

CITY OF LEWISBURG, KENTUCKY

ANNUAL FINANCIAL REPORT

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Lewisburg, Kentucky and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Lewisburg, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lewisburg, Kentucky's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 28 and 29, and pension and OPEB information on pages 30 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2023, on our consideration of the City of Lewisburg, Kentucky'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 solely 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 of Lewisburg, Kentucky'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 of Lewisburg, Kentucky's internal control over financial reporting and compliance.

Hensley & Throneberry, CPAs

February 1, 2023

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2021

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 531,345	\$ 503,835	\$ 1,035,180
Accounts receivable, net	13,766	81,861	95,627
Unbilled revenue	-0-	39,456	39,456
Prepaid expenses	10,039	-0-	10,039
Inventory	-0-	4,195	4,195
Internal balances	<u>95,586</u>	<u>(95,586)</u>	<u>-0-</u>
Total current assets	650,736	533,761	1,184,497
Noncurrent assets			
Restricted cash and cash equivalents	65,181	135,181	200,362
Capital assets, net	<u>944,130</u>	<u>1,966,352</u>	<u>2,910,482</u>
Total noncurrent assets	<u>1,009,311</u>	<u>2,101,533</u>	<u>3,110,844</u>
Total assets	1,660,047	2,635,294	4,295,341
Deferred outflows of resources			
Deferred outflows – pension and OPEB	<u>144,059</u>	<u>144,462</u>	<u>288,521</u>
Total deferred outflows of resources	144,059	144,462	288,521
Total assets and deferred outflows of resources	\$ 1,804,106	\$ 2,779,756	\$ 4,583,862
Liabilities			
Current liabilities			
Accounts payable	\$ 768	\$ 29,748	\$ 30,516
Other current liabilities	392	-0-	392
Accrued payroll	6,378	3,901	10,279
Accrued interest payable	-0-	1,489	1,489
Customer deposits	-0-	116,481	116,481
Revenue lease payable, current portion	<u>-0-</u>	<u>102,083</u>	<u>102,083</u>
Total current liabilities	7,538	253,702	261,240
Noncurrent liabilities			
Accrued compensated absences	9,081	2,742	11,823
Revenue lease payable, noncurrent portion	-0-	726,138	726,138
Note payable, noncurrent portion	-0-	54,106	54,106
Net pension liability	455,464	402,058	857,522
Net OPEB liability	<u>141,184</u>	<u>126,546</u>	<u>267,730</u>
Total noncurrent liabilities	<u>605,729</u>	<u>1,311,590</u>	<u>1,917,319</u>
Total liabilities	613,267	1,565,292	2,178,559
Deferred inflows of resources			
Deferred inflows – pension and OPEB	<u>55,555</u>	<u>66,213</u>	<u>121,768</u>
Total deferred inflows of resources	55,555	66,213	121,768
Net position			
Invested in capital assets, net of related debt	944,130	1,084,026	2,028,156
Restricted for highways and streets	65,181	-0-	65,181
Restricted for debt service	-0-	18,700	18,700
Unrestricted	<u>125,973</u>	<u>45,525</u>	<u>171,498</u>
Total net position	1,135,284	1,148,251	2,283,535
Total liabilities, deferred inflows of resources, and net position	\$ 1,804,106	\$ 2,779,756	\$ 4,583,862

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

Functions/Programs of Primary Government	Program Revenues				Net (Expense) Revenue and Changes in Net Position Primary Government		
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total
Government activities:							
General government	\$ 220,736	\$ -0-	\$ 3,035	\$ -0-	\$ (217,701)	\$ -0-	\$ (217,701)
Police	142,947	-0-	5,652	-0-	(137,295)	-0-	(137,295)
Fire	20,849	-0-	-0-	11,000	(9,849)	-0-	(9,849)
Highways and streets	5,285	-0-	16,792	-0-	11,507	-0-	11,507
Parks and recreation	8,847	-0-	10,600	13,872	15,625	-0-	15,625
Depreciation (unallocated)	53,941	-0-	-0-	-0-	(53,941)	-0-	(53,941)
Total governmental activities	452,605	-0-	36,079	24,872	(391,654)	-0-	(391,654)
Business-type activities:							
Water	651,506	654,892	-0-	-0-	-0-	3,386	3,386
Sewer	199,216	142,914	-0-	-0-	-0-	(56,302)	(56,302)
Sanitation	39,473	60,006	-0-	-0-	-0-	20,533	20,533
Total business-type activities	890,195	857,812	-0-	-0-	-0-	(32,383)	(32,383)
Total primary government	\$ 1,342,800	\$ 857,812	\$ 36,079	\$ 24,872	(391,654)	(32,383)	(424,037)

General revenues

Taxes			
Property	99,908	-0-	99,908
License fees and permits	139,610	-0-	139,610
Insurance and other taxes	66,268	-0-	66,268
Interest income	551	845	1,396
Rental revenue	8,245	-0-	8,245
Miscellaneous	1,090	-0-	1,090
Transfers	(23,819)	23,819	-0-
Total general revenues and transfers	291,853	24,664	316,517
Change in net position	(99,801)	(7,719)	(107,520)
Net position, beginning of year	1,235,085	1,155,970	2,391,055
Net position, end of year	\$ 1,135,284	\$ 1,148,251	\$ 2,283,535

CITY OF LEWISBURG, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2021

	General Fund	Municipal Road Aid	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 531,345	\$ -0-	\$ 531,345
Accounts receivable, net	13,766	-0-	13,766
Prepaid expenses	10,039	-0-	10,039
Due from other fund	95,586	-0-	95,586
Restricted cash and cash equivalents	-0-	65,181	65,181
Total assets	<u>\$ 650,736</u>	<u>\$ 65,181</u>	<u>\$ 715,917</u>
Liabilities			
Accounts payable	\$ 768	\$ -0-	\$ 768
Accrued payroll	6,378	-0-	6,378
Other current liabilities	392	-0-	392
Total liabilities	<u>7,538</u>	<u>-0-</u>	<u>7,538</u>
Fund balance			
Restricted			
Highways and streets	-0-	65,181	65,181
Unassigned	643,198	-0-	643,198
Total fund balance	<u>643,198</u>	<u>65,181</u>	<u>708,379</u>
Total liabilities and fund balance	<u>\$ 650,736</u>	<u>\$ 65,181</u>	<u>\$ 715,917</u>

Reconciliation of the balance sheet of governmental funds to the statement of net position

Total fund balance – total governmental funds	\$ 708,379
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	944,130
Some liabilities are not due and payable in the current period, and therefore, are not reported in the funds:	
Accrued compensated absences	(9,081)
Net pension liability	(455,464)
Net OPEB liability	(141,184)
Net deferred outflows and inflows related to pensions and OPEB	88,504
Net position of governmental activities	<u>\$ 1,135,284</u>

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS
Year Ended June 30, 2021

	<u>General Fund</u>	<u>Municipal Road Aid</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 99,908	\$ -0-	\$ 99,908
Occupational taxes	89,442	-0-	89,442
Franchise taxes	31,055	-0-	31,055
Licenses and fees	19,114	-0-	19,114
Insurance tax	66,268	-0-	66,268
Intergovernmental revenue	44,160	16,792	60,952
Rental revenue	8,245	-0-	8,245
Interest received	551	-0-	551
Other revenues	<u>1,090</u>	<u>-0-</u>	<u>1,090</u>
Total revenues	359,833	16,792	376,625
Expenditures			
General government	195,138	-0-	195,138
Public safety			
Police	107,091	-0-	107,091
Fire	17,864	-0-	17,864
Highways and streets	-0-	1,875	1,875
Parks and recreation	5,284	-0-	5,284
Capital outlay	<u>54,314</u>	<u>-0-</u>	<u>54,314</u>
Total expenditures	379,691	1,875	381,566
Excess (deficit) of revenue over (under) expenditures	(19,858)	14,917	(4,941)
Other financing sources (uses)			
Transfers in (out)	<u>(21,059)</u>	<u>(2,760)</u>	<u>(23,819)</u>
Other financing sources (uses)	(21,059)	(2,760)	(23,819)
Net change in fund balance	(40,917)	12,157	(28,760)
Fund balance, beginning of year	<u>684,115</u>	<u>53,024</u>	<u>737,139</u>
Fund balance, end of year	<u>\$ 643,198</u>	<u>\$ 65,181</u>	<u>\$ 708,379</u>

CITY OF LEWISBURG, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

Net change in fund balance – total governmental funds	\$ (28,760)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(4,700)
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Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds:

Accrued compensated absences	(5,281)
Pension expense	(48,437)
OPEB expense	<u>(12,623)</u>

Change in net position of governmental activities	<u>\$ (99,801)</u>
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CITY OF LEWISBURG, KENTUCKY
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 359,101	\$ 96,376	\$ 48,358	\$ 503,835
Accounts receivable, net	63,268	13,427	5,166	81,861
Unbilled revenue	30,536	6,427	2,493	39,456
Inventory	3,222	973	-0-	4,195
Due from other funds	<u>45,546</u>	<u>-0-</u>	<u>8,348</u>	<u>53,894</u>
Total current assets	501,673	117,203	64,365	683,241
Noncurrent assets				
Restricted cash and cash equivalents	135,181	-0-	-0-	135,181
Capital assets, net	<u>1,231,580</u>	<u>734,772</u>	<u>-0-</u>	<u>1,966,352</u>
Total noncurrent assets	<u>1,366,761</u>	<u>734,772</u>	<u>-0-</u>	<u>2,101,533</u>
Total assets	<u>1,868,434</u>	<u>851,975</u>	<u>64,365</u>	<u>2,784,774</u>
Deferred outflows of resources				
Deferred outflows – pension and OPEB	<u>112,717</u>	<u>31,745</u>	<u>-0-</u>	<u>144,462</u>
Total deferred outflows of resources	<u>112,717</u>	<u>31,745</u>	<u>-0-</u>	<u>144,462</u>
Total assets and deferred outflows of resources	<u>\$ 1,981,151</u>	<u>\$ 883,720</u>	<u>\$ 64,365</u>	<u>\$ 2,929,236</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 23,733	\$ 1,868	\$ 4,147	\$ 29,748
Accrued payroll	3,087	814	-0-	3,901
Accrued interest payable	1,489	-0-	-0-	1,489
Due to other funds	68,789	65,857	14,834	149,480
Customer deposits	116,481	-0-	-0-	116,481
Revenue lease, current portion	<u>102,083</u>	<u>-0-</u>	<u>-0-</u>	<u>102,083</u>
Total current liabilities	315,662	68,539	18,981	403,182
Noncurrent liabilities				
Accrued compensated absences	2,742	-0-	-0-	2,742
Revenue lease, noncurrent portion	726,138	-0-	-0-	726,138
Note payable, noncurrent portion	-0-	54,106	-0-	54,106
Net pension liability	315,507	86,551	-0-	402,058
Net OPEB liability	<u>98,382</u>	<u>28,164</u>	<u>-0-</u>	<u>126,546</u>
Total noncurrent liabilities	<u>1,142,769</u>	<u>168,821</u>	<u>-0-</u>	<u>1,311,590</u>
Total liabilities	<u>1,458,431</u>	<u>237,360</u>	<u>18,981</u>	<u>1,714,772</u>
Deferred inflows of resources				
Deferred inflows – pension and OPEB	<u>51,471</u>	<u>14,742</u>	<u>-0-</u>	<u>66,213</u>
Total deferred inflows of resources	<u>51,471</u>	<u>14,742</u>	<u>-0-</u>	<u>66,213</u>
Net position				
Invested in capital assets, net of related debt	403,360	680,666	-0-	1,084,026
Restricted for debt service	18,700	-0-	-0-	18,700
Unrestricted	<u>49,189</u>	<u>(49,048)</u>	<u>45,384</u>	<u>45,525</u>
Total net position	<u>471,249</u>	<u>631,618</u>	<u>45,384</u>	<u>1,148,251</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 1,981,151</u>	<u>\$ 883,720</u>	<u>\$ 64,365</u>	<u>\$ 2,929,236</u>

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PROPRIETARY FUNDS
Year Ended June 30, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Operating revenues				
Operating revenue	\$ 630,884	\$ 137,630	\$ 55,562	\$ 824,076
Service fees	13,888	874	-0-	14,762
Penalties	5,453	1,740	535	7,728
Miscellaneous	<u>4,667</u>	<u>2,670</u>	<u>3,909</u>	<u>11,246</u>
Total operating revenues	654,892	142,914	60,006	857,812
Operating expenses				
Purchased Water	246,620	-0-	-0-	246,620
Salaries and benefits	185,654	55,990	-0-	241,644
Depreciation	92,985	39,280	-0-	132,265
Utilities	19,949	30,312	-0-	50,261
Contract services	5,541	3,485	37,187	46,213
Repairs and maintenance	35,046	7,177	-0-	42,223
Lab fees and chemicals	3,335	33,116	-0-	36,451
Office expense	19,320	3,797	-0-	23,117
Insurance	10,354	7,466	-0-	17,820
Payroll taxes	9,016	2,873	-0-	11,889
Miscellaneous	2,109	5,760	2,286	10,155
Fines and penalties	144	5,610	-0-	5,754
Professional services	<u>240</u>	<u>2,752</u>	<u>-0-</u>	<u>2,992</u>
Total operating expenses	630,313	197,618	39,473	867,404
Operating income (loss)	24,579	(54,704)	20,533	(9,592)
Non-operating revenues (expenses)				
Interest income	809	36	-0-	845
Interest expense	<u>(21,195)</u>	<u>(1,596)</u>	<u>-0-</u>	<u>(22,791)</u>
Total non-operating revenues (expenses)	(20,386)	(1,560)	-0-	(21,946)
Income (loss) before transfers	4,193	(56,264)	20,533	(31,538)
Transfers in	-0-	55,037	-0-	55,037
Transfers out	<u>(15,985)</u>	<u>-0-</u>	<u>(15,233)</u>	<u>(31,218)</u>
Change in net position	(11,792)	(1,227)	5,300	(7,719)
Net position, beginning of year	<u>483,041</u>	<u>632,845</u>	<u>40,084</u>	<u>1,155,970</u>
Net position, end of year	<u>\$ 471,249</u>	<u>\$ 631,618</u>	<u>\$ 45,384</u>	<u>\$ 1,148,251</u>

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2021

Cash flows from operating activities

Cash received from customers	\$ 867,697
Cash payments to suppliers for goods and services	(506,604)
Cash payments to employees for services and related expenses	<u>(211,945)</u>
Net cash provided by operating activities	149,148

Cash flows from noncapital financing activities

Transfers from the general fund	<u>23,819</u>
Net cash provided by noncapital financing activities	23,819

Cash flows from capital and related financing activities

Interest paid on long-term debt	(23,400)
Principal payments on revenue lease	(107,667)
Purchase of capital assets	<u>(9,730)</u>
Net cash used by capital and related financing activities	(140,797)

Cash flows from investing activities

Interest income received	<u>845</u>
Net cash provided by investing activities	<u>845</u>

Net increase in cash **33,015**

Cash and cash equivalents, beginning of year 606,001

Cash and cash equivalents, end of year **\$ 639,016**

Reflected in the Combining Statement of Net Position – Proprietary Funds

Cash and cash equivalents	\$ 503,835
Restricted cash and cash equivalents	<u>135,181</u>
Total cash and cash equivalents	<u>\$ 639,016</u>

CITY OF LEWISBURG, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS (Continued)
Year Ended June 30, 2021

Reconciliation of loss from operations to net cash provided

by operating activities

Loss from operations	\$ (9,592)
Adjustments to reconcile loss from operations to net cash used by operating activities	
Depreciation	132,265
(Increase) decrease in deferred outflows	15,171
Increase (decrease) in deferred inflows	14,627
Change in assets and liabilities	
(Increase) decrease in prepaid expenses	
(Increase) decrease in accounts receivable	2,574
(Increase) decrease in unbilled revenue	(2,522)
(Increase) decrease in inventory	(37)
Increase (decrease) in accounts payable	(24,960)
Increase (decrease) in customer deposits	9,834
Increase (decrease) in accrued compensated absences	(4,233)
Increase (decrease) in net OPEB obligation	27,638
Increase (decrease) in net pension plan obligation	<u>(11,617)</u>

Net cash provided by operating activities

\$ 149,148

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 1. DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lewisburg, Kentucky, (the "City") was founded in 1879 and operates under Kentucky Revised Statutes, as amended. The City operates under a Mayor-Council form of government and provides the following services, public safety (police and fire), highways and streets, sanitation, public improvements, water and sewer services and general administrative services.

Reporting Entity

In evaluating how to define the City for financial reporting purposes, all potential component units have been considered. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The basic - but not only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City can exercise oversight responsibilities. No other government or agency has been included in the City's financial statements because none of the criteria has been met.

Financial Statement Presentation

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial principles.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements distinguish governmental activities (generally supported by taxes and general revenues) from business-type activities, such as the water, sewer, and sanitation activities (generally financed in whole or in part with fees charged to external customers).

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The statement of net position presents the financial condition of the governmental and business-type activities of the City. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Certain eliminations have been made as prescribed by GASB statement No. 34 regarding interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column.

Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The City has two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those for which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's governmental funds:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 1. DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Fund – A special revenue fund is used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes. The Municipal Road Aid Fund, a major fund, is used to account for financial resources to be used for future construction and repairs of roadways and sidewalks.

Proprietary Funds – Proprietary fund reporting focuses on changes in net assets, financial position, and cash flows. The City's proprietary funds are classified as enterprise funds.

Water, Sewer, and Sanitation Funds – These funds are used to account for the receipt and disbursement of the water, sewer, and sanitation operations of the City.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the 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 government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. 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 only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Net position classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This component of net position consists of net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 1. DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the other resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes all amounts not included in other spendable classifications.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Cash and Investments

The City considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Any investments held by the City are reported at fair market value.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers. Operating revenues of the proprietary funds are recognized based on cycle billings rendered monthly. Customers are required to prepay deposits when they begin to incur service. Management believes these deposits are sufficient to recover any bad debts before the service is terminated. As of June 30, 2021, the allowance for bad debts is \$-0-.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 1. DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The cost of additions to capital assets and major replacements of retired units of property is generally capitalized when the cost exceeds \$2,000. Cost includes direct labor, outside services, materials, and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense as incurred. Depreciation has been provided over estimated useful lives of the assets using the straight-line method. Estimated useful lives for depreciable assets are as follows:

	Years
Buildings and improvements	10-40
Improvements other than buildings	15-40
Infrastructure	12-25
Equipment and furnishings	5-10
Vehicles	7-20

Inventories

Inventories are valued at the lower of cost (determined on the first in, first out basis) or market.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation and personal days. Employees earn five days of vacation time after being employed for one year. Upon completion of the second year of employment, vacation time increases to two weeks and increases to three weeks upon completion of ten years of employment. The City allows employees six sick days and three personal days per year. Upon termination of employment, accumulated sick leave has no monetary value.

Property Taxes

Tangible property taxes are levied in September and are payable through December 31 of each year, becoming delinquent as of January 31. The City bills and collects its own tangible property taxes. City property tax revenues are recognized if collected within thirty days after year end.

The 2020 tax rate was \$0.4910 per \$100 assessed valuation of real and tangible property. The City is permitted by the state constitution to levy taxes up to \$0.75 per \$100 assessed valuation; however, according to statutes, the City may not increase the tax rate on real property by more than four percent per year (exclusive of assessment growth) without obtaining consent through referendum.

Motor vehicle taxes with are due and collected in the birth month of the vehicle's licensee. They are collected by the County Clerk of Logan County and remitted to the City monthly.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets in a future period and will not be recognized as an outflow of resources (expense) until that time.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets in a future period and will not be recognized as an inflow of resources (revenue) until that time.

Concentration of Credit Risk

The majority of the City's activities are with citizens in and around Lewisburg, Kentucky.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 1. DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and of reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates particularly susceptible to significant change relate to the deferred outflows of resources, deferred inflows of resources, and the liability associated with the defined benefit plan.

Subsequent Events

Subsequent events have been evaluated through February 1, 2023, the date the financial statements were available to be issued.

NOTE 2. BUDGETARY INFORMATION

Budget Policy and Practice

The mayor submits an annual budget to the City Council in accordance with the City Charter and Kentucky Revised Statutes. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the City Council adopts the annual fiscal year budget for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Basis of Budgeting

Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. The mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter total expenditures of any fund must be approved by the City Council. Total expenditures for a fund legally may not exceed the total appropriations. The budget is usually amended near year-end. The City did not amend its budget during the year.

NOTE 3. CASH, CASH EQUIVALENTS, AND CUSTODIAL CREDIT RISK

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, and interest-bearing deposits of insured national banks.

The City deposits and investments at June 30, 2021 were covered by federal depository insurance or by collateral held by the custodial banks. The book balance of the City's deposits was \$1,216,842 and the bank balance was \$1,252,261.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2021, \$752,261 of the City's bank balance was exposed to custodial credit risk, detailed as follows:

Insured	\$ 500,000
Collateral held by pledging bank's trust department in the City's name	<u>752,261</u>
Total bank deposits	<u>\$ 1,252,261</u>

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 4. RISK MANAGEMENT – INSURANCE

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries, and natural disasters. The City carries commercial insurance coverage for all risks of loss, including workers' compensation and natural disasters. Any settled claims have not exceeded this commercial coverage in the current year or any of the prior three years.

NOTE 5. INTERFUND TRANSACTIONS

Interfund payables and receivables at year-end are for reimbursements payable from the water and sewer fund to the general fund. Operating transfers during the year consisted of transfers from the water fund to the sewer fund for operating costs.

NOTE 6. JOINT VENTURE

In 1972, the City of Lewisburg and the City of Russellville entered into an agreement to purchase Spa Lake jointly. The division of interest was determined to be 20% and 80%, respectively. The City of Lewisburg granted the City of Russellville the authority to manage and control the property to secure financing from REDA.

NOTE 7. COMMITMENTS

The City entered into an assistance agreement with the Kentucky Infrastructure Authority in September 2021 to provide \$750,000 of financing for a sewer system upgrade. The total cost of the project is estimated to be \$1,500,000. If certain criteria are met, \$375,000 of the \$750,000 borrowed will be eligible for forgiveness. Additional funding for the balance of the project is expected to be obtained nearer to the beginning of the project.

The City receives grants from the state of Kentucky for specific purposes that are subject to review and audit by state agencies. Such audits could result in a request for reimbursement by the state for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, would not be significant.

NOTE 8. CAPITAL ASSETS

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2021:

	Balance 07-01-20	Increases	Decreases	Balance 06-30-21
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 111,269	\$ -0-	\$ -0-	\$ 111,269
<i>Capital assets being depreciated</i>				
Buildings	796,376	-0-	-0-	796,376
Infrastructure	607,859	14,839	-0-	622,698
Machinery and equipment	<u>561,363</u>	<u>34,402</u>	<u>-0-</u>	<u>595,765</u>
Total capital assets being depreciated	1,965,598	49,241	-0-	2,014,839
<i>Less: accumulated depreciation</i>				
Buildings	(188,476)	(17,642)	-0-	(206,118)
Infrastructure	(483,497)	(11,075)	-0-	(494,572)
Machinery and equipment	<u>(456,064)</u>	<u>(25,224)</u>	<u>-0-</u>	<u>(481,288)</u>
Total accumulated depreciation	<u>(1,128,037)</u>	<u>(53,941)</u>	<u>-0-</u>	<u>(1,181,978)</u>
Capital assets, net	<u>\$ 948,830</u>	<u>\$ (4,700)</u>	<u>\$ -0-</u>	<u>\$ 944,130</u>

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 8. CAPITAL ASSETS (Continued)

	Balance 07-01-20	Increases	Decreases	Balance 06-30-21
Business-Type Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 74,398	\$ -0-	\$ -0-	\$ 74,398
<i>Capital assets being depreciated</i>				
Buildings	113,224	-0-	-0-	113,224
Machinery and equipment	206,906	9,730	-0-	216,636
Water distribution	3,399,707	-0-	-0-	3,399,707
Sewer distribution	<u>1,979,163</u>	<u>-0-</u>	<u>-0-</u>	<u>1,979,163</u>
Total capital assets being depreciated	5,699,000	9,730	-0-	5,708,730
<i>Less: accumulated depreciation</i>				
Buildings	(58,096)	(4,688)	-0-	(62,784)
Machinery and equipment	(176,684)	(9,571)	-0-	(186,255)
Water distribution	(2,162,635)	(83,979)	-0-	(2,246,614)
Sewer distribution	<u>(1,287,106)</u>	<u>(34,017)</u>	<u>-0-</u>	<u>(1,321,123)</u>
Total accumulated depreciation	<u>(3,684,521)</u>	<u>(132,255)</u>	<u>-0-</u>	<u>(3,816,776)</u>
Capital assets, net	<u>\$ 2,088,877</u>	<u>\$(122,525)</u>	<u>\$ -0-</u>	<u>\$ 1,966,352</u>

NOTE 9. LONG-TERM DEBT

Activity of long-term debt of the of the proprietary funds consisted of the following for the year ended June 30, 2021:

	Balance 06-30-2020	Increases	Decreases	Balance 06-30-2021	Current Portion
Sewer KIA loan	\$ 54,106	-0-	-0-	54,106	-0-
Revenue lease	925,625	-0-	(107,292)	818,333	102,083
Premium on lease	<u>10,263</u>	<u>-0-</u>	<u>(375)</u>	<u>9,888</u>	<u>-0-</u>
Total	<u>\$ 989,994</u>	<u>\$ -0-</u>	<u>\$ (107,667)</u>	<u>\$ 882,327</u>	<u>\$ 102,083</u>

Sewer KIA loan – The City was approved for a loan in the amount of \$250,000 from the Kentucky Infrastructure Authority for a sewer system upgrade. Interest of 2.75% is due semiannually in June and December. As of June 30, 2021, only \$54,106 of the funds had been disbursed to the City.

Revenue lease – The City entered into a revenue lease agreement on May 13, 2020, with the Kentucky Bond Corporation to obtain \$935,000 of proceeds to refund previous bonds issued. The lease contains a variable interest rate of 3.00% - 3.75%, and payments are due monthly. The lease terminates in January 2038.

Premium on lease – With the signed lease agreement with the Kentucky Bond Corporation, there was a premium of \$10,325, and it will be amortized over the life of the lease term.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 9. LONG-TERM DEBT (Continued)

Revenue Lease Agreement

On May 13, 2020, the City entered into a \$935,000 revenue lease agreement with the Kentucky Bond Corporation (the "Corporation") pursuant to the Corporation's issuance of Financing Program Revenue Bonds Series 2020B under the Kentucky Interlocal Cooperation Act. The Series 2020B bonds were issued on behalf of the City to refund the then outstanding Water Enterprise Fund long-term debt liability totaling \$890,300, including from prior Series 1989 (\$215,200), Series 1990 (\$246,000, Series 1999 (\$94,100), Series 2002 (\$194,000), and Series 2003 (\$141,000). Accrued interest on refunded bonds to call date totaled \$15,724. The refunding resulted in future debt service savings to the City of \$119,947 and an economic gain of \$87,669 (difference between the present value of the old and new debt service requirement). The difference between the reacquisition price and the net carrying amount of the old debt was not material. The 2020B Series bonds were sold at a premium of \$10,325, which is amortized over the life of the lease term. Debt issuance costs totaled \$35,735, and \$18,700 of bond proceeds were used to fund a debt service reserve fund. The revenue lease obligation is secured by all revenues of the system.

Future minimum annual lease payments under this revenue lease agreement at June 30, 2021 are as follows:

June 30,	Principal	Interest	Total
2022	\$ 102,083	\$ 19,531	\$ 121,614
2023	105,000	17,234	122,234
2024	107,083	14,872	121,955
2025	93,333	12,463	105,796
2026	70,000	10,363	80,363
2027 – 2031	242,083	29,541	271,624
2032 – 2036	75,001	12,483	87,484
2037 – 2038	23,750	1,747	25,497
	<u>\$ 818,333</u>	<u>\$ 118,234</u>	<u>\$ 936,567</u>

NOTE 10. ECONOMIC DEPENDENCY

The City is under contract to purchase its water from the Logan Todd Regional Water District. The Water District provides water to governmental entities at wholesale prices.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 11. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN

Plan Description

The City is a participating employer of the County Employees' Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer defined benefit pension plan that covers substantially all regular full-time employees (members) employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority ("KPPA") administers the CERS. The plan issues publicly available financial statements on the KPPA website at <http://kyret.ky.gov/>.

The Plan is divided into both a pension plan and a health insurance fund plan (OPEB), and each plan is further subdivided based on non-hazardous and hazardous duty covered employee classifications. The City has both non-hazardous and hazardous employees.

Benefits Provided

CERS provides for retirement, disability, and death benefits to plan members. Members are vested in the plan after five years' service credit. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments ("COLA") are provided at the discretion of state legislature. Senate Bill 2 of 2013 eliminated all future COLAs unless state legislature so authorizes on a biennial basis and either (i) the system is over 100% funded or (ii) the state legislature appropriates sufficient funds to pay the increased liability for the COLA. For retirement purposes, employees are grouped into three tiers based on hire date. Tier 1 includes plan members whose participation began before September 1, 2008, Tier 2 includes plan members whose participation began on or after September 1, 2008 but before January 1, 2014, and Tier 3 includes plan members whose participation began on or after January 1, 2014.

Tier 1 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a benefit formula calculation based on final compensation multiplied by a benefit factor multiplied by years of service. Tier 1 final compensation is the average of the five highest years' earnings, the benefit factor is 2.20% for members participating prior to August 1, 2004, and 2.00% for members participating on or after August 1, 2004 and before September 1, 2008.

Reduced benefits for early retirement are available at age 55 with five years' service credit or at age 57 based on the Rule of 87 – sum of service years plus age equal to 87. Final compensation for Tier 2 benefit formula calculation is the average of the last complete five years' earnings, and the benefit factor is an increasing percentage based on service at retirement plus 2.00% for each year of service over 30. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with five years' service credit or at age 57 based on the Rule of 87. Tier 3 members are not eligible for reduced retirement benefits. Tier 3 is a hybrid cash balance plan. When a member is eligible to retire, the benefit is calculated based on the member's accumulated account balance. A member earns service credit for each month contributing to the plan. Upon retirement, the hypothetical account, which includes member contributions, employer contributions, and interest credits, can be withdrawn in a lump sum or annuitized into a single life annuity option.

Tier 1 hazardous members are eligible to retire with an unreduced retirement benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by the benefit formula detailed above. The calculation is based on an average of the three highest years' earnings, a 2.50% benefit factor, and years of service. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 hazardous members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit. The benefit formula calculation is based on an average of the three highest complete years' earnings, an increasing percent benefit factor based on service at retirement, and years of service. Tier 3 hazardous members are also eligible to retire at any age with 25 years of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 11. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN (Continued)

Death benefits are provided for both death after retirement and death prior to retirement. Members receiving a monthly benefit based on at least four years of creditable service are eligible for a \$5,000 death benefit. Beneficiaries of deceased members are eligible for a monthly benefit if the member was (i) eligible for retirement at the time of death or, (ii) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or, (iii) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 20% of the final rate of pay or the amount calculated under the benefit formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The hypothetical account, which includes member contributions, employer contributions, and interest credits, can be withdrawn as a lump sum or an annuity equal to the larger of 20% of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

CERS Contributions

Employee contribution rates are set by statutes governing the Kentucky Public Pensions Authority and may only be changed by the Kentucky General Assembly. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statutes Section 61.565(3), normal contribution and actuarially accrued liability contribution rates shall be determined by the Board of Trustees on the basis of annual actuarial valuation last preceding the July 1 of a new biennium.

The Board may amend contribution rates as of July of the second year of a biennium if it determines on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. The normal contribution rate (the percentage computed of employee creditable compensation) shall be determined by the entry age normal cost funding method. The actuarially accrued liability shall be determined by an actuarial method consistent with the methods prescribed for determining the normal contribution rate. The actuarially accrued liability contribution shall be computed by amortizing the total unfunded actuarially accrued liability over a period of 30 years using the level-percentage-of-payroll amortization method. Administrative costs of CERS are financed through employer contributions and investment earnings.

Plan members participating in CERS on or before August 31, 2008 (Tier 1), with non-hazardous and hazardous duty positions, were required to contribute 5% and 8%, respectively, of their annual creditable compensation. For plan members who began participating on or after September 1, 2008 but before January 1, 2014 (Tier 2), with non-hazardous and hazardous duty positions, contribution rates were 6% and 9%, respectively, of annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (Kentucky Administrative Regulation 105 KAR 1:420E). Plan members participating in CERS on or after January 1, 2014 (Tier 3) were required to contribute to the hybrid cash balance plan. Plan members and employers contribute a set percentage of creditable compensation into the member's account. Members contribute 5% (non-hazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund, which is not credited to the member's account and is not refundable. Employers contribute 4% (non-hazardous) and 7.5% (hazardous) of creditable compensation into the member's hypothetical account.

For the year ended June 30, 2021, the City contributed 24.06% (non-hazardous – 19.30% for the pension fund and 4.76% for insurance) and 39.58% (hazardous – 30.06% for the pension fund and 9.52% for insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer contributions to CERS for pension benefits were \$56,151 (\$40,953 non-hazardous and \$15,198 hazardous) for the year ended June 30, 2021.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 11. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN (Continued)

Pension Liabilities, Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2021, the City reported a liability of \$857,522 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportionate share was 0.007793% for non-hazardous and 0.008617% for hazardous.

For the year ended June 30, 2021, the City recognized pension expense of \$40,119 in addition to its pension fund contributions of \$56,151. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 22,963	\$ -0-
Changes of assumptions	33,193	-0-
Difference between projected and actual earnings on plan investments	35,748	14,938
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,122	44,328
Company contributions subsequent to the measurement date	<u>56,151</u>	<u>-0-</u>
	<u>\$ 164,177</u>	<u>\$ 59,266</u>

The \$56,151 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2022	\$ 26,633
2023	4,483
2024	8,748
2025	<u>8,896</u>
	<u>\$ 48,760</u>

Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the measurement period ending June 30, 2019, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 11. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN (Continued)

The Board of Trustees adopted new actuarial assumptions for June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The total pension liability as of June 30, 2020, was determined using these updated assumptions. The assumptions are:

Inflation	2.30%
Salary increases	3.30% to 10.30% for non-hazardous 3.55% to 19.05% for hazardous
Payroll growth rate	2.00%
Investment rate of return	6.25%

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 rate from the MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled member 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 long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	18.75%	4.50%
Non-U.S. equity	18.75%	5.25%
Private equity	10.00%	6.65%
Specialty credit / high yield	15.00%	3.90%
Core bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real return	15.00%	3.95%
Total	100.00%	

**CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021**

NOTE 11. COUNTY EMPLOYEES' RETIREMENT SYSTEM – PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2021. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees as required to be paid by state statute.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 737,115	\$ 597,717	\$ 482,290
Hazardous	<u>321,082</u>	<u>259,805</u>	<u>209,787</u>
Total	<u>\$ 1,058,197</u>	<u>\$ 857,522</u>	<u>\$ 692,077</u>

NOTE 12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing, multiple-employer defined benefit OPEB plan. The Insurance Fund is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS), pursuant to Kentucky Revised Statute Section 61.645 and covers substantially all regular full-time City employees (members). KRS issues publicly available financial statements on the KRS website at <http://kyret.ky.gov/>.

Benefits Provided

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

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2021 was 4.76% (non-hazardous) and 9.52% (hazardous) of covered payroll. Contributions to the Insurance Fund were \$14,913 (\$10,100 non-hazardous and \$4,813 hazardous) for the year ended June 30, 2021. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation, which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2020. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2021, the City's proportion was 0.007791% (non-hazardous) and 0.008614% (hazardous).

Net OPEB Liability

At June 30, 2021, the City reported a liability of \$267,730 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of June 30, 2020 and was based on an actuarial valuation date as of June 30, 2019. The net OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

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, unless otherwise specified:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30%, varies by service for non-hazardous 3.55% to 19.05%, varies by service for hazardous
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to ultimate trend rate of 4.05% over a period of 14 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 2.90% at January 1, 2022, increasing to 6.30% in 2023, and gradually decreasing to ultimate trend rate of 4.05% over a period of 14 years.

The mortality table used for active members was a Pub-2010 general mortality table, for the non-hazardous system, and the Pub-2010 public safety mortality table for the hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rate from the MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled member 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.

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

The long-term expected rate of return on plan assets is reviewed as part to the regular experience study prepared every five years for KRS. The most recent analysis performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-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 a 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 target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	18.75%	4.50%
Non-U.S. equity	18.75%	5.25%
Private equity	10.00%	6.65%
Specialty credit / high yield	15.00%	3.90%
Core bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real return	<u>15.00%</u>	<u>3.95%</u>
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 5.34% for non-hazardous and 5.30% for hazardous employees. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45% as reported in Fidelity's "20-Year Municipal GO AA Index" as of June 30, 2020. Based on the state assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance future benefit payments of current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system.

However, the cost associated with the implicit employer subsidy was not included in the calculation of the retirement plan's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the retirement plan's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the KPPA financial report.

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 collective net OPEB liability calculated using the discount rate of 5.34% (non-hazardous) and 5.30% (hazardous), as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34% and 4.30%) or 1-percentage-point higher (6.34% or 6.30%) than the current rate:

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$ 241,690	\$ 188,129	\$ 144,137
Hazardous	<u>108,058</u>	<u>79,601</u>	<u>56,673</u>
Total	<u>\$ 349,748</u>	<u>\$ 267,730</u>	<u>\$ 200,810</u>

CITY OF LEWISBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE 12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the City's proportionate share of the collective net OPEB liability as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate:

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$ 145,659	\$ 188,129	\$ 239,667
Hazardous	<u>56,886</u>	<u>79,601</u>	<u>107,530</u>
Total	<u>\$ 202,545</u>	<u>\$ 267,730</u>	<u>\$ 347,197</u>

OPEB Expense, Deferred Outflows of Resources - OPEB, and Deferred Inflows of Resources - OPEB

At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 34,164	\$ 39,406
Changes of assumptions	45,709	272
Difference between projected and actual earnings on plan investments	15,986	6,200
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,572	16,624
City contributions subsequent to the measurement date	<u>14,913</u>	<u>-0-</u>
	<u>\$ 124,344</u>	<u>\$ 62,502</u>

The \$14,913 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2022	\$ 13,555
2023	12,842
2024	10,671
2025	9,028
2026	<u>833</u>
	<u>\$ 46,929</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GENERAL FUND BUDGET TO ACTUAL
Year Ended June 30, 2021

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Property taxes	\$ 94,600	\$ 94,600	\$ 99,908	\$ 5,308
Occupational taxes	84,000	84,000	89,442	5,442
Franchise taxes	22,500	22,500	31,055	8,555
Licenses and fees	13,775	13,775	19,114	5,339
Insurance tax	46,500	46,500	66,268	19,768
Intergovernmental revenue	39,904	39,904	44,160	4,256
Rental revenue	7,700	7,700	8,245	545
Interest income	-0-	-0-	551	551
Other revenues	<u>-0-</u>	<u>-0-</u>	<u>1,090</u>	<u>1,090</u>
Total revenues	308,979	308,979	359,833	50,854
Expenditures				
General government	326,320	326,320	195,138	131,182
Police	103,862	103,862	107,091	(3,229)
Fire	29,437	29,437	17,864	11,573
Parks and recreation	7,573	7,573	5,284	2,289
Capital outlay	<u>339,476</u>	<u>339,476</u>	<u>54,314</u>	<u>285,162</u>
Total expenditures	806,668	806,668	379,691	426,977
Excess (deficit) of revenues over (under) expenditures	(497,689)	(497,689)	(19,858)	477,831
Other financing sources				
Transfers	<u>-0-</u>	<u>-0-</u>	<u>(21,059)</u>	<u>(21,059)</u>
Total other financing sources	-0-	-0-	(21,059)	(21,059)
Net change in fund balance	(497,689)	(497,689)	(40,917)	456,772
Fund balance, beginning of year	<u>684,115</u>	<u>684,115</u>	<u>684,115</u>	<u>-0-</u>
Fund balance, end of year	\$ 186,426	\$ 186,426	\$ 643,198	\$ 456,772

CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
MUNICIPAL ROAD AID FUND BUDGET TO ACTUAL
Year Ended June 30, 2021

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Intergovernmental revenue	\$ 13,300	\$ 13,300	\$ 16,792	\$ 3,492
Total revenues	13,300	13,300	16,792	
Expenditures				
Highways and streets	2,000	2,000	1,875	125
Total expenditures	2,000	2,000	1,875	125
Excess (deficit) of revenues over (under) expenditures	11,300	11,300	14,917	3,617
Other financing uses				
Transfers	-0-	-0-	(2,760)	(2,760)
Total other financing uses	-0-	-0-	(2,760)	(2,760)
Net change in fund balance	11,300	11,300	12,157	857
Fund balance, beginning of year	53,024	53,024	53,024	-0-
Fund balance, end of year	\$ 64,324	\$ 64,324	\$ 65,181	\$ 857

CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2021	2020	2019	2018	2017	2016	2015
Proportion of total net pension liability – hazardous	0.008617%	0.008631%	0.009366%	0.0082980%	0.008408%	0.008933%	0.009363%
Proportion of total net pension liability – non-hazardous	0.007793%	0.008713%	0.008417%	0.007409%	0.006410%	0.006587%	0.007420%
Proportionate share of the net pension liability	\$ 857,522	\$ 851,203	\$ 739,109	\$ 619,083	\$ 459,859	\$ 420,349	\$ 353,552
Covered employee payroll	\$ 262,750	\$ 253,152	\$ 282,000	\$ 260,788	\$ 225,888	\$ 195,477	\$ 203,265
Share of the net pension liability (asset) as a % of its covered payroll	326.36%	336.24%	262.10%	237.39%	203.58%	215.04%	173.94%
Plan fiduciary net position as a % of total pension liability – hazardous	44.11%	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%
Plan fiduciary net position as a % of total pension liability – non-hazardous	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%

**CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS**

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 56,151	\$ 54,275	\$ 48,435	\$ 42,081	\$ 35,220	\$ 40,295	\$ 45,359
Actual contribution	(56,151)	(54,275)	(48,435)	(42,081)	(35,220)	(40,295)	(45,359)
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 262,750	\$ 253,152	\$ 282,000	\$ 260,788	\$ 225,888	\$ 195,477	\$ 203,265
Contributions as a % of covered employee payroll	21.37%	21.44%	17.18%	16.14%	15.59%	20.61%	22.32%

CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

	2021	2020	2019	2018
Proportion of total net OPEB liability – hazardous	0.008614%	0.008631%	0.009366%	0.0082980%
Proportion of total net OPEB liability – non-hazardous	0.007791%	0.008713%	0.008417%	0.007409%
Proportionate share of the net OPEB liability	\$ 267,730	\$ 210,364	\$ 216,217	\$ 261,706
Covered employee payroll	\$ 262,750	\$ 253,152	\$ 282,000	\$ 260,788
Share of the net OPEB liability (asset) as a % of its covered payroll	101.90%	83.10%	76.67%	100.35%
Plan fiduciary net position as a % of total OPEB liability – hazardous	58.84%	64.44%	64.24%	58.99%
Plan fiduciary net position as a % of total OPEB liability – non-hazardous	51.67%	60.44%	57.62%	52.40%

**CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF OPEB CONTRIBUTIONS**

	2021	2020	2019	2018
Contractually required contribution	\$ 14,913	\$ 14,447	\$ 16,145	\$ 10,967
Actual contribution	<u>(14,913)</u>	<u>(14,447)</u>	<u>(16,145)</u>	<u>(10,967)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 262,750	\$ 253,152	\$ 282,000	\$ 260,788
Contributions as a % of covered employee payroll	5.68%	5.71%	5.73%	4.21%

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*

To the Mayor and City Council
Lewisburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Lewisburg, Kentucky, as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the City of Lewisburg, Kentucky's basic financial statements, and have issued our report thereon dated February 1, 2023.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2021-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-02 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lewisburg, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Lewisburg, Kentucky's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Lewisburg, Kentucky's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Lewisburg, Kentucky's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hensley & Throneberry, CPAs
February 1, 2023

CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2021

MATERIAL WEAKNESS

2021-01 Bank Account Reconciliations

Criteria

Reconciliation of bank account statements to the general ledger is a method to prevent, detect, and correct any financial misstatements on a timely basis.

Condition

Bank account statements were not reconciled in a timely manner.

Effect

Material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause

The previous city clerk failed to reconcile bank account statements.

Recommendation

We encourage the City to implement a process of reconciling all bank statements once received and reviewed by the mayor and/or the city council.

Response

The City understands the importance of bank account reconciliations. Upon discovery of the unreconciled bank accounts, the current city clerk reconciled the necessary bank account statements and has continued to reconcile the accounts once the statements are received in a timely manner.

SIGNIFICANT DEFICIENCY

2021-02 Segregation of Duties

Criteria

The objectives of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded, and financial statements are reliable. The segregation of accounting duties is an essential element of effective internal control, involving the separation of the custody of assets from the related recording of those transactions.

Condition

As is common with small organizations, segregation of conflicting duties within the City is difficult because of the limited number of personnel. Delegation of duties with a limited number of personnel cannot adequately provide the separation of the custody of assets from the related recording and monitoring of those transactions.

Effect

Material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause

Duties in various transaction cycles are not adequately segregated.

Recommendation

While the City has implemented mitigating controls to compensate for some segregation of duties issues, we encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the City.

Response

The City will continue to evaluate the cost versus the benefit of hiring additional personnel and further implementing compensating controls to mitigate the risk that internal control objectives will not be achieved.