statements.

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

	Hazardous						Non-Hazardous					
	2019	2018	2017	2016	2015	2014	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.048312%	0.050524%	0.055165%	0.057857%	0.063241%	0.063241%	0.024901%	0.019736%	0.017897%	0.017065%	0.017546%	0.017546%
City's proportionate share of the net pension liability (asset)	\$ 1,168,405	\$ 1,130,363	\$ 946,598	\$ 888,160	\$ 759,851	\$ 845,582	\$ 1,516,548	\$ 1,155,210	\$ 881,160	\$ 733,532	\$ 568,980	\$ 642,288
City's covered employee payroll	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311	\$ 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	442.71%	417.92%	337.19%	309.68%	256.76%	263.99%	190.81%	188.34%	183.78%	169.01%	136.76%	159.56%
Plan fiduciary net position as a percentage of the total pension liability	49.26%	58.99%	53.95%	57.52%	63.46%	57.74%	53.54%	53.32%	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms or the size or composition of the population covered by the benefit terms.

There were no changes to plan assumptions for the measurement period ending June 30, 2018.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017:

1. The assumed investment rate of return was decreased from 7.50% to 6.25%.
2. The assumed rate of inflation was reduced from 3.25% to 2.30%.
3. Payroll growth assumption was reduced from 4.00% to 3.05%.

There were no changes to plan assumptions for the measurement period ending June 30, 2016.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2015:

1. The assumed investment rate of return was decreased from 7.75% to 7.50%.
2. The assumed rate of inflation was reduced from 3.50% to 3.25%.
3. The assumed rate of wage inflation was reduced from 1.00% to .75%.
4. Payroll growth assumption was reduced from 4.50% to 4.00%.
5. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
6. For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
7. The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

	Hazardous							Non-Hazardous						
	2019	2018	2017	2016	2015	2014	2013	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 65,637	\$ 60,045	\$ 60,947	\$ 58,105	\$ 61,349	\$ 69,732	\$ 63,533	\$ 128,940	\$ 88,813	\$ 66,887	\$ 53,903	\$ 53,046	\$ 55,308	\$ 53,405
Contributions relative to contractually required employer contributic	<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>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	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311	\$ 316,085	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532	\$ 423,173
Employer contributions as a percentage of covered-employee payrol	24.87%	22.20%	21.71%	20.26%	20.73%	21.77%	20.10%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%	12.62%

Notes:

There were no changes in benefit terms or size or composition of the population covered by the benefit terms.  
See the previous page for the changes of assumptions effective for the measurement period ended June 30, 2018.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

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

	Hazardous			Non-Hazardous		
	2019	2018	2017	2019	2018	2017
City's proportion of the net OPEB liability	0.048314%	0.050524%	0.055165%	0.024900%	0.019736%	0.017897%
City's proportionate share of the net OPEB liability (asset)	\$ 344,459	\$ 417,668	\$ 249,572	\$ 442,095	\$ 396,761	\$ 311,210
City's covered employee payroll	\$ 263,920	\$ 270,473	\$ 280,732	\$ 794,790	\$ 613,353	\$ 479,474
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	130.52%	154.42%	88.90%	55.62%	64.69%	64.91%
Plan fiduciary net position as a percentage of the total OPEB liability	64.24%	58.99%	53.95%	57.62%	52.39%	55.50%

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

**Notes:**

There were no changes in benefit terms or the size or composition of the population covered by the benefit terms.

There were no changes to plan assumptions for the measurement period ending June 30, 2018.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2017:

1. The assumed investment rate of return was 6.25%.
2. The assumed rate of inflation was 2.30%.
3. Payroll growth assumption was 3.05%.
4. The healthcare trend rate starting at 7.25% at January 1, 2019, 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 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years for post-65.
5. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
6. For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.



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

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

Notes:

There were no changes in benefit terms or size or composition of the population covered by the benefit terms.

See the previous page for the changes of assumptions effective for the measurement period ended June 30, 2018.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

## **COMPLIANCE SECTION**

# Kerbaugh, Rodes & Butler, PLLC

Certified Public Accountants

Glyn D. Kerbaugh, Jr. CPA  
John B. Rodes, CPA  
Craig A. Butler, CPA  
Robin A. Meeks, CPA  
Martha K. King, CPA  
Lori-Anne Clark, CPA  
Chad Robinson, CPA

132 North Second Street  
P.O. Box 729  
Danville, Kentucky 40422  
859/236-3924  
FAX 859/236-6435

52 Liberty Square  
Liberty, Kentucky 42539  
606/787-9928  
kerbaughandrades.com

## **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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 12, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 two years, there has been significantly more activity in these accounts than that of previous years and with a ongoing projects, the activity will continue to increase. By not appropriately maintaining these accounts in the general ledger in detail, activity can be misclassified or not recorded in the correct period. 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 \$254,200 that were misclassified, understatement of debt of \$31,680, an understatement of accounts payable \$156,284, an overstatement of cash for an outstanding check of \$49,242, and two bank accounts that were not recorded on the City's books. 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, 2019, the City's expenditures exceeded its appropriations in the amount of \$266,180. 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  
March 12, 2020