

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

JUNE 30, 2020

KERBAUGH, RODES & BUTLER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

DANVILLE, KENTUCKY

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Kentucky (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2020, 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 Information

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

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

Other Reporting Required by Government Auditing Standards

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

CITY OF LANCASTER, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020. 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, 2020 the City's Assets (page 9) exceeded liabilities by \$5,399,910. This amount includes \$1,517,829 of resources that are restricted to specific projects by laws, regulations, or contractual agreements. The City has an unrestricted deficit net position of (\$3,054,106) as of June 30, 2020, primarily related to the City's net pension and other post-employment benefit liabilities and related deferrals.
- Unrestricted cash and investment balances (page 9) as of June 30, 2020 were \$759,439 and current liabilities payable from unrestricted resources were \$1,010,183.
- Net position decreased by \$1,011,445 (page 10).
- Fund balances (A measure of current financial resources) in the governmental funds decreased \$101,037 to \$254,012 (page 13). Of this amount \$100,370 (page 11) is unassigned and available for future programs, \$150,989 is restricted to use for municipal road aid expenditures, and \$2,653 is committed to use for planning and zoning activities.
- The general fund unassigned fund balance (page 11), as of June 30, 2020 was \$100,370 or about 4% 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, 2020**

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, 2020**

Government-Wide Financial Analysis

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

Net Position of Governmental and Business-type Activities (in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 625	\$ 566	\$ 2,048	\$ 2,123	\$ 2,673	\$ 2,689
Capital assets	1,525	1,393	13,358	9,641	14,883	11,034
Total assets	2,150	1,959	15,406	11,764	17,556	13,723
Deferred outflows of resources	943	783	690	490	1,633	1,273
Long-term debt outstanding	100	-	7,847	4,160	7,947	4,160
Net pension liability	2,162	1,698	1,328	987	3,490	2,685
Net OPEB liability	568	525	304	261	872	786
Other liabilities	354	193	655	355	1,009	548
Total liabilities	3,184	2,416	10,134	5,763	13,318	8,179
Deferred inflows of resources	315	290	156	116	471	406
Net position:						
Invested in capital assets, net						
of related debt	1,425	1,393	5,511	5,480	6,936	6,873
Restricted	151	216	1,367	1,519	1,518	1,735
Unrestricted (deficit)	(1,982)	(1,573)	(1,072)	(624)	(3,054)	(2,197)
Total Net Position	\$ (406)	\$ 36	\$ 5,806	\$ 6,375	\$ 5,400	\$ 6,411

By far the largest portion of the City's net position (128%) 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. \$1,366,840 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, 2020**

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

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

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 549	\$ 431	\$ 2,333	\$ 2,245	\$ 2,882	\$ 2,676
Operating grants and contributions	321	145	-	-	321	145
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	413	408	-	-	413	408
License fees and permits	892	883	-	-	892	883
Fines and forfeitures	24	19	-	-	24	19
Interest and investment earnings	1	1	7	2	8	3
Miscellaneous	33	28	49	14	82	42
Sale of asset-gain	39	59	-	-	39	59
Total Revenues	2,272	1,974	2,389	2,261	4,661	4,235
Program Expenses:						
General Government	801	790	-	-	801	790
Public Safety	1,764	1,543	-	-	1,764	1,543
Public Services	149	87	-	-	149	87
Water	-	-	2,221	1,863	2,221	1,863
Sewer system	-	-	738	694	738	694
Interest expense	-	1	-	-	-	1
Total Expenses	2,714	2,421	2,959	2,557	5,673	4,978
Excess (deficiency) before transfers and special items	(442)	(447)	(570)	(296)	(1,012)	(743)
Increase (decrease) in net position	\$ (442)	\$ (447)	\$ (570)	\$ (296)	\$ (1,012)	\$ (743)

Governmental services in the amount of \$1,305,623 are financed with taxes, license fees, and interest earnings.

Governmental activities decreased the City's net position by \$442,075. This is primarily the result of pension and OPEB expense recognized during 2020 for the change in liabilities and related deferrals (\$371,770).

Business-type activities decreased the City's net position by \$569,370. This decrease is net of depreciation expense of \$453,851 (a non-cash item).

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

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 \$101,037.

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

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

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

Capital Assets

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

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

	Governmental Activities	Business-type Activities	Total
Land	\$ 60,000	\$ 79,643	\$ 139,643
Plant buildings and maintenance	1,114,435	7,559,362	8,673,797
Equipment and vehicles	350,389	234,037	584,426
Construction in progress	-	5,485,000	5,485,000
Total	<u>\$ 1,524,824</u>	<u>\$ 13,358,042</u>	<u>\$ 14,882,866</u>

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

**CITY OF LANCASTER, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

Long-Term Debt

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

	Governmental Activities	Business-type Activities	Total
Series 2009 Revenue Bonds-Sewer	\$	\$ 839,000	\$ 839,000
Series 2010 Revenue Bonds-Sewer		1,415,000	1,415,000
KLC Bonds - Water		795,566	795,566
KLC Bonds - Sewer		576,100	576,100
KIA Loan - Sewer 2008		215,443	215,443
KIA Loan - Sewer 2016		185,754	185,754
KIA Loan - Sewer 2019		185,200	185,200
KRWFC - Interim Financing		3,634,616	3,634,616
Note Payable - Bank	100,000	-	100,000
Total	<u>\$ 100,000</u>	<u>\$ 7,846,679</u>	<u>\$ 7,946,679</u>

The City refinanced four outstanding rural development bonds with the issuance of the Kentucky League of City bonds in the amount of \$1,430,000. The City also entered into a note payable with a local bank to finance the remodel of the police building. In addition, interim financing on the water plant project increased \$3,586,225. Outstanding debt increased \$3,786,275 resulting from the new debt issued described above and current year scheduled principal payments.

Economic Factors and Next Year's Budget

The City currently has two large project commitments outstanding as of June 30, 2020. 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. During the 2020 Regular Session, Senate Bill 249 froze the CERS employer rate phase-in for one year.

As discussed in Note M, the ongoing effects of the COVID-19 pandemic may impact the City's payroll and net profits license fee revenues, as well as accounts receivable collections on water and sewer bills.

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, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 276,842	\$ 219,860	\$ 496,702
Investments (certificates of deposit)	34,300	228,437	262,737
Receivables, net of allowance:			
Taxes	70,277		70,277
Customer accounts	36,646	213,560	250,206
Grants	149,543		149,543
Other receivables	40,539		40,539
Prepaid expenses	17,316	19,251	36,567
Restricted assets:			
Cash and cash equivalents		1,114,201	1,114,201
Investments (certificates of deposit)		252,639	252,639
Capital assets not being depreciated:			
Land	60,000	79,643	139,643
Construction in progress		5,485,000	5,485,000
Other capital assets	2,481,417	19,706,421	22,187,838
Less: accumulated depreciation	(1,016,593)	(11,913,022)	(12,929,615)
Total assets	<u>2,150,287</u>	<u>15,405,990</u>	<u>17,556,277</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>942,518</u>	<u>690,122</u>	<u>1,632,640</u>
LIABILITIES			
Accounts payable	112,207	105,209	217,416
Accounts payable - contractors		501,685	501,685
Accrued expenses	26,928	7,925	34,853
Customer deposits		131,002	131,002
Accrued interest payable		125,227	125,227
Internal balances	215,000	(215,000)	-
Noncurrent liabilities:			
Due within one year	100,000	207,707	307,707
Due in more than one year		7,638,972	7,638,972
Net Pension Liability	2,162,126	1,328,154	3,490,280
Net OPEB Liability	567,626	303,604	871,230
Total liabilities	<u>3,183,887</u>	<u>10,134,485</u>	<u>13,318,372</u>
DEFERRED INFLOWS OF RESOURCES	<u>314,848</u>	<u>155,787</u>	<u>470,635</u>
NET POSITION			
Net investment in capital assets	1,424,824	5,511,363	6,936,187
Restricted for:			
Debt service		1,366,840	1,366,840
Municipal aid projects	150,989		150,989
Unrestricted (deficit)	(1,981,743)	(1,072,363)	(3,054,106)
Total net position	<u>\$ (405,930)</u>	<u>\$ 5,805,840</u>	<u>\$ 5,399,910</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

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	\$ (800,790)	\$ 548,575	\$	\$	\$ (252,215)	\$	\$ (252,215)
Public safety	(1,764,011)		244,740		(1,519,271)		(1,519,271)
Public services	(149,209)		76,449		(72,760)		(72,760)
Total governmental activities	(2,714,010)	548,575	321,189		(1,844,246)		(1,844,246)
Business-type activities:							
Water	(2,221,277)	1,782,330				(438,947)	(438,947)
Sewer system	(737,543)	550,647				(186,896)	(186,896)
Total business-type activities	(2,958,820)	2,332,977				(625,843)	(625,843)
Total primary government	(5,672,830)	2,881,552	321,189		(1,844,246)	(625,843)	(2,470,089)
General revenues:							
Taxes, levied for general purposes					413,202		413,202
License fees and permits, levied for general purposes					892,421		892,421
Fines and forfeitures					24,208		24,208
Interest and investment earnings					360	7,331	7,691
Gain on sale of capital assets					39,425		39,425
Miscellaneous					32,555	49,142	81,697
Total general revenues, special items, and transfers					1,402,171	56,473	1,458,644
Change in net position					(442,075)	(569,370)	(1,011,445)
Net position - beginning					36,145	6,375,210	6,411,355
Net position - ending					\$ (405,930)	\$ 5,805,840	\$ 5,399,910

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Planning and Zoning</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 141,495	\$ 132,694	\$ 2,653	\$ 276,842
Investments (certificate of deposit)	34,300			34,300
Receivables (net of allowance):				
Property taxes	8,477			8,477
ABC taxes	11,890			11,890
Utility franchise tax	25,830			25,830
Payroll tax	24,080			24,080
Customer accounts	36,646			36,646
Other receivables	40,539			40,539
Grant receivable	149,543			149,543
Due from (to) other funds	(234,775)	19,775		(215,000)
 Total assets	 <u>\$ 238,025</u>	 <u>\$ 152,469</u>	 <u>\$ 2,653</u>	 <u>\$ 393,147</u>
 LIABILITIES				
Accounts payable	\$ 110,727	\$ 1,480		\$ 112,207
Accrued expenses	26,928			26,928
 Total liabilities	 <u>137,655</u>	 <u>1,480</u>	 <u></u>	 <u>139,135</u>
 FUND BALANCES				
Unassigned	100,370			100,370
Committed to planning & zoning use			2,653	2,653
Restricted to municipal road aid projects		150,989		150,989
 Total fund balances	 <u>100,370</u>	 <u>150,989</u>	 <u>2,653</u>	 <u>254,012</u>
Total liabilities and fund balances	<u>\$ 238,025</u>	<u>\$ 152,469</u>	<u>\$ 2,653</u>	<u>\$ 393,147</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, 2020

Total fund balance per fund financial statements	\$	254,012
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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		17,316
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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	2,541,417	
Less: accumulated depreciation	<u>(1,016,593)</u>	1,524,824

Certain items related to the City's net pension and OPEB liabilities do not affect available financial resources and therefore are not reported in the funds.		(2,102,082)
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and notes payable) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position:

Loan agreements		(100,000)
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Net position for governmental activities	\$	<u><u>(405,930)</u></u>
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See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General Fund	Municipal Road Aid Fund	Planning And Zoning	Total Governmental Funds
REVENUES:				
Taxes	\$ 413,202	\$	\$	\$ 413,202
Licenses & permits	892,421			892,421
Fines & forfeitures	24,208			24,208
Intergovernmental revenues	244,740	76,449		321,189
Charges for services	548,575			548,575
Interest	130	230		360
Other	25,772	6,000	783	32,555
Total revenues	<u>2,149,048</u>	<u>82,679</u>	<u>783</u>	<u>2,232,510</u>
EXPENDITURES:				
Current operating:				
General government	742,003			742,003
Public safety	1,342,561			1,342,561
Public services		148,009		148,009
Capital outlay	240,399			240,399
Total expenditures	<u>2,324,963</u>	<u>148,009</u>		<u>2,472,972</u>
Excess (deficiency) of revenues over expenditures before other sources and uses	<u>(175,915)</u>	<u>(65,330)</u>	<u>783</u>	<u>(240,462)</u>
Other financing sources (uses):				
Sale of capital assets	39,425			39,425
Proceeds from note payable	100,000			100,000
Total other sources and uses	<u>139,425</u>			<u>139,425</u>
Net change in fund balances	<u>(36,490)</u>	<u>(65,330)</u>	<u>783</u>	<u>(101,037)</u>
Fund balances--beginning	136,860	216,319	1,870	355,049
Fund balances--ending	<u>\$ 100,370</u>	<u>\$ 150,989</u>	<u>\$ 2,653</u>	<u>\$ 254,012</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, 2020

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

Net change in fund balances - total governmental funds	\$	(101,037)
--	----	-----------

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		(108,561)
Capital outlay		240,399

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:

Proceeds from issuance of notes payable		(100,000)
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Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred:

Prepaid insurance expense		(1,106)
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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.		(371,770)
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Change in net assets of governmental activities	\$	(442,075)
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See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 155,855	\$ 64,005	\$ 219,860
Investments (certificates of deposit)	100,618	127,819	228,437
Restricted cash, cash equivalents, and investments:			
Cash and cash equivalents	936,944	177,257	1,114,201
Receivables (net of allowance)	156,774	56,786	213,560
Due (to) from other funds	218,655	(3,655)	215,000
Prepaid insurance	12,721	6,530	19,251
Total current assets	<u>1,581,567</u>	<u>428,742</u>	<u>2,010,309</u>
Noncurrent assets:			
Restricted certificates of deposit	27,289	225,350	252,639
Total restricted assets	<u>27,289</u>	<u>225,350</u>	<u>252,639</u>
Capital assets:			
Land	65,367	14,276	79,643
Construction in progress	5,220,610	264,390	5,485,000
Other capital assets	12,864,170	6,842,251	19,706,421
Less: accumulated depreciation	(6,912,227)	(5,000,795)	(11,913,022)
Capital assets, net	<u>11,237,920</u>	<u>2,120,122</u>	<u>13,358,042</u>
Total noncurrent assets	<u>11,265,209</u>	<u>2,345,472</u>	<u>13,610,681</u>
TOTAL ASSETS	<u>12,846,776</u>	<u>2,774,214</u>	<u>15,620,990</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>497,696</u>	<u>192,426</u>	<u>690,122</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	83,130	22,079	105,209
Accounts payable - contractors	422,485	79,200	501,685
Accrued wages	6,107	1,818	7,925
Customer deposits	131,002		131,002
Accrued interest payable	124,540	687	125,227
Notes & revenue bonds payable - current	122,325	85,382	207,707
Total current liabilities	<u>889,589</u>	<u>189,166</u>	<u>1,078,755</u>
Noncurrent liabilities:			
Notes & revenue bonds payable	6,561,857	1,077,115	7,638,972
Net pension liability	973,410	354,744	1,328,154
Net OPEB liability	207,077	96,527	303,604
Total noncurrent liabilities	<u>7,742,344</u>	<u>1,528,386</u>	<u>9,270,730</u>
TOTAL LIABILITIES	<u>8,631,933</u>	<u>1,717,552</u>	<u>10,349,485</u>
DEFERRED INFLOWS OF RESOURCES	<u>110,438</u>	<u>45,349</u>	<u>155,787</u>
NET POSITION			
Net investment in capital assets	4,553,738	957,625	5,511,363
Restricted for debt service & bond covenants	964,233	402,607	1,366,840
Unrestricted	<u>(915,870)</u>	<u>(156,493)</u>	<u>(1,072,363)</u>
TOTAL NET POSITION	<u>\$ 4,602,101</u>	<u>\$ 1,203,739</u>	<u>\$ 5,805,840</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, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 1,755,460	\$ 550,647	\$ 2,306,107
Connection fees	26,870		26,870
Miscellaneous	38,009	11,133	49,142
Total operating revenues	<u>1,820,339</u>	<u>561,780</u>	<u>2,382,119</u>
Operating expenses:			
Personal services	717,694	207,989	925,683
Contractual services	664,640	211,228	875,868
Materials and supplies	330,757	102,587	433,344
Depreciation	286,955	166,896	453,851
Total operating expenses	<u>2,000,046</u>	<u>688,700</u>	<u>2,688,746</u>
Operating income (loss)	<u>(179,707)</u>	<u>(126,920)</u>	<u>(306,627)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	2,004	5,327	7,331
Interest expense	(196,226)	(30,736)	(226,962)
Bond issuance costs	(25,005)	(18,107)	(43,112)
Total nonoperating revenue (expenses)	<u>(219,227)</u>	<u>(43,516)</u>	<u>(262,743)</u>
Change in net position	(398,934)	(170,436)	(569,370)
Total net position - beginning	<u>5,001,035</u>	<u>1,374,175</u>	<u>6,375,210</u>
Total net position - ending	<u>\$ 4,602,101</u>	<u>\$ 1,203,739</u>	<u>\$ 5,805,840</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,790,085	\$ 561,077	\$ 2,351,162
Payments to suppliers	(979,073)	(314,104)	(1,293,177)
Payments for personal services	(541,725)	(156,297)	(698,022)
Other receipts (payments)	38,009		38,009
	<u>307,296</u>	<u>90,676</u>	<u>397,972</u>
Net cash provided (used) by operating activities			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	(168,655)	3,655	(165,000)
	<u>(168,655)</u>	<u>3,655</u>	<u>(165,000)</u>
Net cash used by noncapital financing activities			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(3,672,114)	(153,511)	(3,825,625)
Proceeds from the issuance of debt	4,415,625	754,120	5,169,745
Payment of bond issuance costs	(25,005)	(18,107)	(43,112)
Principal paid on capital debt	(878,734)	(604,736)	(1,483,470)
Interest paid on capital debt	(94,517)	(37,118)	(131,635)
	<u>(254,745)</u>	<u>(59,352)</u>	<u>(314,097)</u>
Net cash provided (used) by capital and related financing activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(100,644)	(4,930)	(105,574)
Interest and dividends	2,004	5,327	7,331
	<u>(98,640)</u>	<u>397</u>	<u>(98,243)</u>
Net cash provided (used) by investing activities			
Net increase (decrease) in cash and cash equivalents	(214,744)	35,376	(179,368)
Cash and equivalents - beginning of year	<u>1,307,543</u>	<u>205,886</u>	<u>1,513,429</u>
Cash and equivalents - end of year	<u>\$ 1,092,799</u>	<u>\$ 241,262</u>	<u>\$ 1,334,061</u>

(Continued next page)

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
(Continued)			
Reconciliation of Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities			
Operating income (loss)	\$ (179,707)	\$ (126,920)	\$ (306,627)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	286,955	166,896	453,851
Change in assets and liabilities:			
Receivables, net	2,176	(703)	1,473
Prepaid expenses	808	(431)	377
Accounts payable	15,516	142	15,658
Accrued wages	3,141	973	4,114
Customer deposits	5,579		5,579
Net pension and OPEB liabilities and related deferrals	172,828	50,719	223,547
Net cash provided by operating activities	<u>\$ 307,296</u>	<u>\$ 90,676</u>	<u>\$ 397,972</u>
Supplemental Cash Flow Information:			
Construction in progress included in accounts payable	\$ 422,485	\$ 79,200	\$ 501,685

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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 April 15, 2021, 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, 2020, 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 \$356,863 for the year ended June 30, 2020. The City's municipal road aid fund expenditures exceeded its budget by \$29,359 for the year ended June 30, 2020.

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, 2020, taxes were levied November 1, 2019 and were payable by December 31, 2019. A 2% penalty was imposed on all taxes delinquent as of January 1, 2020 and a 10% penalty was imposed on all taxes delinquent as of February 1, 2020.

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

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increase its revenues from taxes on real property, exclusive of increases due to assessment growth without giving notice of such an increase and holding a public hearing on the matter. If that increase is less than 4%, that is all that is necessary, but if the increase is more than 4%, residents of the City may petition for an election to be held on the question. If the majority of those voting in a valid election vote against the proposed rate increase, the rate must be rolled back to one which will not produce more than a 4% increase. City tax rates of 15.6 cents per \$100 on real property, 26 cents per \$100 on personal property, and 24.2 cents per \$100 on vehicles for the fiscal year ended June 30, 2020, 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, 2020 is as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Deposits	\$ 1,610,903	\$ 1,923,670
Investments	515,376	515,376
Total	<u>\$ 2,126,279</u>	<u>\$ 2,439,046</u>
 Cash and cash equivalents	 \$ 496,702	
Investments - CD's	262,737	
Cash and cash equivalents-restricted	1,114,201	
Investments-restricted CD's	252,639	
Total	<u>\$ 2,126,279</u>	

The City's investments at June 30, 2020 are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Governmental Activities:				
Farmers National Bank				
Certificate of Deposit	\$ 34,300	\$ 34,300	0.15%	08/15/21
Business Type Activities:				
Farmers National Bank				
Certificate of Deposit	\$ 27,289	\$ 27,289	0.15%	07/28/21
Certificate of Deposit	26,269	26,269	0.15%	07/28/21
Certificate of Deposit	20,714	20,714	0.12%	11/17/21
Certificate of Deposit	127,819	127,819	2.23%	05/13/21
Certificate of Deposit	100,618	100,618	0.20%	12/20/20
Whitaker Bank				
Certificate of Deposit	178,367	178,367	1.15%	06/27/22
	<u>\$ 481,076</u>	<u>\$ 481,076</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	74,411
Public Services	1,200
	<u>\$ 108,561</u>
Business-type activities:	
Water	\$ 286,955
Sewer	166,896
	<u>\$ 453,851</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, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Land	\$ 60,000	\$	\$	\$ 60,000
Buildings	1,192,260	305,149		1,497,409
Equipment and vehicles	984,008			984,008
Construction in progress	64,750	225,039	(289,789)	-
Total cost	<u>2,301,018</u>	<u>530,188</u>	<u>(289,789)</u>	<u>2,541,417</u>
Less accumulated depreciation:				
Buildings	(348,824)	(34,150)		(382,974)
Equipment and vehicles	(559,208)	(74,411)		(633,619)
Total accumulated depreciation	<u>(908,032)</u>	<u>(108,561)</u>		<u>(1,016,593)</u>
Governmental activities capital assets, net	<u>\$ 1,392,986</u>	<u>\$ 421,627</u>	<u>\$ (289,789)</u>	<u>\$ 1,524,824</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Land	\$ 79,643	\$	\$	\$ 79,643
Water and Sewer plant	17,937,135			17,937,135
Equipment	1,494,573			1,494,573
Vehicles	274,713			274,713
Construction in progress	1,313,975	4,171,025		5,485,000
Total cost	21,100,039	4,171,025		25,271,064
Less accumulated depreciation:				
Water and Sewer plant	(9,956,206)	(421,567)		(10,377,773)
Equipment	(1,270,459)	(18,673)		(1,289,132)
Vehicles	(232,506)	(13,611)		(246,117)
Total accumulated depreciation	(11,459,171)	(453,851)		(11,913,022)
Business-type activities capital assets, net	\$ 9,640,868	\$ 3,717,174	\$	\$ 13,358,042

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, 2020, 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, 2020, participating employers contributed 24.06% (21.48% for the year ended June 30, 2019) of each employee's wages for non-hazardous job classifications and 39.58% (35.34% for the year ended June 30, 2019) 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, 2020, the City contributed \$214,479 for non-hazardous job classifications, and \$108,030 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$172,047 to the CERS pension fund and \$42,432 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$82,046 to the CERS pension fund and \$25,984 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the City reported a liability of \$3,490,280 for its proportionate share of the net pension liability. The liability consisted of \$2,210,205 for non-hazardous job classifications and \$1,280,075 for hazardous job classifications. The net pension liability was measured as of June 30, 2018, 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, 2019. 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, 2020, the City's proportion was .031426% for non-hazardous employees and .046341% for hazardous employees, which was equal to its proportion measured as of June 30, 2019. 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.

For the year ended June 30, 2020, the City recognized pension expense of \$535,958. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 110,820	\$ 9,339
Changes of assumptions	347,954	-
Net difference between projected and actual earnings on Plan investments	62,119	115,865
Changes in proportion and differences between City contributions and proportionate share of contributions	371,672	51,826
City contributions subsequent to the measurement date	254,093	-
Total	\$ 1,146,658	\$ 177,030

The \$254,093 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2021	\$ 421,477
2022	217,022
2023	73,356
2024	3,680

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Actuarial Assumptions – The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth	2.00% (3.05% in prior year)
Salary increases	3.30% to 10.20% varied by service inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Cash	1.00%	0.20%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-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:

	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 4,364,720
Current discount rate	6.25%	\$ 3,490,280
1% increase	7.25%	\$ 2,765,810

Payable to the Pension Plan – At June 30, 2020, the City reported a payable of \$30,198 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020. 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, 2020, 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, 2020, participating employers contributed 24.06% (21.48% for the year ended June 30, 2019) of each employee's wages for non-hazardous job classifications and 39.58% (35.34% for the year ended June 30, 2019) 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, 2020, the City contributed \$214,479 for non-hazardous job classifications, and \$108,030 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$172,136 to the CERS pension fund and \$42,343 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$82,046 to the CERS pension fund and \$25,984 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the City reported a liability of \$871,230 for its proportionate share of the net OPEB liability. The liability consisted of \$528,437 for non-hazardous job classifications and \$342,793 for hazardous job classifications. The net OPEB liability was measured as of June 30, 2018, 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, 2019. 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, 2020, the City's proportion was .031418 percent for non-hazardous employees and .046332% for hazardous employees, which was equal to its proportion measured as of June 30, 2017. At June 30, 2018, 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, 2018.

For the year ended June 30, 2020, the City recognized OPEB expense of \$59,359. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 223,212
Changes of assumptions	259,959	1,695
Net difference between projected and actual earnings on Plan investments	5,823	49,003
Changes in proportion and differences between City contributions and proportionate share of contributions	151,873	19,695
City contributions subsequent to the measurement date	68,327	-
Total	\$ 485,982	\$ 293,605

The \$68,327 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2021	\$ 42,639
2022	24,407
2023	22,633
2024	19,929
2025	11,447
Thereafter	2,995

Actuarial Assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% varied by service

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Investment rate of return	6.25%
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 12 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 10 years

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

	City's proportionate share of net OPEB liability
1% decrease	\$ 631,521
Current healthcare trend rate	\$ 871,230
1% increase	\$ 1,162,665

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%

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Real Return	15.00%	4.10%
Cash	1.00%	0.20%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.68 percent for non-hazardous and 5.69% for hazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-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 3.13%, as reported in the Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. 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 \$11,591 at June 30, 2020.

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 5.68 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 (4.68 percent) or 1-percentage-point higher (6.68 percent) than the current rate:

	Discount rate	City's proportionate share of net OPEB liability
1% decrease	4.68%	\$ 1,186,152
Current discount rate	5.68%	\$ 871,230
1% increase	6.68%	\$ 613,409

Payable to the Pension Plan – At June 30, 2020, the City reported a payable of \$30,198 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2020. 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, 2020 are as follows:

Series	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2020
Series 2009	1,015,000	2.375%	2048	\$ 839,000
Series 2010	1,641,000	2.500%	2050	1,415,000
KLC Bond Series	1,430,000	2.560%	2042	1,371,666
				<u>\$ 3,625,666</u>

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

Revenue Bond Debt Service Requirements

The annual principal and interest requirements of the water and sewer revenue bonds payable as of June 30, 2020, are as follows:

Year Ending June 30,	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 122,325	\$ 77,128	\$ 50,925	\$ 15,798	\$ 173,250	\$ 92,926
2022	108,600	73,823	39,900	14,326	148,500	88,149
2023	111,308	71,134	40,775	13,330	152,083	84,464
2024	115,208	68,378	42,875	12,310	158,083	80,688
2025	118,400	65,525	44,100	11,238	162,500	76,763
2026-2030	532,191	284,085	158,725	40,587	690,916	324,672
2031-2035	476,608	223,471	86,975	25,960	563,583	249,431
2036-2040	539,158	158,806	96,425	12,432	635,583	171,238
2041-2045	486,267	90,407	15,400	999	501,667	91,406
2046-2050	440,000	30,042			440,000	30,042
Total	\$ 3,050,065	\$ 1,142,799	\$ 576,100	\$ 146,980	\$ 3,626,165	\$ 1,289,779

Total Debt Service by Bond Series

	Principal	Interest	Total Payment
Series 2009 Revenue Bonds - Water	\$ 839,000	\$ 323,760	\$ 1,162,760
Series 2010 Revenue Bonds - Water	1,415,000	616,075	2,031,075
KLC Revenue Bonds - Water	795,567	202,963	998,530
KLC Revenue Bonds - Sewer	576,100	146,980	723,080
Total	\$ 3,625,667	\$ 1,289,778	\$ 4,915,445

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, 2020, 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 to fund the planning and design of the Sanitary Sewer Improvements Project. As of June 30, 2020, the City had drawn \$185,200 of this loan.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

The Kentucky Infrastructure Authority Loans outstanding at June 30, 2020 are as follows:

Issue	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2020
KIA Loan (B08-02)	490,000	0.60%	2029	\$ 215,443
KIA Loan (B16-013)	406,868	0.75%	2038	185,754
KIA Loan (A19-011)	324,000	3.00%	2025	185,200
				<u>\$ 586,397</u>

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

Year Ending June 30,	Sewer	
	Principal	Interest
2021	\$ 34,457	\$ 3,049
2022	34,678	2,778
2023	34,901	2,505
2024	35,126	2,230
2025	35,352	1,953
2026-2030	141,029	5,714
2031-2035	52,931	2,325
2036-2038	32,723	431
Total	<u>\$ 401,197</u>	<u>\$ 20,985</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, 2020, the City has not yet drawn \$138,800 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, 2020, 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. The Loan bears interest at 3.40% and matures May 1, 2021. The KRWFC Loan will be refunded with permanent

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020

financing from Rural Development at the completion of the project. As of June 30, 2020, the City has drawn \$3,634,616 of this loan.

Bank Loans – General Fund

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

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Notes payable - bank	\$ -	\$ 100,000	\$ -	\$ 100,000	\$ 100,000
Governmental activity long-term liabilities	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Business-type activities:					
Revenue Bonds:					
Revenue Bonds-Water Fund	\$ 3,098,900	\$ -	\$ (844,900)	\$ 2,254,000	\$ 52,000
Revenue Bonds-Sewer Fund	546,000	-	(546,000)	-	-
KLC Bonds-Water Fund	-	829,400	(33,834)	795,566	70,325
KLC Bonds-Sewer Fund	-	600,600	(24,500)	576,100	50,925
Total Bonds Payable	<u>3,644,900</u>	<u>1,430,000</u>	<u>(1,449,234)</u>	<u>3,625,666</u>	<u>173,250</u>
KRWFC Revenue Bond Anticipation Notes	<u>48,391</u>	<u>3,586,225</u>	<u>-</u>	<u>3,634,616</u>	<u>-</u>
KIA Loans:					
KIA Loans-Sewer Fund	<u>467,113</u>	<u>153,520</u>	<u>(34,236)</u>	<u>586,397</u>	<u>34,457</u>
Total KIA Loans	<u>467,113</u>	<u>153,520</u>	<u>(34,236)</u>	<u>586,397</u>	<u>34,457</u>
Business-type activity long-term liabilities	<u>\$ 4,160,404</u>	<u>\$ 5,169,745</u>	<u>\$ (1,483,470)</u>	<u>\$ 7,846,679</u>	<u>\$ 207,707</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, 2020

NOTE J – Economic Dependency

During the fiscal year ended June 30, 2020, approximately 58% of the water fund's operating revenue was derived from two wholesale users. The contract with one of these wholesale users runs through December 31, 2028. The contract with the other wholesale user was renewed during 2018 to extend the contract through June 30, 2062. The new agreement requires a minimum purchase agreement of 325,000,000 gallons when the new Water Treatment Plant Project (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, 2020, there are three major construction projects in progress.

1. The Water Treatment Plant Project has a budget of \$11,732,455. As of June 30, 2020, \$5,183,110 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, 2020, \$264,390 had been spent on the project. The Project is expected to be approximately \$5,564,800 to be funded by the following sources.

1. Rural Development Loan	\$ 2,918,000
2. Rural Development Grant or Loan	1,274,200
3. ARC Grant	372,600
4. CDBG Grant	1,000,000
Total Funding	<u>\$ 5,564,800</u>

3. The City is in the planning and design stage for water upgrades for a Distillery located in the City. As of June 30, 2020, \$37,500 had been spent on the project.

NOTE M - Covid-19 Uncertainty

During 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. Multiple jurisdictions in the U.S. have declared a state of emergency, including the Commonwealth of Kentucky. As a result of this pandemic, many businesses within the City of Lancaster chose or were forced to discontinue operations for a period of time or have had their operations significantly affected by the pandemic. As a result, the City's revenue from payroll and net profits license fees is expected to decrease from previous years. In addition, the Governor of the Commonwealth of Kentucky issued an executive order on May 8, 2020, restricting the ability of utilities to shut off service due to nonpayment. This executive order was rescinded effective November 6, 2020, with the stipulation that balances in arrears for services from May 8, 2020 through October 25, 2020 be entered into payment plans with a minimum term of six months. As a result of this executive order, water and sewer accounts receivable collections may be delayed compared to previous years.

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, 2020

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 345,000	\$ 345,000	\$ 413,202	\$ 68,202
Licenses & permits	851,500	851,500	892,421	40,921
Fines & forfeitures	52,100	52,100	24,208	(27,892)
Intergovernmental revenues	89,000	89,000	244,740	155,740
Charges for services	499,390	499,390	548,575	49,185
Interest	100	100	130	30
Other	187,000	187,000	25,772	(161,228)
Total revenues	2,024,090	2,024,090	2,149,048	124,958
EXPENDITURES:				
Current operating:				
General government	730,250	730,250	742,003	(11,753)
Public safety	1,237,850	1,237,850	1,342,561	(104,711)
Capital outlay			240,399	(240,399)
Total expenditures	1,968,100	1,968,100	2,324,963	(356,863)
Excess (deficiency) of revenues over expenditures before transfers and other sources	55,990	55,990	(175,915)	(231,905)
Other financing sources (uses):				
Sale of capital assets			39,425	39,425
Proceeds from note payable			100,000	100,000
Total other sources and uses	-	-	139,425	139,425
Excess (deficiency) revenues over expenditures	55,990	55,990	(36,490)	(92,480)
Fund balances--beginning	136,860	136,860	136,860	-
Fund balances--ending	\$ 192,850	\$ 192,850	\$ 100,370	\$ (92,480)

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, 2020**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Municipal road aid	\$ 69,000	\$ 69,000	\$ 76,449	\$ 7,449
Interest	60	60	230	170
Other	50,000	50,000	6,000	(44,000)
Total revenues	<u>119,060</u>	<u>119,060</u>	<u>82,679</u>	<u>(36,381)</u>
EXPENDITURES:				
Current operating:				
Public services	118,650	118,650	148,009	(29,359)
Total expenditures	<u>118,650</u>	<u>118,650</u>	<u>148,009</u>	<u>(29,359)</u>
Excess (deficiency) revenues over expenditures	410	410	(65,330)	(65,740)
Fund balances--beginning	216,319	216,319	216,319	-
Fund balances--ending	<u>\$ 216,729</u>	<u>\$ 216,729</u>	<u>\$ 150,989</u>	<u>\$ (65,740)</u>

See accompanying notes to financial statements.

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

	Hazardous							Non-Hazardous						
	2020	2019	2018	2017	2016	2015	2014	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.046341%	0.048312%	0.050524%	0.055165%	0.057857%	0.063241%	0.063241%	0.031426%	0.024901%	0.019736%	0.017897%	0.017065%	0.017546%	0.017546%
City's proportionate share of the net pension liability (asset)	\$ 1,280,075	\$ 1,168,405	\$ 1,130,363	\$ 946,598	\$ 888,160	\$ 759,851	\$ 845,582	\$ 2,210,205	\$ 1,516,548	\$ 1,155,210	\$ 881,160	\$ 733,532	\$ 568,980	\$ 642,288
City's covered employee payroll	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532
City's share of the net pension liability (asset) as a percentage of its covered payroll	468.99%	442.71%	417.92%	337.19%	309.68%	256.76%	263.99%	247.94%	190.81%	188.34%	183.78%	169.01%	136.76%	159.56%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	49.26%	58.99%	53.95%	57.52%	63.46%	57.74%	46.63%	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.

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2019:

1. Payroll growth assumption was reduced from 3.05% to 2.0%.
2. The assumed salary increases range from 3.30% to 10.30% varied by service for nonhazardous and ranging from 3.55% to 19.05% varied by service for hazardous.
3. The mortality table used for active members is PUB-2010 General Mortality table for non-hazardous and PUB-2010 Public Safety Mortality table for hazardous, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
4. For healthy retired members and beneficiaries, the mortality table used is System-specific mortality table based on mortality experience from 2013-2018, projected with ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the mortality table used is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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 Eight Fiscal Years

	Hazardous								Non-Hazardous							
	2020	2019	2018	2017	2016	2015	2014	2013	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 82,046	\$ 65,637	\$ 60,045	\$ 60,947	\$ 58,105	\$ 61,349	\$ 69,732	\$ 63,533	\$ 172,047	\$ 128,940	\$ 88,813	\$ 66,887	\$ 53,903	\$ 53,046	\$ 55,308	\$ 53,405
Contributions relative to contractually required employer contributi	<u>82,046</u>	<u>65,637</u>	<u>60,045</u>	<u>60,947</u>	<u>58,105</u>	<u>61,349</u>	<u>69,732</u>	<u>63,533</u>	<u>172,047</u>	<u>128,940</u>	<u>88,813</u>	<u>66,887</u>	<u>53,903</u>	<u>53,046</u>	<u>55,308</u>	<u>53,405</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311	\$ 316,085	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532	\$ 423,173
Employer contributions as a percentage of covered-employee payro	30.06%	24.87%	22.20%	21.71%	20.26%	20.73%	21.77%	20.10%	19.30%	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, 2019.

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 Four Fiscal Years*

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

The following changes of assumptions were adopted by the Kentucky Retirement System Board of Trustees for the measurement period ending June 30, 2019:

1. Payroll growth assumption was reduced from 3.05% to 2.0%.
2. The assumed salary increases range from 3.30% to 10.30% varied by service for nonhazardous and ranging from 3.55% to 19.05% varied by service for hazardous.
3. The healthcare trend rate starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years for pre-65. The healthcare trend rate starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years for post-65.
4. The mortality table used for active members is PUB-2010 General Mortality table for non-hazardous and PUB-2010 Public Safety Mortality table for hazardous, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
5. For healthy retired members and beneficiaries, the mortality table used is System-specific mortality table based on mortality experience from 2013-2018, projected with ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. For disabled members, the mortality table used is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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 Four Fiscal Years

	Hazardous				Non-Hazardous			
	2020	2019	2018	2017	2020	2019	2018	2017
Contractually required employer contribution	\$ 25,984	\$ 27,632	\$ 25,289	\$ 26,248	\$ 42,343	\$ 41,814	\$ 28,828	\$ 22,679
Contributions relative to contractually required employer contribution	<u>25,984</u>	<u>27,632</u>	<u>25,289</u>	<u>26,248</u>	<u>42,343</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>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474
Employer contributions as a percentage of covered-employee payroll	9.52%	10.47%	9.35%	9.35%	4.75%	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, 2019.

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

CITY OF LANCASTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

<u>Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>	<u>Passed Through To Subrecipients</u>
A. U.S. Department of Transportation: Passed through Commonwealth of Kentucky, Kentucky Transportation Cabinet:				
Highway Safety Program	20.600	PT 19-38	\$ 5,707	\$ -
Highway Safety Program	20.600	PT 19-20	881	-
			<u>6,588</u>	<u>-</u>
B. U.S. Department of Agriculture Rural Development: Direct:				
RUS Loan/Grant	10.760		<u>4,297,751</u>	<u>-</u>
C. U.S. Department of Homeland Security: Passed through Commonwealth of Kentucky, Department of Military Affairs Division of Emergency Management:				
Hazard Mitigation Grants Program	97.039	FEMA-DR-4216-011	<u>4,868</u>	<u>-</u>
D. U.S. Department of the Treasury: Passed through Commonwealth of Kentucky, Department for Local Government:				
Coronavirus Relief Funds for States	21.019	Lancaster CRF C179	149,543	-
			<u>\$ 4,458,750</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF LANCASTER, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Honorable Mayor and Members of the City
Council
Lancaster, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Kentucky (the City) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 three years, there has been significantly more activity in these accounts than that of previous years and with 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. It also makes year-end cash to accrual conversions increasingly more difficult. During our audit procedures, we proposed multiple audit adjustments for activity in these accounts that were not correctly recorded or not included as receivables or payables. The adjustments resulted in additions to capital assets of \$967,429 that were the result of outstanding checks or accounts payable, an understatement of accounts payable of \$531,882, an overstatement of cash for two outstanding checks of \$467,840, and one bank account that was not recorded on the City's books totaling \$465. 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, 2020, the City's expenditures exceeded its appropriations in the amount of \$356,863 in the general fund and \$29,359 in the municipal road aid fund. According to KRS 91A.030, "No city shall expend any moneys from any governmental or proprietary fund, except in accordance with a budget ordinance adopted pursuant to this section". Therefore, the expenditures in excess of budget represent a violation of KRS 91A.030.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
April 15, 2021

Kerbaugh, Rodes & Butler, PLLC

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

The Mayor and City Council
City of Lancaster, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Lancaster, Kentucky's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

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

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

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

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

Kerbaugh, Rodas & Butler, PLLC

Kerbaugh, Rodas & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
April 15, 2021

**CITY OF LANCASTER, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section I-Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	USDA, Rural Development Water & Waste Disposal Systems For Rural Communities Grant and Loan Program

Dollar threshold used to distinguish Between type A and type B programs:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	No

**CITY OF LANCASTER, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2020**

Section II – Financial Statement Findings

See Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards on pages 46-47.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Prior Year Audit Findings

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

Prior year financial statement finding related to all checking account activity being maintained in the general ledger. Management added one account (ABC account) to track detailed activity in the general ledger system. No other accounts were added to the general ledger system. Therefore, the finding related to all activity being maintained in the general ledger system was repeated in the current year audit.