

CITY OF MORGANTOWN, KENTUCKY

ANNUAL FINANCIAL REPORT

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Morgantown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, and each major fund of the City of Morgantown, Kentucky as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the City of Morgantown, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the aggregate discretely presented component unit, and each major fund of the City of Morgantown, Kentucky, as of June 30, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the City of Morgantown, Kentucky adopted during 2019 new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("OPEB"). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 26 and 27 and certain pension and OPEB information on pages 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

The City of Morgantown, Kentucky has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2020 on our consideration of the City of Morgantown, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 entity's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Morgantown, Kentucky's internal control over financial reporting and compliance.

Hensley & Throneberry, CPAs

January 27, 2020

BASIC FINANCIAL STATEMENTS

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2019

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Utility Commission</u>
Assets		
Current assets		
Cash	\$ 2,479,545	\$ 272,936
Property tax receivable, net	3,587	-0-
Accounts receivable, net	-0-	137,427
Accrued unbilled income	-0-	98,449
Prepaid insurance	22,473	33,396
Materials and supplies	-0-	95,362
Lease receivable, current portion	<u>19,235</u>	<u>-0-</u>
Total current assets	2,524,840	637,570
Noncurrent assets		
Restricted cash	-0-	78,545
Certificates of deposit	-0-	116,975
Lease receivable, noncurrent portion	39,600	-0-
Capital assets, net	<u>5,489,275</u>	<u>2,609,721</u>
Total noncurrent assets	<u>5,528,875</u>	<u>2,805,241</u>
Total assets	8,053,715	3,442,811
Deferred outflows of resources		
Deferred outflows – pension	474,077	360,294
Deferred outflows – OPEB	<u>150,835</u>	<u>111,222</u>
Total deferred outflows of resources	624,912	471,516
Total assets and deferred outflows of resources	<u>\$ 8,678,627</u>	<u>\$ 3,914,327</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 154,692	\$ 38,959
Outstanding checks in excess of bank balance	-0-	733
Payroll taxes payable	2,360	2,227
Retirement payable	27,905	-0-
Other payables	-0-	7,579
Accrued wages	12,285	13,935
Accrued compensated absences	40,106	24,091
Advanced rents received	3,651	-0-
Notes payable, current portion	<u>19,235</u>	<u>10,489</u>
Total current liabilities	260,234	98,013
Noncurrent liabilities		
Customer deposits	-0-	115,347
Notes payable, noncurrent portion	39,600	-0-
Net pension liability	1,410,811	1,386,113
Net OPEB liability	<u>414,098</u>	<u>404,096</u>
Total noncurrent liabilities	<u>1,864,509</u>	<u>1,905,556</u>
Total liabilities	2,124,743	2,003,569
Deferred inflows of resources		
Deferred inflows – pension	134,391	110,600
Deferred inflows – OPEB	<u>103,638</u>	<u>81,989</u>
Total deferred inflows of resources	238,029	192,589
Net position		
Invested in capital assets, net of related debt	5,430,440	2,599,232
Unrestricted	<u>885,415</u>	<u>(881,063)</u>
Total net position	6,315,855	1,718,169
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,678,627</u>	<u>\$ 3,914,327</u>

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Functions/Programs of	Net (Expense) Revenue and Changes in Net Position					
	Primary Government			Component Unit		
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Utility Commission
Primary Government						
Governmental activities						
General government	\$ 797,230	\$ 4,225	\$ 2,910	\$ 132,115	\$ (657,980)	\$ -0-
Public safety						
Police	600,815	1,803	31,615	-0-	(567,397)	-0-
Fire	100,233	1,800	-0-	-0-	(98,433)	-0-
Highway and streets	555,288	-0-	47,432	-0-	(507,856)	-0-
Recreational	209,400	22,267	-0-	-0-	(187,133)	-0-
Cemetery	4,209	6,500	-0-	-0-	2,291	-0-
Industrial Holding Corporation	5,960	-0-	-0-	-0-	(5,960)	-0-
Interest on long-term debt	<u>3,625</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(3,625)</u>	<u>-0-</u>
Total governmental activities	<u>2,276,760</u>	<u>36,595</u>	<u>81,957</u>	<u>132,115</u>	<u>(2,026,093)</u>	<u>-0-</u>
Total primary government	<u>\$ 2,276,760</u>	<u>\$ 36,595</u>	<u>\$ 81,957</u>	<u>\$ 132,115</u>	<u>(2,026,093)</u>	<u>-0-</u>
Component unit						
Utility Commission	\$ 2,318,173	\$ 2,128,879	\$ -0-	\$ -0-	-0-	(189,294)
General revenues						
Taxes						
Property					245,922	-0-
Franchise					9,627	-0-
Occupational fees					1,623,359	-0-
License and permits					351,420	-0-
Interest income					20,769	946
Miscellaneous					915	-0-
Donations					18,667	-0-
IHC lease income					7,200	-0-
Loss on disposition of capital asset					<u>(2,734)</u>	<u>-0-</u>
Total general revenues					2,275,145	946
Change in net position					249,052	(188,348)
Net position, beginning of year, previously reported					6,438,189	2,240,780
Change in accounting principle – GASB 75					<u>(371,386)</u>	<u>(334,263)</u>
Net position, beginning of year, as restated					<u>6,066,803</u>	<u>1,906,517</u>
Net position, end of year					<u>\$ 6,315,855</u>	<u>\$ 1,718,169</u>

CITY OF MORGANTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2019

	<u>Governmental Funds</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Governmental Funds</u>
Assets			
Cash	\$ 1,942,655	\$ 536,890	\$ 2,479,545
Property tax receivable, net	3,587	-0-	3,587
Prepaid insurance	22,473	-0-	22,473
Total assets	<u>\$ 1,968,715</u>	<u>\$ 536,890</u>	<u>\$ 2,505,605</u>
Liabilities			
Accounts payable	\$ 154,692	\$ -0-	\$ 154,692
Payroll taxes payable	2,360	-0-	2,360
Retirement payable	27,905	-0-	27,905
Accrued wages	12,285	-0-	12,285
Accrued compensated absences	40,106	-0-	40,106
Total liabilities	<u>237,348</u>	<u>-0-</u>	<u>237,348</u>
Fund balances			
Nonspendable			
Prepaid items	22,473	-0-	22,473
Assigned to:			
Industrial development	-0-	536,890	536,890
Parks	44,135	-0-	44,135
Cemetery care	29,532	-0-	29,532
City Hall project	78,675	-0-	78,675
Community development block grant	419,874	-0-	419,874
Unassigned	1,136,678	-0-	1,136,678
Total fund balances	<u>1,731,367</u>	<u>536,890</u>	<u>2,268,257</u>
Total liabilities and fund balances	<u>\$ 1,968,715</u>	<u>\$ 536,890</u>	<u>\$ 2,505,605</u>

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

Total fund balances – total governmental funds **\$ 2,268,257**

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. 5,489,275

The capital lease receivable and advanced rents received are not current financial resources, and therefore, are not reported in the funds. 55,184

Some liabilities are not due and payable in the current period, and therefore, are not reported in the funds:

Note payable	(58,835)
Net pension liability, deferred inflows, and deferred outflows	(1,410,811)
Net OPEB liability, deferred inflows, and deferred outflows	(414,098)
Net deferred outflows and inflows related to pensions	339,686
Net deferred outflows and inflows related to OPEB	<u>47,197</u>

Net position of governmental activities **\$ 6,315,855**

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	<u>Governmental Funds</u>		<u>Total</u>
	<u>General</u>	<u>Special</u>	<u>Governmental</u>
		<u>Revenue</u>	<u>Funds</u>
Revenues			
Property taxes	\$ 255,549	\$ -0-	\$ 255,549
Licenses and permits	1,979,004	-0-	1,979,004
Intergovernmental	214,072	-0-	214,072
Charges for services	32,370	-0-	32,370
Donations	18,667	-0-	18,667
Interest income	12,150	8,619	20,769
Other revenues	<u>915</u>	<u>23,813</u>	<u>24,728</u>
Total revenues	2,512,727	32,432	2,545,159
Expenditures			
General government	681,730	-0-	681,730
Public safety			
Police	500,073	-0-	500,073
Fire	44,276	-0-	44,276
Highways and streets	451,303	-0-	451,303
Recreational	189,723	-0-	189,723
Cemetery	3,820	-0-	3,820
Industrial Holding Corporation	-0-	5,170	5,170
Capital outlay	640,196	-0-	640,196
Debt service			
Principal	-0-	16,613	16,613
Interest	<u>-0-</u>	<u>3,625</u>	<u>3,625</u>
Total expenditures	2,511,121	25,408	2,536,529
Excess of revenues over expenditures	1,606	7,024	8,630
Other financing sources (uses)			
Sale of capital assets	7,965	-0-	7,965
Transfers in (out)	<u>(7,650)</u>	<u>7,650</u>	<u>-0-</u>
Total other financing sources (uses)	315	7,650	7,965
Net change in fund balances	1,921	14,674	16,595
Fund balances, beginning of year	<u>1,729,446</u>	<u>522,216</u>	<u>2,251,662</u>
Fund balances, end of year	\$ <u>1,731,367</u>	\$ <u>536,890</u>	\$ <u>2,268,257</u>

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND *(Continued)*
For the Year Ended June 30, 2019

Net change in fund balances – total governmental funds **\$ 16,595**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period. 458,858

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (10,700)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds:

Bad debt expense	(102,959)
Pension expense	(117,229)
OPEB expense	<u>4,487</u>

Change in net position of governmental activities **\$ 249,052**

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF NET POSITION –
DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2019

	Water and Sewer System	Gas System	Total
Assets			
Current assets			
Cash	\$ -0-	\$ 272,936	\$ 272,936
Accounts receivable	92,067	45,360	137,427
Accrued unbilled income	73,706	24,743	98,449
Prepaid insurance	16,698	16,698	33,396
Materials and supplies	<u>17,728</u>	<u>77,634</u>	<u>95,362</u>
Total current assets	200,199	437,371	637,570
Noncurrent assets			
Restricted cash	-0-	78,545	78,545
Certificates of deposit	-0-	116,975	116,975
Capital assets, net	<u>2,099,244</u>	<u>510,477</u>	<u>2,609,721</u>
Total noncurrent assets	<u>2,099,244</u>	<u>705,997</u>	<u>2,805,241</u>
Total assets	<u>2,299,443</u>	<u>1,143,368</u>	<u>3,442,811</u>
Deferred outflows of resources			
Deferred outflows – pension	168,611	191,683	360,294
Deferred outflows – OPEB	<u>52,050</u>	<u>59,172</u>	<u>111,222</u>
Total deferred outflows of resources	<u>220,661</u>	<u>250,855</u>	<u>471,516</u>
Total assets and deferred outflows of resources	<u>\$ 2,520,104</u>	<u>\$ 1,394,223</u>	<u>\$ 3,914,327</u>
Liabilities			
Current liabilities			
Outstanding checks in excess of bank balance	\$ 733	\$ -0-	\$ 733
Accounts payable	23,532	15,427	38,959
Payroll taxes payable	989	1,238	2,227
Other payables	4,510	3,069	7,579
Accrued wages	4,657	9,278	13,935
Accrued compensated absences	11,130	12,961	24,091
Note payable	<u>10,489</u>	<u>-0-</u>	<u>10,489</u>
Total current liabilities	56,040	41,973	98,013
Noncurrent liabilities			
Customer deposits	36,802	78,545	115,347
Net pension liability	648,677	737,436	1,386,113
Net OPEB liability	<u>189,110</u>	<u>214,986</u>	<u>404,096</u>
Total noncurrent liabilities	<u>874,589</u>	<u>1,030,967</u>	<u>1,905,556</u>
Total liabilities	<u>930,629</u>	<u>1,072,940</u>	<u>2,003,569</u>
Deferred inflows of resources			
Deferred inflows – pension	51,759	58,841	110,600
Deferred inflows – OPEB	<u>38,369</u>	<u>43,620</u>	<u>81,989</u>
Total deferred inflows of resources	<u>90,128</u>	<u>102,461</u>	<u>192,589</u>
Net position			
Invested in capital assets, net of related debt	2,093,999	505,233	2,599,232
Unrestricted	<u>(594,652)</u>	<u>(286,411)</u>	<u>(881,063)</u>
Total net position	<u>1,499,347</u>	<u>218,822</u>	<u>1,718,169</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,520,104</u>	<u>\$ 1,394,223</u>	<u>\$ 3,914,327</u>

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF ACTIVITIES – COMPONENT UNIT
For the Year Ended June 30, 2019

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
					<u>Total</u>
Water and sewer system	\$ 1,006,839	\$ 887,793	\$ -0-	\$ -0-	\$ (119,046)
Gas system	<u>1,311,334</u>	<u>1,241,086</u>	<u>-0-</u>	<u>-0-</u>	<u>(70,248)</u>
Morgantown Utility Commission	<u>\$ 2,318,173</u>	<u>\$ 2,128,879</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>(189,294)</u>
General revenues					
Interest income					<u>946</u>
Change in net position					<u>(188,348)</u>
Net position, beginning of year, previously reported					2,240,780
Change in accounting principle – GASB 75					<u>(334,263)</u>
Net position, beginning of year, as restated					<u>1,906,517</u>
Net position, end of year					<u>\$ 1,718,169</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
Year June 30, 2019

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The City of Morgantown, Kentucky, (the "City") operates under a mayor-council form of government and provides the following services authorized by its charter: public safety (police and fire department), highways and streets, recreational, planning and zoning, cemetery, industrial development, general administrative services, and utilities (water, sewer, and gas).

The financial statements of the City have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units. The more significant of the City's accounting policies are described below.

Reporting Entity

In evaluating how to define the City for financial reporting purposes, all potential component units have been considered. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existences of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the above criteria, the Morgantown Utility Commission (the "Commission") is included as a discretely presented component unit of the City.

The Commission operates under Kentucky Statutes KRS 91A.350-400 and KRS 142.400-408. The Board of Directors are appointed by the Mayor through prescribed procedures as outlined in KRS 91A.360. The Commission acts as the managing entity of the Morgantown Utility Commission, which provides gas, water, and sewer services in the City. The City has the authority to appoint the Commission's governing body and the ability to impose its will on the Commission. The Commission is separately audited, and a copy of the independent auditor's report can be obtained by writing to the Morgantown Utility Commission at 1308 S. Main Street, Morgantown, KY 42261.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed, but the statements distinguish governmental activities generally supported by taxes and the City's general revenues, which primarily rely on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with distinct functional activity. Program revenues include: (1) charges for services which report fees, fines, and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities, including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements are provided for governmental funds.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental column of the government-wide presentation.

The statement of net position presents assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is related to the acquisition, construction, and improvement of capital assets. The outstanding debt is also offset by any unspent proceeds from such debt.
- Restricted net assets result from restrictions placed by external sources such as creditors, grantors and contributors, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist of net position which does not meet the definition of the two preceding categories.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. 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 program, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources, such as taxes and other items not properly included among program revenues, are reported instead as general revenues.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major governmental revenues sources susceptible to accrual include property taxes, franchise taxes (fees), and intergovernmental revenues. In general, other revenues are recognized when cash is received.

GASB No. 54 defines how fund balances of governmental funds are presented in the financial statements. Fund balances are classified as follows:

Non-spendable - Amounts that cannot be spent either because they are not in a spendable form or they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposed city charter, city code, state or federal laws, or extremely imposed conditions by grantors or creditors.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed - Amounts that can be used only for specific purposes determined by a formal action by city council ordinance.

Assigned - Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget or ordinance is passed by City Council.

Unassigned - All amounts not included in other spendable classifications.

The utility activities from the Commission use the accrual basis of accounting, which is the same method of accounting used to reflect their discretely presented activity in the government-wide statements. Non-operating revenues such as interest income and other income not from the delivery of services are reported after income from operations.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed. It is the policy of the City to eliminate internal activity in the government wide financial statements.

Fund Types and Major Funds

The City reports the General Fund as its major governmental fund and the primary operating fund of the City. The General Fund was established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established. The General Fund is considered a major fund.

Special revenue funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for a specific purpose. The City has one special revenue fund, which accounts for specific revenues and expenditures of the Industrial Holding Corporation. This fund is a major fund and reports revenues from property leases and interest income from financing property sales. The fund holds title to various real estate properties in the City and is responsible for mortgage debt on the properties.

Cash and Investments

The City's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cost approximates fair value.

The City is authorized by statute to invest in: (1) obligations of the United States and of its agencies and instrumentalities; (2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; (3) shares of any savings and loan association insured by an agency of the government of the United States up to the amount so insured; and (4) interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts providing such banks shall pledge as security obligations of the United States government, its agencies and instrumentalities.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Construction interest is capitalized; however, there was none for the current year. Estimated useful lives for depreciable assets are as follows:

	Years
Buildings	40-50
Improvements, other than buildings	20-50
Utility Distribution System	20-50
Infrastructure	12-25
Equipment and Furnishings	5-10
Vehicles	2-25

For information describing capital assets, see Note 6.

Compensated Absences

The City permits employees to carry forward unused vacation time from one calendar year to the next not to exceed forty (40) working days. Employees may accumulate sick leave throughout employment. Upon termination of employment, employees are paid for accumulated vacation and one half of accumulated sick leave computed at their hourly rate at the time of separation from service.

Long-term Obligations

In the government-wide financial statements and component unit proprietary fund financial statements, long-term debt and obligations are reported as liabilities in the applicable governmental activities or component unit proprietary fund statement of net position. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period.

Property Tax

Taxes are levied in September and are payable through December 31 of each year, becoming delinquent as of January 31. The City bills and collects its own property taxes. City property tax revenues are recognized when levied to the extent that they are both measurable and available.

The 2018 tax rate is \$0.111 per \$100 assessed valuation for real property and \$0.279 per \$100 assessed valuation for vehicles. The City is permitted by the State Constitution to levy taxes up to \$0.75 per \$100 assessed valuation; however, according to statutes, the City may not increase the tax rate on real property by more than four percent per year (exclusive of assessment growth) without obtaining consent through referendum.

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

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Estimates

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

Subsequent Events

Management has evaluated subsequent events through January 27, 2020, the date financial statements were available to be issued.

Recently Issued and Adopted Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB")*. The objective of this statement was to address accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employees. This statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

For defined benefit OPEB, this statement identified the methods and assumptions required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and supplementary information requirements about defined benefit OPEB also were addressed. The City and Commission retrospectively implemented the new requirements of this statement during the fiscal year ended June 30, 2019. The implementation resulted in a reduction of the fiscal year 2019 beginning net position of \$371,386 and \$334,263 and an increase in the total OPEB liability of \$538,762 and \$432,867 for the City and Commission, respectively.

NOTE 2. BUDGETARY INFORMATION

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

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

The budget is prepared on the cash basis of accounting, and the governmental fund financial statements are prepared on the modified accrual basis of accounting. However, in the budget to actual comparison schedules, the actual amounts are presented on the budgetary (cash) basis with an accompanying reconciliation of revenues and expenditures to the fund financial statements.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

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

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

Custodial credit risk is the risk that in an event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; letters of credit issued by federal home loan banks; bonds, notes, letters of credit, or other obligations of the U.S. Treasury, U.S. agencies, or instrumentalities of the state of Kentucky; bonds of any city of the first, second, and third classes, county, school district, or educational institution of the state of Kentucky; or surety bonds having an aggregate current face value or current quoted market value at least equal to the amount of the deposits in excess of amounts insured by the FDIC.

Deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

- Category 1 – insured
- Category 2 – collateralized with securities held by the pledging financial institution's trust department or agent in the City's name
- Category 3 – collateralized with securities held by the pledged financial institution in the institution's name
- Category 4 – uninsured

At June 30, 2019, the book balance of the City's deposits was \$2,479,545, and the bank balances were \$2,489,225. The book balance of the Commission's deposits and certificates of deposit was \$468,456 and the bank balance was \$529,002.

Deposits at June 30, 2019, categorized by level of risk were:

	Category 1	Category 2	Category 3	Category 4	Bank Balance	Book Value
Primary government	\$ 339,712	\$ 1,127,026	\$ -0-	\$ 1,022,487	\$ 2,489,225	\$ 2,479,545
Component unit	250,000	279,002	-0-	-0-	529,002	468,456
Total	\$ 589,712	\$ 1,406,028	\$ -0-	\$ 1,022,487	\$ 3,018,227	\$ 2,948,001

NOTE 4. NOTE RECEIVABLE

The City of Morgantown agreed to loan Pride Plastics of Morgantown funds not to exceed \$150,000 for the expansion of their Morgantown operations. These funds are to be repaid over a ten-year period at 1.75% interest, consisting of 120 monthly payments. Repayment commenced when the final loan balance was determined. The total amount loaned by the City to the company was \$105,000. The balance of the loan as of June 30, 2019 was \$102,959. There were no repayments received in the current year or the preceding four years. Because of the lack of payments, the City recorded an allowance for doubtful accounts of \$102,959 during the fiscal year ended June 30, 2019.

As a result, bad debt expense of \$102,959 was recognized in the government-wide governmental activities statement of activities. In the governmental funds, deferred revenues were reversed as of June 30, 2019

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 5. CAPITAL ASSETS

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2019:

Governmental Activities

	<u>Balance</u> <u>07-01-18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-19</u>
Capital assets not being depreciated:				
Land	\$ 1,613,944	\$ 76,500	\$ -0-	\$ 1,690,444
Capital assets being depreciated:				
Buildings and improvement	3,009,020	221,252	-0-	3,230,272
Infrastructure	2,117,003	79,425	-0-	2,196,428
Vehicles	661,266	147,516	-0-	808,782
Furniture, machinery, and equipment	<u>564,970</u>	<u>115,502</u>	<u>(31,421)</u>	<u>649,051</u>
Total capital assets being depreciated	6,352,259	563,695	(31,421)	6,884,533
Less: accumulated depreciation				
Buildings and improvement	(1,064,588)	(46,624)	-0-	(1,111,212)
Infrastructure	(1,049,394)	(75,824)	-0-	(1,125,218)
Vehicles	(488,520)	(36,731)	-0-	(525,251)
Furniture, machinery, and equipment	<u>(322,586)</u>	<u>(22,158)</u>	<u>20,723</u>	<u>(324,021)</u>
Total accumulated depreciation	<u>(2,925,088)</u>	<u>(181,337)</u>	<u>20,723</u>	<u>(3,085,702)</u>
Capital assets, net	<u>\$ 5,041,115</u>	<u>\$ 458,858</u>	<u>\$ (10,698)</u>	<u>\$ 5,489,275</u>

A summary of changes in capital assets of the Commission for 2019 is as follows:

Component Unit

	<u>Balance</u> <u>07-01-18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-19</u>
Capital assets not being depreciated:				
Land	\$ 161,084	\$ -0-	\$ -0-	\$ 161,084
Capital assets being depreciated:				
Buildings, tanks, and improvements	2,450,675	-0-	-0-	2,450,675
Distribution system	5,342,675	23,975	-0-	5,366,650
Furniture, machinery, and equipment	<u>577,964</u>	<u>-0-</u>	<u>-0-</u>	<u>577,964</u>
Total capital assets being depreciated	8,371,314	23,975	-0-	8,395,289
Less: accumulated depreciation				
Buildings, tanks, and improvements	(1,698,929)	(54,781)	-0-	(1,753,710)
Distribution system	(3,547,910)	(94,801)	-0-	(3,642,711)
Furniture, machinery, and equipment	<u>(529,523)</u>	<u>(20,708)</u>	<u>-0-</u>	<u>(550,231)</u>
Total accumulated depreciation	<u>(5,776,362)</u>	<u>(170,290)</u>	<u>-0-</u>	<u>(5,946,652)</u>
Capital assets, net	<u>\$ 2,756,036</u>	<u>\$ (146,315)</u>	<u>\$ -0-</u>	<u>\$ 2,609,721</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 6. LONG-TERM DEBT

In May of 2002, a \$260,000 loan with Morgantown Bank and Trust bearing an adjustable interest rate of 5.00% and a maturity date of May 2022 was acquired for the purchase of land, which secures the note payable. As of June 30, 2019, the interest rate was 5.50%. Changes in the note payable for the year ended June 30, 2019 were as follows:

	Balance 07-01-18	Increases	Decreases	Balance 06-30-19	Current Portion
Note payable	\$ 75,448	\$ -0-	\$ (16,613)	\$ 58,835	\$ 19,235

A schedule of the note payable debt service payment requirements at June 30, 2019 are as follows:

June 30,	Principal	Interest	Total
2020	\$ 19,235	\$ 2,668	\$ 21,903
2021	20,320	1,583	21,903
2022	19,280	1,583	20,863
	<u>\$ 58,835</u>	<u>\$ 5,834</u>	<u>\$ 64,669</u>

The Commission purchased an office building for \$300,000 in June 2016. The Commission initially paid \$150,581 towards the purchase and borrowed \$149,419 from Morgantown Bank and Trust to finance the balance of the purchase price. The mortgage requires 179 monthly payments of \$1,071.91, is secured by the building, and bears an interest rate of 3.50%.

The activity for the year of the outstanding note payable is as follows:

	Balance 07-01-2018	Increases	Decreases	Balance 06-30-2019	Current Portion
Note payable	\$ 43,312	\$ -0-	\$ (32,823)	\$ 10,489	\$ 10,489

A schedule of the debt service payment requirements of this note at June 30, 2019 are as follows:

June 30,	Principal	Interest	Total
2020	\$ 10,489	\$ 177	\$ 10,666

NOTE 7. DEPRECIATION EXPENSE

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 25,925
Police	15,325
Fire	20,957
Highways and streets	90,625
Recreational	19,677
Cemetery	388
Industrial Holding Corporation	8,440
	<u>\$ 181,337</u>
Component unit	
Utility Commission	<u>\$ 170,290</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8. INTEREST EXPENSE

Interest expense was charged as a direct expense to governmental activities as follows:

General government	\$ <u>3,625</u>
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NOTE 9. RISK MANAGEMENT – INSURANCE

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

NOTE 10. PENSION PLAN

Plan Description

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

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

Benefits Provided

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

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

Reduced benefits for early retirement are available at age 55 with five years' service credit or at age 57 based on the Rule of 87 – sum of service years plus age equal to 87. Final compensation for Tier 2 benefit formula calculation is the average of the last complete five years' earnings, and the benefit factor is an increasing percentage based on service at retirement plus 2.00% for each year of service over 30. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 non-hazardous members are eligible to retire with an unreduced retirement benefit at age 65 with five years' service credit or at age 57 based on the Rule of 87.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 10. PENSION PLAN *(Continued)*

Tier 3 members are not eligible for reduced retirement benefits. Tier 3 is a hybrid cash balance plan. When a member is eligible to retire, the benefit is calculated based on the member's accumulated account balance. A member earns service credit for each month contributing to the plan. Upon retirement, the hypothetical account, which includes member contributions, employer contributions, and interest credits, can be withdrawn in a lump sum or annuitized into a single life annuity option.

Tier 1 hazardous members are eligible to retire with an unreduced retirement benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by the benefit formula detailed above. The calculation is based on an average of the three highest years' earnings, a 2.50% benefit factor, and years of service. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 hazardous members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit.

The benefit formula calculation is based on an average of the three highest complete years' earnings, an increasing percent benefit factor based on service at retirement, and years of service. Tier 3 hazardous members are also eligible to retire at any age with 25 years of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

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

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

CERS Contributions

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

The Board may amend contribution rates as of July of the second year of a biennium if it determines on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. The normal contribution rate (the percentage computed of employee creditable compensation) shall be determined by the entry age normal cost funding method.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 10. PENSION PLAN (Continued)

The actuarially accrued liability shall be determined by actuarial method consistent with the methods prescribed for determining the normal contribution rate. The actuarially accrued liability contribution shall be computed by amortizing the total unfunded actuarially accrued liability over a period of 30 years using the level-percentage-of-payroll amortization method. Administrative costs of CERS are financed through employer contributions and investment earnings.

Plan members participating in CERS on or before August 31, 2008 (Tier 1), with non-hazardous and hazardous duty positions, were required to contribute 5% and 8%, respectively, of their annual creditable compensation. For plan members who began participating on or after September 1, 2008 but before January 1, 2014 (Tier 2), with non-hazardous and hazardous duty positions, contribution rates were 6% and 9%, respectively, of annual creditable compensation. The additional 1% is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (Kentucky Administrative Regulation 105 KAR 1:420E).

Plan members participating in CERS on or after January 1, 2014 (Tier 3) were required to contribute to the hybrid cash balance plan. Plan members and employers contribute a set percentage of creditable compensation into the member's account. Members contribute 5% (non-hazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund, which is not credited to the member's account and is not refundable. Employers contribute 4% (non-hazardous) and 7.5% (hazardous) of creditable compensation into the member's hypothetical account.

For the year ended June 30, 2019, the City contributed 21.48% (non-hazardous - 16.22% for the pension fund and 5.26% for insurance) and 35.34% (hazardous - 24.87% for the pension fund and 10.47% for insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer contributions to CERS for pension benefits were \$107,664 (\$45,816 non-hazardous and \$61,848 hazardous) for the year ended June 30, 2019.

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

At June 30, 2019, the City reported a liability of \$1,410,811 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the City's proportionate share was 0.009009% for non-hazardous and 0.035649% for hazardous.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 86,509	\$ 8,031
Changes of assumptions	145,393	-0-
Difference between projected and actual earnings on plan investments	57,469	73,772
Changes in proportion and differences between employer contributions and proportionate share of contributions	77,041	52,588
City contributions subsequent to the measurement date	<u>107,665</u>	<u>-0-</u>
Total	<u>\$ 474,077</u>	<u>\$ 134,391</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 10. PENSION PLAN (Continued)

The \$107,665 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2020	\$ 180,919
2021	76,485
2022	(18,545)
2023	<u>(6,838)</u>
Total	<u>\$ 232,021</u>

Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the measurement period ending June 30, 2018, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems.

However, subsequent to the actuarial valuation date (June 30, 2017), but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investments, trends, and inflation and updated the following actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (1-year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates, and that margin will be reviewed again when the next experience investigation is conducted.

Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of an actuarial experience study. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience study for the period July 1, 2008 – June 30, 2013. The investment return, price inflation, and payroll growth assumptions were adopted by the Board in the May and July 2017 valuations.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 10. PENSION PLAN (Continued)

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
US equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash equivalent	<u>2.00%</u>	1.88%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees as required to be paid by state statute.

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 690,700	\$ 548,655	\$ 429,646
Hazardous	<u>1,080,225</u>	<u>862,156</u>	<u>681,881</u>
Total	<u>\$ 1,770,925</u>	<u>\$ 1,410,811</u>	<u>\$ 1,111,527</u>

Payable to the Pension Plan

At June 30, 2019, the City reported a payable of \$27,905 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

Benefits Provided

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

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2019 was 5.26% (non-hazardous) and 10.47% (hazardous) of covered payroll. Contributions to the Insurance Fund were \$40,896 (\$14,858 non-hazardous and \$26,038 hazardous) for the year ended June 30, 2019. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation, which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2018. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2019, the City's proportion was 0.009007% (non-hazardous) and 0.035650% (hazardous).

Net OPEB Liability

At June 30, 2019, the City reported a liability of \$414,098 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.05%, average
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to ultimate trend rate of 4.05% over a period of 13 years.
Healthcare cost trend rates (Post-65)	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to ultimate trend rate of 4.05% over a period of 11 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set-back one year for females). The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of July 1, 2008 through June 30, 2013.

The long-term expected rate of return on plan assets is reviewed as part to the regular experience study prepared every five years for KRS. The most recent analysis performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce a long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The 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 cover a longer time frame. The assumptions are intended to be long-term assumptions and are 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.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash equivalent	<u>2.00%</u>	1.88%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 5.85% for the year ended June 30, 2018. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62% as reported in Fidelity's "20-Year Municipal GO AA Index" as of June 30, 2018. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in KRS contribute the actuarially determined contribution rate, which is determined used a closed funding period (25 years as of June 30, 2018).

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the collective net OPEB liability calculated using the discount rate of 5.85% (non-hazardous) and 5.97% (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 (4.85% and 4.97%) or 1-percentage-point higher (6.85% or 6.97%) than the current rate:

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$ 207,712	\$ 159,921	\$ 119,212
Hazardous	<u>353,319</u>	<u>254,177</u>	<u>174,812</u>
Total	<u>\$ 561,031</u>	<u>\$ 414,098</u>	<u>\$ 294,024</u>

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

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

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$ 119,063	\$ 159,921	\$ 208,081
Hazardous	<u>173,107</u>	<u>254,177</u>	<u>354,586</u>
Total	<u>\$ 292,170</u>	<u>\$ 414,098</u>	<u>\$ 562,667</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 11. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -0-	\$ 47,042
Changes of assumptions	109,939	1,064
Difference between projected and actual earnings on plan investments	-0-	35,180
Changes in proportion and differences between employer contributions and proportionate share of contributions		20,352
City contributions subsequent to the measurement date	<u>40,895</u>	<u>-0-</u>
	<u>\$ 150,834</u>	<u>\$ 103,638</u>

The \$32,589 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2020	\$ 10,300
2021	10,300
2022	(3,728)
2023	(7,540)
2024	(1,862)
Thereafter	<u>(1,169)</u>
	<u>\$ 6,301</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL – GENERAL FUND
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Property taxes	\$ 162,200	\$ 120,000	\$ 228,754	\$ 108,754
Licenses and permits	17,500	29,000	4,225	(24,775)
Intergovernmental revenue	73,000	108,000	108,860	860
Insurance fees	300,000	350,000	351,420	1,420
Occupational fees	1,400,000	1,600,000	1,623,359	23,359
Grants	210,500	210,500	132,115	(78,385)
Interest income	6,950	6,950	12,150	5,200
Charges for services	22,000	21,000	32,370	11,370
Other revenues	<u>19,400</u>	<u>50,100</u>	<u>19,582</u>	<u>(30,518)</u>
Total revenues	<u>2,211,550</u>	<u>2,495,550</u>	<u>2,512,835</u>	<u>17,285</u>
Expenditures				
General government	1,066,000	1,066,000	985,601	80,399
Police	508,900	558,900	544,103	14,797
Fire	126,150	168,150	44,276	123,874
Highways and streets	723,500	1,043,500	870,742	172,758
Recreational	377,300	377,300	356,724	20,576
Cemetery	<u>5,500</u>	<u>5,500</u>	<u>3,820</u>	<u>1,680</u>
Total expenditures	<u>2,807,350</u>	<u>3,219,350</u>	<u>2,805,266</u>	<u>414,084</u>
Excess (deficit) of revenues over (under) expenditures	(595,800)	(723,800)	(292,431)	431,369
Other financing sources				
Sale of capital assets	<u>-0-</u>	<u>-0-</u>	<u>7,965</u>	<u>7,965</u>
Total other financing sources	<u>-0-</u>	<u>-0-</u>	<u>7,965</u>	<u>7,965</u>
Net change in fund balance	(595,800)	(723,800)	(284,466)	439,334
Fund balance, beginning of year	<u>2,015,833</u>	<u>2,015,833</u>	<u>2,015,833</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 1,420,033</u>	<u>\$ 1,292,033</u>	<u>\$ 1,731,367</u>	<u>\$ 439,334</u>

CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL – GENERAL FUND (Continued)
For the Year Ended June 30, 2019

Budgetary Information

Budget Policy and Practice

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

Basis of Budgeting

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

The budget is prepared on the cash basis of accounting; the fund financial statements are prepared on the modified accrual basis of accounting. A reconciliation to GAAP basis is provided below.

Explanation of differences between budgetary revenues and expenditures and GAAP revenues and expenditures

Revenues

Actual amounts (budgetary basis) "total revenues" from the budgetary comparison schedule.	\$ 2,512,835
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The City's budget is prepared on a cash basis, rather than the modified accrual basis. Revenues are recognized when received and not when earned. This is the change in property tax receivables.	<u>(108)</u>
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Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 2,512,727</u>
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Expenditures

Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule.	\$ 2,805,266
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The City's budget is prepared on a cash basis, rather than the modified accrual basis. Expenses are recognized when paid and not when incurred. Below are the changes in:

Prepaid insurance	(3,371)
Accounts payable	(293,426)
Payroll taxes payable	(7,171)
Retirement payable	(2,257)
Accrued wages	(128)
Accrued compensated absences	<u>12,208</u>

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 2,511,211</u>
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CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL – SPECIAL REVENUE FUND
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Rent	\$ 2,000	\$ 2,000	\$ 23,813	\$ 21,813
Interest income	<u>-0-</u>	<u>-0-</u>	<u>8,619</u>	<u>8,619</u>
Total revenues	<u>2,000</u>	<u>2,000</u>	<u>32,432</u>	<u>30,432</u>
Expenditures				
Industrial development	<u>55,000</u>	<u>55,000</u>	<u>25,407</u>	<u>29,593</u>
Total expenditures	<u>55,000</u>	<u>55,000</u>	<u>25,407</u>	<u>29,593</u>
Net change in fund balance	(53,000)	(53,000)	7,025	60,025
Fund balance, beginning of year	<u>529,865</u>	<u>529,865</u>	<u>529,865</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 476,865</u>	<u>\$ 476,865</u>	<u>\$ 536,890</u>	<u>\$ 60,025</u>

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

NON-HAZARDOUS

	2019	2018
Proportion of total net pension liability	0.009009%	0.008453%
Proportionate share of the net pension liability	\$ 548,659	\$ 494,789
Covered employee payroll	\$ 282,467	\$ 218,793
Share of the net pension liability (asset) as a % of its covered payroll	194.24%	226.14%
Plan fiduciary net position as a % of total pension liability	53.54%	53.32%

HAZARDOUS

	2019	2018
Proportion of total net pension liability	0.035649%	0.039390%
Proportionate share of the net pension liability	\$ 862,156	\$ 881,264
Covered employee payroll	\$ 248,687	\$ 242,247
Share of the net pension liability (asset) as a % of its covered payroll	346.68%	363.79%
Plan fiduciary net position as a % of total pension liability	49.26%	49.78%

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

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

NON-HAZARDOUS

	2019	2018
Contractually required contribution	\$ 45,816	\$ 31,681
Actual contribution	<u>(45,816)</u>	<u>(31,681)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 282,467	\$ 218,793
Contributions as a % of covered employee payroll	16.22%	14.48%

HAZARDOUS

	2019	2018
Contractually required contribution	\$ 61,848	\$ 53,779
Actual contribution	<u>(61,848)</u>	<u>(53,779)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 248,687	\$ 242,247
Contributions as a % of covered employee payroll	24.87%	22.20%

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

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

	NON-HAZARDOUS									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of total net OPEB liability	0.009007%	0.010602%								
Proportionate share of the net OPEB liability	\$ 159,921	\$ 213,136								
Covered employee payroll	\$ 282,467	\$ 218,793								
Share of the net OPEB liability (asset) as a % of its covered payroll	56.62%	97.41%								
Plan fiduciary net position as a % of total OPEB liability	57.62%	52.39%								
	HAZARDOUS									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of total net OPEB liability	0.035650%	0.039389%								
Proportionate share of the net OPEB liability	\$ 254,177	\$ 325,626								
Covered employee payroll	\$ 248,687	\$ 242,247								
Share of the net OPEB liability (asset) as a % of its covered payroll	102.21%	134.42%								
Plan fiduciary net position as a % of total OPEB liability	64.24%	58.99%								

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

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

NON-HAZARDOUS

	2019	2018
Contractually required contribution	\$ 14,858	\$ 10,283
Actual contribution	<u>(14,858)</u>	<u>(10,283)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 282,467	\$ 218,793
Contributions as a % of covered employee payroll	5.26%	4.70%

HAZARDOUS

	2019	2018
Contractually required contribution	\$ 26,038	\$ 22,650
Actual contribution	<u>(26,038)</u>	<u>(22,650)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 248,687	\$ 242,247
Contributions as a % of covered employee payroll	10.47%	9.35%

Notes:

- These schedules are intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
- The amounts presented for each fiscal year were determined (measured) as of June 30 of the fiscal year presented.

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 the City Council
City of Morgantown, 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Morgantown, Kentucky as of and for the year ended June 30, 2019 and the related notes to the financial statements, and have issued our report thereon dated January 27, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Morgantown, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morgantown, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Morgantown, Kentucky'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morgantown, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of finding and response as items 2018-01.

City of Morgantown, Kentucky's Response to Findings

The City of Morgantown, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of finding and response. City of Morgantown, Kentucky'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hensley & Throneberry, CPAs
January 27, 2020

**CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF FINDING AND RESPONSE
June 30, 2019**

FINDING – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2019-01 Uninsured Deposits

Criteria

According to KRS 66.480(1)(d) and KRS 41.240, financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the FDIC.

Condition

At June 30, 2019, the City's bank balance of \$2,489,225 exceeded the FDIC insurance coverage and pledged securities by \$1,022,487.

Effect

By not providing adequate collateral, deposits were at risk in the event of a bank failure.

Recommendation

We encourage the City to work with the depository institution to increase the amount of pledged securities or enter into a written agreement with the depository institution to secure the City's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Response

The City acknowledges the insufficient pledged securities to the City's total deposits located at a banking institution. Having multiple conversations with the banking institution's president and vice president in the past concerning this topic, the administration was under the impression that all deposits were sufficiently covered. Upon discovering that this assumption was incorrect, the administration has now put in place measures to ensure this occurrence does not continue into the future.

Beginning in January 2020, the City of Morgantown will request and receive a monthly statement from the banking institution to ensure accurate and timely pledges are secured to adequately compensate the total amount of deposits located at said banking institution for the City of Morgantown and Morgantown Industrial Holdings Corporation. This monthly banking audit will occur between the first and fifth day of every month.

The City has opened a dialogue with said banking institution to ensure best practices are used to ensure timely pledged securities are ascertained to cover City of Morgantown and Morgantown Industrial Holdings Corporation accounts.

Lastly, the City of Morgantown will work with the City attorney to write up a written agreement between the City of Morgantown and said banking institution to ensure the compliance of both parties in the future as recommended by the auditor.

The City of Morgantown takes its financial security and responsibilities seriously and will do everything possible to ensure the compliance and safety of taxpayer funding.