

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

JUNE 30, 2023

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

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

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Kentucky (the City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Management has omitted 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, historical pension information, and historical other post-employment benefit information on pages 34–41 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or

on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kerbaugh, Rodes & Butler, PLLC

Kerbaugh, Rodes & Butler, PLLC
Certified Public Accountants

Danville, Kentucky
July 17, 2024

BASIC FINANCIAL STATEMENTS

CITY OF LANCASTER, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 299,609	\$ 103,942	\$ 403,551
Investments (certificates of deposit)	34,382	106,289	140,671
Receivables, net of allowance:			
Taxes	107,008		107,008
Customer accounts	37,562	264,000	301,562
Grants	-	72,442	72,442
Other receivables	41,128		41,128
Lease receivable	52,534	-	52,534
Restricted assets:			
Cash and cash equivalents		1,342,542	1,342,542
Investments (certificates of deposit)		520,434	520,434
Capital assets not being depreciated:			
Land	289,300	93,189	382,489
Construction in progress		6,119,607	6,119,607
Other capital assets	2,800,473	31,693,036	34,493,509
Less: accumulated depreciation	(1,152,738)	(13,450,339)	(14,603,077)
Total assets	<u>2,509,258</u>	<u>26,865,142</u>	<u>29,374,400</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	482,770	362,546	845,316
OPEB	334,983	217,587	552,570
Total deferred outflows of resources	<u>817,753</u>	<u>580,133</u>	<u>1,397,886</u>
LIABILITIES			
Accounts payable	133,321	99,199	232,520
Accounts payable - contractors		19,700	19,700
Accrued expenses	18,764	9,524	28,288
Customer deposits		132,578	132,578
Accrued interest payable		39,319	39,319
Unearned grant revenue	786,536	148,267	934,803
Internal balances	(432,906)	432,906	-
Noncurrent liabilities:			
Due within one year		422,055	422,055
Due in more than one year		13,440,001	13,440,001
Net Pension Liability	2,194,645	1,400,134	3,594,779
Net OPEB Liability	622,041	366,663	988,704
Total liabilities	<u>3,322,401</u>	<u>16,510,346</u>	<u>19,832,747</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	383,410	172,419	555,829
OPEB	366,472	167,598	534,070
Lease	52,534		52,534
Total deferred inflows of resources	<u>802,416</u>	<u>340,017</u>	<u>1,142,433</u>
NET POSITION			
Net investment in capital assets	1,937,035	10,593,437	12,530,472
Restricted for:			
Debt service		587,674	587,674
Municipal aid projects	21,061		21,061
Unrestricted (deficit)	(2,755,902)	(586,199)	(3,342,101)
Total net position	<u>\$ (797,806)</u>	<u>\$ 10,594,912</u>	<u>\$ 9,797,106</u>

See accompanying notes to financial statements.

**CITY OF LANCASTER, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

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	\$ (921,322)	\$ 622,687	\$	\$	\$ (298,635)	\$	\$ (298,635)
Public safety	(1,827,197)		97,170		(1,730,027)		(1,730,027)
Public services	(182,355)		76,568		(105,787)		(105,787)
Total governmental activities	(2,930,874)	622,687	173,738		(2,134,449)		(2,134,449)
Business-type activities:							
Water	(2,477,867)	2,062,590		247,307		(167,970)	(167,970)
Sewer system	(868,865)	691,517		418,261		240,913	240,913
Total business-type activities	(3,346,732)	2,754,107		665,568		72,943	72,943
Total primary government	(6,277,606)	3,376,794	173,738	665,568	(2,134,449)	72,943	(2,061,506)
General revenues:							
Taxes, levied for general purposes					545,132		545,132
License fees and permits, levied for general purposes					988,417		988,417
Fines and forfeitures					297,405		297,405
Interest and investment earnings					4,317	33,492	37,809
Loss on sale of capital assets					(22,239)		(22,239)
Insurance proceeds					104,450		104,450
Miscellaneous					114,715	88,065	202,780
Total general revenues, special items, and transfers					2,032,197	121,557	2,153,754
Change in net position					(102,252)	194,500	92,248
Net position - beginning					(695,554)	10,400,412	9,704,858
Net position - ending					\$ (797,806)	\$ 10,594,912	\$ 9,797,106

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023

	<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	\$ 276,135	\$ 22,747	\$ 727	\$ 299,609
Investments (certificate of deposit)	34,382			34,382
Receivables (net of allowance):				
Property taxes	9,760			9,760
ABC taxes	11,674			11,674
Utility franchise tax	29,349			29,349
Payroll tax	56,225			56,225
Customer accounts	37,562			37,562
Other receivables	41,128			41,128
Lease receivable	52,534			52,534
Due from (to) other funds	413,131	19,775		432,906
Total assets	<u>\$ 961,880</u>	<u>\$ 42,522</u>	<u>\$ 727</u>	<u>\$ 1,005,129</u>
LIABILITIES				
Accounts payable	\$ 111,860	\$ 21,461	\$	\$ 133,321
Accrued expenses	18,764			18,764
Unearned grant revenue	786,536			786,536
Total liabilities	<u>917,160</u>	<u>21,461</u>		<u>938,621</u>
DEFERRED INFLOWS OF RESOURCES				
Leases	52,534			52,534
Total Deferred Inflows of Resources	<u>52,534</u>			<u>52,534</u>
FUND BALANCES				
Unassigned	(7,814)			(7,814)
Committed to planning & zoning use			727	727
Restricted to municipal road aid projects		21,061		21,061
Total fund balances	<u>(7,814)</u>	<u>21,061</u>	<u>727</u>	<u>13,974</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 961,880</u>	<u>\$ 42,522</u>	<u>\$ 727</u>	<u>\$ 1,005,129</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, 2023

Total fund balance per fund financial statements	\$	13,974
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p> <p>The Long-term portion of lease receivables are not current financial resources, but are recorded in the government-wide financial statements.</p>		
Long-term portion of lease receivable		52,534
Long-term portion of deferred inflow of resources		(52,534)
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position:</p>		
Governmental capital assets	3,089,773	
Less: accumulated depreciation	<u>(1,152,738)</u>	1,937,035
<p>Certain items related to the City's net pension and OPEB liabilities do not affect available financial resources and therefore are not reported in the funds.</p>		
		(2,748,815)
Net position for governmental activities	<u>\$</u>	<u>(797,806)</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

	General Fund	Municipal Road Aid Fund	Planning And Zoning	Total Governmental Funds
REVENUES:				
Taxes	\$ 545,132	\$	\$	\$ 545,132
Licenses & permits	988,417			988,417
Fines & forfeitures	297,405			297,405
Intergovernmental revenues	97,170	76,568		173,738
Charges for services	622,687			622,687
Interest	2,841	1,476		4,317
Other	114,715			114,715
Total revenues	2,668,367	78,044		2,746,411
EXPENDITURES:				
Current operating:				
General government	875,740			875,740
Public safety	1,680,778			1,680,778
Public services		178,170	2,985	181,155
Capital outlay	243,586			243,586
Total expenditures	2,800,104	178,170	2,985	2,981,259
Excess (deficiency) of revenues over expenditures before other sources and uses	(131,737)	(100,126)	(2,985)	(234,848)
Other financing sources (uses):				
Insurance proceeds	104,450			104,450
Transfers (to) from other funds	(1,900)		1,900	-
Total other sources and uses	102,550		1,900	104,450
Net change in fund balances	(29,187)	(100,126)	(1,085)	(130,398)
Fund balances--beginning	21,373	121,187	1,812	144,372
Fund balances--ending	\$ (7,814)	\$ 21,061	\$ 727	\$ 13,974

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, 2023

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

Net change in fund balances - total governmental funds	\$	(130,398)
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		(150,364)
Capital outlay		243,586
Governmental funds report sales of capital assets as revenues while governmental activities report the sale less the undepreciated basis of the property		
		(22,239)
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.		
		(42,837)
Change in net assets of governmental activities	<u>\$</u>	<u>(102,252)</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 95,707	\$ 8,235	\$ 103,942
Investments (certificates of deposit)	101,641	4,648	106,289
Restricted cash, cash equivalents, and investments:			
Cash and cash equivalents	1,233,489	109,053	1,342,542
Receivables (net of allowance)	201,492	62,508	264,000
Grants receivable	-	72,442	72,442
Due (to) from other funds	(734,479)	301,573	(432,906)
Total current assets	<u>897,850</u>	<u>558,459</u>	<u>1,456,309</u>
Noncurrent assets:			
Restricted certificates of deposit	153,084	367,350	520,434
Total restricted assets	<u>153,084</u>	<u>367,350</u>	<u>520,434</u>
Capital assets:			
Land	78,913	14,276	93,189
Construction in progress	706,129	5,413,478	6,119,607
Other capital assets	24,839,725	6,853,311	31,693,036
Less: accumulated depreciation	(7,982,044)	(5,468,295)	(13,450,339)
Capital assets, net	<u>17,642,723</u>	<u>6,812,770</u>	<u>24,455,493</u>
Total noncurrent assets	<u>17,795,807</u>	<u>7,180,120</u>	<u>24,975,927</u>
TOTAL ASSETS	<u>18,693,657</u>	<u>7,738,579</u>	<u>26,432,236</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	257,971	104,575	362,546
OPEB	158,767	58,820	217,587
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>416,738</u>	<u>163,395</u>	<u>580,133</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	71,580	27,619	99,199
Accounts payable - contractors		19,700	19,700
Accrued wages	7,239	2,285	9,524
Customer deposits	132,578		132,578
Unearned grant revenue	148,267		148,267
Accrued interest payable	30,362	8,957	39,319
Notes & revenue bonds payable - current	290,054	132,001	422,055
Total current liabilities	<u>680,080</u>	<u>190,562</u>	<u>870,642</u>
Noncurrent liabilities:			
Notes & revenue bonds payable	10,017,841	3,422,160	13,440,001
Net pension liability	1,029,900	370,234	1,400,134
Net OPEB liability	255,495	111,168	366,663
Total noncurrent liabilities	<u>11,303,236</u>	<u>3,903,562</u>	<u>15,206,798</u>
TOTAL LIABILITIES	<u>11,983,316</u>	<u>4,094,124</u>	<u>16,077,440</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	121,604	50,815	172,419
OPEB	124,687	42,911	167,598
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>246,291</u>	<u>93,726</u>	<u>340,017</u>
NET POSITION			
Net investment in capital assets	7,334,828	3,258,609	10,593,437
Restricted for debt service & bond covenants	1,386,573	476,403	1,862,976
Unrestricted	<u>(1,840,613)</u>	<u>(20,888)</u>	<u>(1,861,501)</u>
TOTAL NET POSITION	<u>\$ 6,880,788</u>	<u>\$ 3,714,124</u>	<u>\$ 10,594,912</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, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 2,032,150	\$ 691,517	\$ 2,723,667
Connection fees	30,440		30,440
Miscellaneous	44,873	43,192	88,065
Total operating revenues	<u>2,107,463</u>	<u>734,709</u>	<u>2,842,172</u>
Operating expenses:			
Personal services	618,418	183,189	801,607
Contractual services	777,022	200,979	978,001
Materials and supplies	406,901	283,493	690,394
Depreciation	510,343	149,408	659,751
Total operating expenses	<u>2,312,684</u>	<u>817,069</u>	<u>3,129,753</u>
Operating income (loss)	<u>(205,221)</u>	<u>(82,360)</u>	<u>(287,581)</u>
Nonoperating revenues (expenses):			
Interest and investment revenue	21,694	11,798	33,492
Interest expense	(165,183)	(51,796)	(216,979)
Total nonoperating revenue (expenses)	<u>(143,489)</u>	<u>(39,998)</u>	<u>(183,487)</u>
Income (loss) before contributions and transfers	(348,710)	(122,358)	(471,068)
Capital contributions - government grants	247,307	418,261	665,568
Transfers (to) from other funds	<u>(319,155)</u>	<u>319,155</u>	<u>-</u>
Change in net position	(420,558)	615,058	194,500
Total net position - beginning	<u>7,301,346</u>	<u>3,099,066</u>	<u>10,400,412</u>
Total net position - ending	<u>\$ 6,880,788</u>	<u>\$ 3,714,124</u>	<u>\$ 10,594,912</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,019,816	\$ 689,216	\$ 2,709,032
Payments to suppliers	(1,193,728)	(496,296)	(1,690,024)
Payments for personal services	(591,818)	(174,066)	(765,884)
Other receipts (payments)	44,873	43,192	88,065
Net cash provided (used) by operating activities	<u>279,143</u>	<u>62,046</u>	<u>341,189</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	393,156	245,680	638,836
Net cash used by noncapital financing activities	<u>393,156</u>	<u>245,680</u>	<u>638,836</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions	6,247	619,871	626,118
Change in unearned grant proceeds	(320,260)	-	(320,260)
Acquisition and construction of capital assets	(605,106)	(935,526)	(1,540,632)
Proceeds from the issuance of debt	319,731	-	319,731
Principal paid on capital debt	(283,247)	(128,676)	(411,923)
Interest paid on capital debt	(165,681)	(51,981)	(217,662)
Net cash provided (used) by capital and related financing activities	<u>(1,048,316)</u>	<u>(496,312)</u>	<u>(1,544,628)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(126,221)	(11,727)	(137,948)
Interest and dividends	21,694	11,798	33,492
Net cash provided (used) by investing activities	<u>(104,527)</u>	<u>71</u>	<u>(104,456)</u>
Net increase (decrease) in cash and cash equivalents	(480,544)	(188,515)	(669,059)
Cash and equivalents - beginning of year	<u>1,809,740</u>	<u>305,803</u>	<u>2,115,543</u>
Cash and equivalents - end of year	<u>\$ 1,329,196</u>	<u>\$ 117,288</u>	<u>\$ 1,446,484</u>

(Continued next page)

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2023

	Water	Sewer	Total
(Continued)			
Reconciliation of Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities			
Operating income (loss)	\$ (205,221)	\$ (82,360)	\$ (287,581)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	510,343	149,408	659,751
Change in assets and liabilities:			
Receivables, net	(42,162)	(2,301)	(44,463)
Prepaid expenses			-
Accounts payable	(9,805)	(11,824)	(21,629)
Accrued wages	(485)	28	(457)
Customer deposits	(612)		(612)
Net pension and OPEB liabilities and related deferrals	27,085	9,095	36,180
Net cash provided by operating activities	\$ 279,143	\$ 62,046	\$ 341,189
Supplemental Cash Flow Information:			
Construction in progress included in accounts payable	\$ -	\$ 19,700	\$ 19,700

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE A – Summary of Significant Accounting Policies

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023

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

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

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

2. Receivables and Payables

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

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

3. Inventories

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

4. Restricted Assets

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

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

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

5. Capital Assets

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

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

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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

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

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

6. Accumulated Unpaid Vacation and Sick Pay

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

7. Long-term Obligations

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

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

8. Pensions

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

9. Other Postemployment Benefits (OPEB)

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

10. Compensated Absences

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

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

11. Management’s Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through July 17, 2024, 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, 2023, have not been evaluated by the City.

12. Equity Classifications

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

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

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

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

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

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

13. Reconciliation of Government-Wide and Fund Financial Statements

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

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

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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 expenditures exceeded its budget in the general fund by \$376,754 and the municipal road aid fund by \$78,170 for the year ended June 30, 2023.

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, 2023, taxes were levied November 1, 2022 and were payable by December 31, 2022. A 2% penalty was imposed on all taxes delinquent as of January 1, 2023 and a 10% penalty was imposed on all taxes delinquent as of February 1, 2023.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$1.00 per \$100 assessed valuation for general governmental services other than school purposes. Legislation passed by the Kentucky General Assembly imposed severe limits on the ability of a city to significantly increase property tax revenues. A city may not increase its revenues from taxes on real property, exclusive of increases due to assessment growth without giving notice of such an increase and holding a public hearing on the matter. If that increase is less than 4%, that is all that is necessary, but if the increase is more than 4%, residents of the City may petition for an election to be held on the question. If the majority of those voting in a valid election vote against the proposed rate increase, the rate must be rolled back to one which will not produce more than a 4% increase. City tax rates of 15.6 cents per \$100 on real property, 26 cents per \$100 on personal property, and 24.2 cents per \$100 on vehicles for the fiscal year ended June 30, 2023, are within permissible limits under the above legislation.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023 is as follows:

	Carrying Value	Bank Balance
Deposits	\$ 1,746,093	\$ 1,735,101
Investments	661,105	661,105
Total	\$ 2,407,198	\$ 2,396,206
Cash and cash equivalents	\$ 403,551	
Investments - CD's	140,671	
Cash and cash equivalents-restricted	1,342,542	
Investments-restricted CD's	520,434	
Total	\$ 2,407,198	

The City's investments at June 30, 2023 are as follows:

Type of Investment	Fair Value	Cost	Interest Rate	Maturity Date
Governmental Activities:				
Farmers National Bank				
Certificate of Deposit	\$ 34,382	\$ 34,382	4.90%	04/21/24
	\$ 34,382	\$ 34,382		
Business Type Activities:				
Raymond James Financial				
Certificate of Deposit	\$ 26,336	\$ 26,336	4.90%	10/26/23
Certificate of Deposit	27,884	27,884	4.80%	07/19/23
Certificate of Deposit	20,926	20,926	4.90%	10/26/23
Certificate of Deposit	131,676	131,676	4.80%	07/19/23
Certificate of Deposit	101,641	101,641	4.90%	10/26/23
Certificate of Deposit	4,648	4,648	4.80%	07/19/23
First Southern National Bank				
Certificate of Deposit	125,200	125,200	4.25%	12/22/24
Kentucky Trust Company				
Certificate of Deposit	188,412	188,412	5.00%	05/01/24
	\$ 626,723	\$ 626,723		

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.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Land	\$ 289,300	\$	\$	\$ 289,300
Buildings	1,610,459	105,450		1,715,909
Equipment and vehicles	1,076,980	138,136	(130,552)	1,084,564
Total cost	<u>2,976,739</u>	<u>243,586</u>	<u>(130,552)</u>	<u>3,089,773</u>
Less accumulated depreciation:				
Buildings	(473,646)	(49,481)		(523,127)
Equipment and vehicles	(637,041)	(100,883)	108,313	(629,611)
Total accumulated depreciation	<u>(1,110,687)</u>	<u>(150,364)</u>	<u>108,313</u>	<u>(1,152,738)</u>
Governmental activities capital assets, net	<u>\$ 1,866,052</u>	<u>\$ 93,222</u>	<u>\$ (22,239)</u>	<u>\$ 1,937,035</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Land	\$ 93,189	\$	\$	\$ 93,189
Water and Sewer plant	29,836,810			29,836,810
Equipment	1,578,513			1,578,513
Vehicles	277,713			277,713
Construction in progress	5,646,193	473,414		6,119,607
Total cost	<u>37,432,418</u>	<u>473,414</u>		<u>37,905,832</u>
Less accumulated depreciation:				
Water and Sewer plant	(11,190,114)	(621,829)		(11,811,943)
Equipment	(1,328,710)	(19,923)		(1,348,633)
Vehicles	(271,764)	(17,999)		(289,763)
Total accumulated depreciation	<u>(12,790,588)</u>	<u>(659,751)</u>		<u>(13,450,339)</u>
Business-type activities capital assets, net	<u>\$ 24,641,830</u>	<u>\$ (186,337)</u>	<u>\$</u>	<u>\$ 24,455,493</u>

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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

Governmental activities:	
General government	\$ 38,643
Public Safety	110,521
Public Services	1,200
	<u>\$ 150,364</u>
Business-type activities:	
Water	\$ 510,343
Sewer	149,408
	<u>\$ 659,751</u>

The City has active construction projects at the end of the fiscal year. See Note M for commitments related to these projects. The costs incurred to date for these projects are included in “construction in progress” on the water and sewer fund’s statement of net position.

Note E – Retirement Plan

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

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2023, 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, 2023, participating employers contributed 26.79% of each employee’s wages for non-hazardous job classifications (26.95% for the year ended June 30, 2022) and 49.59% for hazardous job classifications (44.33% for the year ended June 30, 2022), which is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

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

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023, the City contributed \$276,767 for non-hazardous job classifications, and \$104,737 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$241,746 to the CERS pension fund and \$35,021 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$90,417 to the CERS pension fund and \$14,320 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2023, the City reported a liability of \$3,594,779 for its proportionate share of the net pension liability. The liability consisted of \$2,354,056 for non-hazardous job classifications and \$1,240,723 for hazardous job classifications. The net pension liability was measured as of June 30, 2021, 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, 2022. 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, 2023, the City’s proportion was .032564% for non-hazardous employees and .040660% for hazardous employees, which was equal to its proportion measured as of June 30, 2022. At June 30, 2022, the City’s proportion was .032598% for non-hazardous employees and .045722% for hazardous employees, which was equal to its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City recognized pension expense of \$(26,211). At June 30, 2023, 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	\$ 38,091	\$ 20,964
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	458,719	369,711
Changes in proportion and differences between City contributions and proportionate share of contributions	16,343	165,154
City contributions subsequent to the measurement date	332,163	-
Total	\$ 845,316	\$ 555,829

The \$332,163 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, 2024. 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,	
2024	\$ (51,639)
2025	(24,071)
2026	(55,623)
2027	88,657

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Actuarial Assumptions – The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return
Growth	70.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Special credit/high yield	10.00%	2.28%
Liquidity	10.00%	
Core Bonds	10.00%	0.28%
Cash	0.00%	-0.91%
Diversifying Strategies	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	

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Discount Rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. The projection of cash flows used to determine the discount rate of 6.25% assumes that the funds receive the required employer contributions each future year over the remaining 29 years (closed) amortization period of the unfunded liability. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis. The discount rate determination does not use a municipal bond rate.

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

	<u>Discount rate</u>	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Total</u>
1% decrease	5.25%	1,545,523	2,942,278	4,487,801
Current discount rate	6.25%	1,240,723	2,354,056	3,594,779
1% increase	7.25%	992,481	1,867,548	2,860,029

Payable to the Pension Plan – At June 30, 2023, the City reported a payable of \$36,390 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2023. The payable includes both the pension and insurance contribution allocation.

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

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

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

Contributions – For the year ended June 30, 2023, 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, 2023, participating employers contributed 26.79% of each employee’s wages for non-hazardous job classifications (26.95% for the year ended June 30, 2022) and 49.59% for hazardous job classifications (44.33% for the year ended June 30, 2022), which is equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

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

CITY OF LANCASTER, KENTUCKY
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a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members in non-hazardous job classifications contribute 5.00% of wages to their own account and 1% to the health insurance fund. Plan members in hazardous job classifications contribute 8.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. For hazardous members, their account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2023, the City contributed \$276,767 for non-hazardous job classifications, and \$104,737 for hazardous job classifications, or 100% of the required contribution for each. For non-hazardous employees, the contribution was allocated \$241,746 to the CERS pension fund and \$35,021 to the CERS insurance fund. For hazardous employees, the contribution was allocated \$90,417 to the CERS pension fund and \$14,320 to the CERS insurance fund.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2023, the City reported a liability of \$988,704 for its proportionate share of the net OPEB liability. The liability consisted of \$642,537 for non-hazardous job classifications and \$346,167 for hazardous job classifications. The net OPEB liability was measured as of June 30, 2021, 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, 2022. 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, 2023, the City's proportion was .032558 percent for non-hazardous employees and .040640% for hazardous employees, which was equal to its proportion measured as of June 30, 2022. At June 30, 2022, the City's proportion was .032590 percent for non-hazardous employees and .045723% for hazardous employees, which was equal to its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City recognized OPEB expense of \$105,230. At June 30, 2023, 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	\$ 72,326	\$ 167,851
Changes of assumptions	159,407	143,299
Net difference between projected and actual earnings on Plan investments	192,015	153,301
Changes in proportion and differences between City contributions and proportionate share of contributions	79,481	69,619
City contributions subsequent to the measurement date	49,341	-
Total	\$ 552,570	\$ 534,070

The \$49,341 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, 2024. 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,		
2024	\$	24,972
2025		13,792
2026		(55,406)
2027		2,428
2028		(16,627)

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Actuarial Assumptions – The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30% to 10.30% varied by service for nonhazardous 3.55% to 19.05% varied by service for hazardous
Investment rate of return	6.25%
Healthcare trend rates:	
Pre - 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period January 1, 2013 - June 30, 2018.

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

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

	Hazardous	Nonhazardous	Total
1% decrease	241,723	477,712	719,435
Current healthcare tend rate	346,167	642,537	988,704
1% increase	473,476	840,460	1,313,936

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

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return
Growth	70.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Special credit/high yield	10.00%	2.28%
Liquidity	10.00%	
Core Bonds	10.00%	0.28%
Cash	0.00%	-0.91%
Diversifying Strategies	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.70% (5.20% in prior year) for non-hazardous and 5.61% (5.05% in prior year) for hazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability. Senate Bill 249 passed during the 2020 legislative session changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change did not impact the calculation of the total OPEB liability and only impacted the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes. The actuarial determined contribution rates are determined on an annual basis.

The discount rate uses an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in the Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2022. 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 \$26,942 at June 30, 2023.

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 5.70% for non-hazardous and 5.61% for hazardous, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.61% for hazardous and 4.70% for nonhazardous) or 1-percentage-point higher (6.61% for hazardous and 6.70% for nonhazardous) than the current rate

	Hazardous	Nonhazardous	Total
1% decrease	480,987	858,969	1,339,956
Current discount rate	346,167	642,537	988,704
1% increase	236,666	463,619	700,285

Payable to the Pension Plan – At June 30, 2023, the City reported a payable of \$36,390 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2023. The payable includes both the pension and insurance contribution allocation.

CITY OF LANCASTER, KENTUCKY
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NOTE G – Long Term Debt

Revenue Bonds – Water and Sewer Funds

Water and Sewer Revenue Bonds outstanding at June 30, 2023 are as follows:

Series	Original Issue Amount	Interest Rate	Maturity Date Fiscal Year	Debt Outstanding June 30, 2023
Series 2009	1,015,000	2.375%	2048	\$ 776,500
Series 2010	1,641,000	2.500%	2050	1,317,500
KLC Bond Series 2020	1,430,000	2.560%	2042	1,058,334
Series 2019A	4,500,000	1.500%	2060	4,305,000
Series 2021A	2,918,000	1.250%	2061	2,812,500
				<u>\$ 10,269,834</u>

Revenue Bond Debt Service Requirements

The annual principal and interest requirements of the water and sewer revenue bonds payable as of June 30, 2023, are as follows:

Year Ending June 30,	Water		Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 184,208	\$ 132,953	\$ 96,875	\$ 47,563	\$ 281,083	\$ 180,516
2025	188,400	129,065	99,100	45,719	287,500	174,784
2026	193,608	125,083	100,975	43,929	294,583	169,012
2027	198,800	120,993	103,200	42,105	302,000	163,098
2028	185,383	116,793	91,450	40,326	276,833	157,119
2029-2033	868,000	530,368	386,500	181,541	1,254,500	711,909
2034-2038	991,916	436,937	424,250	149,723	1,416,166	586,660
2039-2043	1,058,019	329,874	408,150	114,297	1,466,169	444,171
2044-2048	1,124,000	224,088	385,500	87,270	1,509,500	311,358
2049-2053	844,500	127,415	418,000	62,319	1,262,500	189,734
2054-2058	817,000	64,335	452,500	35,332	1,269,500	99,667
2059-2061	359,000	8,115	290,500	7,319	649,500	15,434
Total	<u>\$ 7,012,834</u>	<u>\$ 2,346,019</u>	<u>\$ 3,257,000</u>	<u>\$ 857,443</u>	<u>\$ 10,269,834</u>	<u>\$ 3,203,462</u>

Total Debt Service by Bond Series

	Principal	Interest	Total Payment
Series 2009 Revenue Bonds - Water	\$ 776,500	\$ 265,418	\$ 1,041,918
Series 2010 Revenue Bonds - Water	1,317,500	513,963	1,831,463
KLC Revenue Series 2020 Bonds - Water	613,834	142,959	756,793
KLC Revenue Series 2020 Bonds - Sewer	444,500	103,526	548,026
Series 2019A Revenue Bonds - Water	4,305,000	1,423,680	5,728,680
Series 2021A Revenue Bonds - Sewer	2,812,500	753,916	3,566,416
Total	<u>\$ 10,269,834</u>	<u>\$ 3,203,462</u>	<u>\$ 13,473,296</u>

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Bond Covenants and Provisions

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

For the fiscal year ended June 30, 2023, the City is in substantial compliance with all covenants and provisions of the loan agreements.

Kentucky Infrastructure Authority Loans – Water and Sewer Funds

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

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

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

The Kentucky Infrastructure Authority Loans outstanding at June 30, 2023 are as follows:

<u>Issue</u>	<u>Original Issue Amount</u>	<u>Interest Rate</u>	<u>Maturity Date Fiscal Year</u>	<u>Debt Outstanding June 30, 2023</u>
KIA Loan (B08-02)	490,000	0.60%	2029	\$ 140,654
KIA Loan (B16-013)	406,868	0.75%	2038	156,506
KIA Loan (F18-007)	4,400,000	0.50%	2052	3,295,062
				<u>\$ 3,592,222</u>

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

<u>Year Ending June 30,</u>	<u>Water</u>		<u>Sewer</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 105,846	\$ 16,341	\$ 35,126	\$ 2,230	\$ 140,972	\$ 18,571
2025	106,376	15,811	35,352	1,953	141,728	17,764
2026	106,908	15,279	35,579	1,675	142,487	16,954
2027	107,443	14,744	35,809	1,395	143,252	16,139
2028	107,981	14,206	36,039	1,113	144,020	15,319
2029-2033	548,070	62,866	65,123	3,164	613,193	66,030
2034-2038	561,927	49,009	54,132	1,123	616,059	50,132
2039-2043	576,134	34,801	-	-	576,134	34,801
2044-2048	590,701	20,235	-	-	590,701	20,235
2049-2053	483,676	5,453	-	-	483,676	5,453
Total	<u>\$ 3,295,062</u>	<u>\$ 248,745</u>	<u>\$ 297,160</u>	<u>\$ 12,653</u>	<u>\$ 3,592,222</u>	<u>\$ 261,398</u>

CITY OF LANCASTER, KENTUCKY
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Certain Covenants contained in the above loan agreements are as follows:

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

For the fiscal year ended June 30, 2023, the City is in substantial compliance with all covenants and provisions of the KIA loan agreements.

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

Summary of Debt Transactions

Long-term liability activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Revenue Bonds:					
Revenue Bonds-Water Fund	\$ 6,521,000	\$ -	\$ (122,000)	\$ 6,399,000	\$ 125,000
Revenue Bonds-Sewer Fund	2,865,500		(53,000)	2,812,500	54,000
KLC Bonds-Water Fund	670,142		(56,308)	613,834	59,208
KLC Bonds-Sewer Fund	485,275		(40,775)	444,500	42,875
Total Bonds Payable	<u>10,541,917</u>	<u>-</u>	<u>(272,083)</u>	<u>10,269,834</u>	<u>281,083</u>
KIA Loans:					
KIA Loan-Water Fund	3,080,269	319,731	(104,938)	3,295,062	105,846
KIA Loans-Sewer Fund	332,062	-	(34,902)	297,160	35,126
Total KIA Loans	<u>3,412,331</u>	<u>319,731</u>	<u>(139,840)</u>	<u>3,592,222</u>	<u>140,972</u>
Business-type activity long-term liabilities	<u>\$ 13,954,248</u>	<u>\$ 319,731</u>	<u>\$ (411,923)</u>	<u>\$ 13,862,056</u>	<u>\$ 422,055</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

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

for all major programs except unemployment compensation and workers' compensation, for which the City retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage from prior years. Also, there have been no settlements exceeding insurance coverage for each of the past three years. The City participates in two pooled self-insurance programs sponsored by the Kentucky League of Cities. These include unemployment compensation and workers' compensation.

NOTE J – Economic Dependency

During the fiscal year ended June 30, 2023, 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.

NOTE K – Lease

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

The City has a lease agreement with the Commonwealth of Kentucky, Department of Corrections, Probation and Parole Division (Lessee) to lease certain premises to the Commonwealth in the amount of \$39,390 per year. The lease called for automatic extensions annually through June 30, 2024 in the amount of \$52,780 annually. Upon adoption of GASB Statement No. 87, the City recognized a lease receivable and corresponding deferred inflow of resources in the statement of net position at the present value of the remaining lease payments, using a discount rate of 0.75%. At June 30, 2023, the lease receivable was \$52,534. There was no impact on beginning net position resulting from implementing this new standard. Future payments to be received on the lease are as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2024	\$ 52,534	\$ 246	\$ 52,780

NOTE L – Internal Balances and Transfers

The following interfund payables and receivables occurred as of June 30, 2023:

Fund	Due from Other Funds	Due to Other Funds	Fund Total Due From (To)
General Fund	\$ 750,000	\$ (336,870)	\$ 413,130
Municipal Road Aid Fund	19,775	-	19,775
Water Fund	296,431	(1,030,910)	(734,479)
Sewer Fund	301,574	-	301,574
	\$ 1,367,780	\$ (1,367,780)	\$ -

The general fund internal balance is made up of \$20,664 due to the sewer fund to cover expenses. The general fund also owes the water fund \$296,431 transferred to the general fund to cover payroll and related operating expenses. The water fund owes the general fund \$750,000 for a fire department grant that was deposited into a water fund bank account. The general fund also owes the municipal road aid fund \$19,775 for state road aid amounts that were electronically deposited to general fund bank account incorrectly.

CITY OF LANCASTER, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

The water fund internal balance is made up of \$403,379 deposited into a water fund bank account that relate to sewer grant revenues. The water fund is also owed \$53,469 from the sewer fund for debt service paid out of a water bank account for sewer debt payments and \$69,001 paid out of a water bank account for sewer construction projects.

Transfers of \$319,155 from the water fund to the sewer fund, represent funds paid for sewer projects that were deposited into water fund bank accounts.

NOTE M – Commitments

As of June 30, 2023, there are three major construction projects in progress.

1. The Sewer Upgrades Project has a budget of \$5,567,303. As of June 30, 2023, \$5,170,942 had been spent on the project. The Project is being funded by the following sources.

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

2. The City is in the planning and design stage for water upgrades for a Distillery located in the City. As of June 30, 2023, \$232,501 had been spent on the project.
3. The City has a construction project (“Pleasant Retreat Water Main Extension”) in progress for a water main extension. As of June 30, 2023, \$467,881 had been spent on the project. The estimated budget for the project is \$568,544 and is being funded with Coronavirus State and Local Recovery Funds (ARPA).
4. The City has a construction project (“Sanitary & Storm Sewer Improvements”) in progress for sewer system improvements. As of June 30, 2023, \$242,535 had been spent on the project. The estimated budget for the project is \$345,000 and is being funded with Coronavirus State and Local Recovery Funds (ARPA).

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LANCASTER, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 470,000	\$ 470,000	\$ 545,132	\$ 75,132
Licenses & permits	988,950	988,950	988,417	(533)
Fines & forfeitures	202,600	202,600	297,405	94,805
Intergovernmental revenues	94,000	94,000	97,170	3,170
Charges for services	541,000	541,000	622,687	81,687
Interest	300	300	2,841	2,541
Other	206,000	206,000	114,715	(91,285)
Total revenues	<u>2,502,850</u>	<u>2,502,850</u>	<u>2,668,367</u>	<u>165,517</u>
EXPENDITURES:				
Current operating:				
General government	864,000	865,000	875,740	(10,740)
Public safety	1,544,350	1,544,350	1,680,778	(136,428)
Capital outlay	14,000	14,000	243,586	(229,586)
Total expenditures	<u>2,422,350</u>	<u>2,423,350</u>	<u>2,800,104</u>	<u>(376,754)</u>
Excess (deficiency) of revenues over expenditures before transfers and other sources	80,500	79,500	(131,737)	(211,237)
Other financing sources (uses):				
Insurance proceeds			104,450	104,450
Transfers (to) from other funds			(1,900)	(1,900)
Total other sources and uses	<u>-</u>	<u>-</u>	<u>102,550</u>	<u>102,550</u>
Excess (deficiency) revenues over expenditures	80,500	79,500	(29,187)	(108,687)
Fund balances--beginning	21,373	21,373	21,373	-
Fund balances--ending	<u>\$ 101,873</u>	<u>\$ 100,873</u>	<u>\$ (7,814)</u>	<u>\$ (108,687)</u>

See accompanying notes to financial statements.

CITY OF LANCASTER, KENTUCKY
MUNICIPAL ROAD AID FUND
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
Municipal road aid	\$ 100,000	\$ 100,000	\$ 76,568	\$ (23,432)
Interest	100	100	1,476	1,376
Total revenues	<u>100,100</u>	<u>100,100</u>	<u>78,044</u>	<u>(22,056)</u>
EXPENDITURES:				
Current operating:				
Public services	100,000	100,000	178,170	(78,170)
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>178,170</u>	<u>(78,170)</u>
Excess (deficiency) revenues over expenditures	100	100	(100,126)	(100,226)
Fund balances--beginning	121,187	121,187	121,187	-
Fund balances--ending	<u>\$ 121,287</u>	<u>\$ 121,287</u>	<u>\$ 21,061</u>	<u>\$ (100,226)</u>

See accompanying notes to financial statements.

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

	Hazardous									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.040660%	0.045722%	0.046720%	0.046341%	0.048312%	0.050524%	0.055165%	0.057857%	0.063241%	0.063241%
City's proportionate share of the net pension liability (asset)	\$ 1,240,723	\$ 1,217,219	\$ 1,408,621	\$ 1,280,075	\$ 1,168,405	\$ 1,130,363	\$ 946,598	\$ 888,160	\$ 759,851	\$ 845,582
City's covered employee payroll	\$ 211,195	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311
City's share of the net pension liability (asset) as a percentage of its covered payroll	587.48%	463.38%	515.22%	468.99%	442.71%	417.92%	337.19%	309.68%	256.76%	263.99%
Plan fiduciary net position as a percentage of the total pension liability	47.11%	52.26%	44.11%	50.45%	49.26%	58.99%	53.95%	57.52%	63.46%	57.74%
	Non-Hazardous									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.032564%	0.032598%	0.034548%	0.031426%	0.024901%	0.019736%	0.017897%	0.017065%	0.017546%	0.017546%
City's proportionate share of the net pension liability (asset)	\$ 2,354,056	\$ 2,078,378	\$ 2,649,804	\$ 2,210,205	\$ 1,516,548	\$ 1,155,210	\$ 881,160	\$ 733,532	\$ 568,980	\$ 642,288
City's covered employee payroll	\$ 1,032,941	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532
City's share of the net pension liability (asset) as a percentage of its covered payroll	227.90%	231.77%	319.73%	247.94%	190.81%	188.34%	183.78%	169.01%	136.76%	159.56%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	46.63%	53.54%	53.32%	55.50%	59.97%	66.80%	61.22%

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

	Hazardous									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required employer contribution	\$ 90,417	\$ 88,944	\$ 82,185	\$ 82,046	\$ 65,637	\$ 60,045	\$ 60,947	\$ 58,105	\$ 61,349	\$ 69,732
Contributions relative to contractually required employer contribution	<u>90,417</u>	<u>88,944</u>	<u>82,185</u>	<u>82,046</u>	<u>65,637</u>	<u>60,045</u>	<u>60,947</u>	<u>58,105</u>	<u>61,349</u>	<u>69,732</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 211,195	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732	\$ 286,798	\$ 295,943	\$ 320,311
Employer contributions as a percentage of covered-employee payroll	42.81%	33.86%	30.06%	30.06%	24.87%	22.20%	21.71%	20.26%	20.73%	21.77%
	Non-Hazardous									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required employer contribution	\$ 241,746	\$ 189,839	\$ 159,953	\$ 172,047	\$ 128,940	\$ 88,813	\$ 66,887	\$ 53,903	\$ 53,046	\$ 55,308
Contributions relative to contractually required employer contribution	<u>241,746</u>	<u>189,839</u>	<u>159,953</u>	<u>172,047</u>	<u>128,940</u>	<u>88,813</u>	<u>66,887</u>	<u>53,903</u>	<u>53,046</u>	<u>55,308</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,032,941	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474	\$ 434,012	\$ 416,049	\$ 402,532
Employer contributions as a percentage of covered-employee payroll	23.40%	21.17%	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

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

	Hazardous						
	2023	2022	2021	2020	2019	2018	2017
City's proportion of the net OPEB liability	0.040640%	0.045723%	0.046706%	0.046332%	0.048314%	0.050524%	0.055165%
City's proportionate share of the net OPEB liability (asset)	\$ 346,167	\$ 369,699	\$ 431,613	\$ 342,793	\$ 344,459	\$ 417,668	\$ 249,572
City's covered employee payroll	\$ 211,195	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	163.91%	140.74%	157.87%	125.59%	130.52%	154.42%	88.90%
Plan fiduciary net position as a percentage of the total OPEB liability	64.13%	66.81%	58.84%	64.44%	64.24%	58.99%	53.95%
	Non-Hazardous						
	2023	2022	2021	2020	2019	2018	2017
City's proportion of the net OPEB liability	0.032558%	0.032590%	0.034538%	0.031418%	0.024900%	0.019736%	0.017897%
City's proportionate share of the net OPEB liability (asset)	\$ 642,537	\$ 623,919	\$ 833,989	\$ 528,437	\$ 442,095	\$ 396,761	\$ 311,210
City's covered employee payroll	\$ 1,032,941	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474
City's share of the net OPEB liability (asset) as a percentage of its covered payroll	62.20%	69.58%	100.63%	59.28%	55.62%	64.69%	64.91%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	52.39%	55.50%

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

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

	Hazardous						
	2023	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	\$ 14,320	\$ 27,503	\$ 26,028	\$ 25,984	\$ 27,632	\$ 25,289	\$ 26,248
Contributions relative to contractually required employer contribution	<u>14,320</u>	<u>27,503</u>	<u>26,028</u>	<u>25,984</u>	<u>27,632</u>	<u>25,289</u>	<u>26,248</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 211,195	\$ 262,683	\$ 273,404	\$ 272,941	\$ 263,920	\$ 270,473	\$ 280,732
Employer contributions as a percentage of covered-employee payroll	6.78%	10.47%	9.52%	9.52%	10.47%	9.35%	9.35%
	Non-Hazardous						
	2023	2022	2021	2020	2019	2018	2017
Contractually required employer contribution	\$ 35,021	\$ 51,831	\$ 39,450	\$ 42,343	\$ 41,814	\$ 28,828	\$ 22,679
Contributions relative to contractually required employer contribution	<u>35,021</u>	<u>51,831</u>	<u>39,450</u>	<u>42,343</u>	<u>41,814</u>	<u>28,828</u>	<u>22,679</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$1,032,941	\$ 896,735	\$ 828,774	\$ 891,435	\$ 794,790	\$ 613,353	\$ 479,474
Employer contributions as a percentage of covered-employee payroll	3.39%	5.78%	4.76%	4.76%	5.26%	4.70%	4.73%

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

CITY OF LANCASTER, KENTUCKY
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
JUNE 30, 2023

Note 1. General Information

Contributions

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

Payroll

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

Measurement Date

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

Note 2. Changes of Assumptions (Measurement Date)

June 30, 2022 –OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension. The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The single discount rate used to calculate the OPEB liability was increased from 5.20% to 5.70% for non-hazardous and from 5.05% to 5.61% for hazardous.
- The healthcare trend rate starting at 6.20% at January 1, 2024, 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 9.00% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years for post-65.

June 30, 2021 –OPEB Hazardous and Nonhazardous

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

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

June 30, 2020 –OPEB Hazardous and Nonhazardous

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

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

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

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

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

CITY OF LANCASTER, KENTUCKY
NOTES TO REQUIRED PENSION AND OPEB SUPPLEMENTARY INFORMATION
JUNE 30, 2023

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

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

June 30, 2017 – Pension – Hazardous and Nonhazardous

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

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

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

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

June 30, 2015 – Pension – Hazardous and Nonhazardous

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

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

June 30, 2013 – Pension – Hazardous and Nonhazardous

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

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

COMPLIANCE SECTION

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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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 17, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies. We consider the following deficiencies to be material weaknesses.

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

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

	General Fund		Water Fund		Sewer Fund		Total
	DR	CR	DR	CR	DR	CR	
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,700	\$ (19,700)
Cash	19,004						19,004
Construction in progress	-	-	-	691,483	659,115	-	(32,368)
Grant receivable	-	-	-	-	19,700	221,310	(201,610)
Contractual services expense	-	-	60,342	-	-	-	60,342
Due (to) from	750,000	-	20,000	762,799	-	-	7,201
Unearned revenue	-	750,000	567,567	-	-	-	(182,433)
Interest expense	-	-	-	15,475	-	-	(15,475)
Transfer	-	-	319,155	-	-	319,155	-
Miscellaneous revenues	-	-	756,247	-	-	-	756,247
Operatign expenses-general	25,234	-	-	-	-	-	25,234
Charges for services	-	44,238	-	-	-	-	(44,238)
Grant revenue	-	-	-	253,554	201,610	320,260	(372,204)
Increase (decrease)	<u>\$ 794,238</u>	<u>\$ 794,238</u>	<u>\$ 1,723,311</u>	<u>\$ 1,723,311</u>	<u>\$ 880,425</u>	<u>\$ 880,425</u>	<u>\$ -</u>

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

Management's Response

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following noncompliance that is required to be reported under *Government Auditing Standards*:

- During the fiscal year ended June 30, 2023, the City's expenditures exceeded its appropriations in the amount of \$376,754 in the general fund and \$78,170 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
July 17, 2024