

CITY OF MORGANTOWN, KENTUCKY

ANNUAL FINANCIAL REPORT

JUNE 30, 2020

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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, each major fund, and the aggregate remaining fund information of the City of Morgantown, Kentucky as of and for the year ended June 30, 2020, 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, each major fund, and the aggregate remaining fund information of the City of Morgantown, Kentucky, as of June 30, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 27 and 28 and certain pension and OPEB information on pages 27 through 32 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 25, 2021 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 25, 2021

BASIC FINANCIAL STATEMENTS

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2020

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Utilities Commission</u>
Assets		
Current assets		
Cash	\$ 2,451,082	\$ 361,354
Property tax receivable, net	31,793	-0-
Accounts receivable, net	-0-	147,213
Accrued unbilled income	-0-	98,253
Prepaid expenses	39,245	62,635
Materials and supplies	-0-	65,077
Lease receivable, current portion	<u>20,225</u>	<u>-0-</u>
Total current assets	2,542,345	734,532
Noncurrent assets		
Restricted cash	-0-	132,224
Certificates of deposit	-0-	118,153
Lease receivable, noncurrent portion	19,495	-0-
Capital assets, net	<u>6,133,145</u>	<u>2,576,222</u>
Total noncurrent assets	<u>6,152,640</u>	<u>2,826,599</u>
Total assets	8,694,985	3,561,131
Deferred outflows of resources		
Deferred outflows – pension	578,629	329,448
Deferred outflows – OPEB	<u>235,064</u>	<u>133,653</u>
Total deferred outflows of resources	813,693	463,101
Total assets and deferred outflows of resources	\$ 9,508,678	\$ 4,024,232
Liabilities		
Current liabilities		
Accounts payable	\$ 32,017	\$ 79,051
Payroll taxes payable	8,433	2,109
Retirement payable	27,522	-0-
Other payables	-0-	8,409
Accrued wages	11,909	17,880
Accrued compensated absences	53,585	34,979
Advanced rents received	3,650	-0-
Notes payable, current portion	<u>20,225</u>	<u>-0-</u>
Total current liabilities	157,341	142,428
Noncurrent liabilities		
Customer deposits	-0-	125,247
Notes payable, noncurrent portion	19,495	-0-
Net pension liability	1,949,174	1,487,106
Net OPEB liability	<u>501,191</u>	<u>355,547</u>
Total noncurrent liabilities	<u>2,469,860</u>	<u>1,967,900</u>
Total liabilities	2,627,201	2,110,328
Deferred inflows of resources		
Deferred inflows – pension	97,069	69,939
Deferred inflows – OPEB	<u>161,512</u>	<u>135,311</u>
Total deferred inflows of resources	258,581	205,250
Net position		
Invested in capital assets, net of related debt	6,093,425	2,576,222
Unrestricted	<u>529,471</u>	<u>(867,568)</u>
Total net position	6,622,896	1,708,654
Total liabilities, deferred inflows of resources, and net position	\$ 9,508,678	\$ 4,024,232

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

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	Utilities Commission
Primary Government						
Governmental activities						
General government	\$ 839,524	\$ 6,600	\$ 440	\$ 124,885	\$ (707,599)	\$ -0-
Public safety						
Police	806,373	1,380	35,117	-0-	(769,876)	-0-
Fire	26,417	1,000	-0-	-0-	(25,417)	-0-
Highway and streets	590,916	-0-	47,518	-0-	(543,398)	-0-
Recreational	142,473	17,290	-0-	-0-	(125,183)	-0-
Cemetery	4,643	9,500	-0-	-0-	4,857	-0-
Tourism Commission	-0-	-0-	-0-	-0-	-0-	-0-
Industrial Holding Corporation	17,020	-0-	-0-	-0-	(17,020)	-0-
Interest on long-term debt	2,778	-0-	-0-	-0-	(2,778)	-0-
Total governmental activities	2,430,144	35,770	83,075	124,885	(2,186,414)	-0-
Total primary government	\$ 2,430,144	\$ 35,770	\$ 83,075	\$ 124,885	(2,186,414)	-0-
Component unit						
Utilities Commission	\$ 2,046,572	\$ 2,035,745	\$ -0-	\$ -0-	-0-	(10,827)
General revenues						
Taxes						
Property					289,279	-0-
Municipal insurance					387,926	-0-
Restaurant transient					66,999	-0-
Franchise					10,624	-0-
Occupational fees					1,694,260	-0-
Interest income					32,210	1,312
IHC lease income					6,600	-0-
Miscellaneous					557	-0-
Gain on disposition of capital asset					5,000	-0-
Total general revenues					2,493,455	1,312
Change in net position					307,041	(9,515)
Net position, beginning of year					6,315,855	1,718,169
Net position, end of year					\$ 6,622,896	\$ 1,708,654

CITY OF MORGANTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2020

	<u>Governmental Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Tourism Special Revenue</u>	<u>IHC Special Revenue</u>	
Assets				
Cash	\$ 1,908,587	\$ 67,005	\$ 475,490	\$ 2,451,082
Property tax receivable, net	31,793	-0-	-0-	31,793
Interfund receivable	60,299	-0-	-0-	60,299
Prepaid expenses	39,245	-0-	-0-	39,245
Total assets	<u>\$ 2,039,924</u>	<u>\$ 67,005</u>	<u>\$ 475,490</u>	<u>\$ 2,582,419</u>
Liabilities				
Accounts payable	\$ 30,113	\$ -0-	\$ 1,904	\$ 32,017
Payroll taxes payable	8,433	-0-	-0-	8,433
Retirement payable	27,522	-0-	-0-	27,522
Accrued wages	11,909	-0-	-0-	11,909
Accrued compensated absences	53,585	-0-	-0-	53,585
Interfund payable	-0-	60,299	-0-	60,299
Total liabilities	<u>131,562</u>	<u>60,299</u>	<u>1,904</u>	<u>193,765</u>
Fund balances				
Nonspendable				
Prepaid items	39,245	-0-	-0-	39,245
Assigned to:				
Industrial development	-0-	-0-	473,586	473,586
Tourism	-0-	6,706	-0-	6,706
Parks	40,661	-0-	-0-	40,661
Cemetery care	36,398	-0-	-0-	36,398
Community development block grant	422,886	-0-	-0-	422,886
Unassigned	1,369,172	-0-	-0-	1,369,172
Total fund balances	<u>1,908,362</u>	<u>6,706</u>	<u>473,586</u>	<u>2,388,654</u>
Total liabilities and fund balances	<u>\$ 2,039,924</u>	<u>\$ 67,005</u>	<u>\$ 475,490</u>	<u>\$ 2,582,419</u>

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

Total fund balances – total governmental funds **\$ 2,388,654**

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. 6,133,145

The capital lease receivable and advanced rents received are not current financial resources, and therefore, are not reported in the funds. 36,070

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

Note payable	(39,720)
Net pension liability	(1,949,174)
Net OPEB liability	(501,191)
Net deferred outflows and inflows related to pensions	481,560
Net deferred outflows and inflows related to OPEB	73,552

Net position of governmental activities **\$ 6,622,896**

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS
Year Ended June 30, 2020

	Governmental Funds			
	General	Tourism Special Revenue	IHC Special Revenue	Total Governmental Funds
Revenues				
Property taxes	\$ 299,904	\$ -0-	\$ -0-	\$ 299,904
Licenses and permits	2,088,786	-0-	-0-	2,088,786
Restaurant transient taxes	60,299	6,700	-0-	66,999
Intergovernmental	207,960	-0-	-0-	207,960
Charges for services	29,170	-0-	-0-	29,170
Interest income	26,404	6	5,800	32,210
Other revenues	555	-0-	25,715	26,270
Total revenues	2,713,078	6,706	31,515	2,751,299
Expenditures				
General government	673,011	-0-	-0-	673,011
Public safety				
Police	509,644	-0-	-0-	509,644
Fire	33,901	-0-	-0-	33,901
Highways and streets	403,802	-0-	-0-	403,802
Recreational	120,369	-0-	-0-	120,369
Cemetery	4,254	-0-	-0-	4,254
Industrial Holding Corporation	-0-	-0-	8,580	8,580
Capital outlay	796,102	-0-	64,346	860,448
Debt service				
Principal	-0-	-0-	19,115	19,115
Interest	-0-	-0-	2,778	2,778
Total expenditures	2,541,083	-0-	94,819	2,635,902
Excess (deficit) of revenues over (under) expenditures	171,995	6,706	(63,304)	115,397
Other financing sources (uses)				
Sale of capital assets	5,000	-0-	-0-	5,000
Total other financing sources (uses)	5,000	-0-	-0-	5,000
Net change in fund balances	176,995	6,706	(63,304)	120,397
Fund balances, beginning of year	1,731,367	-0-	536,890	2,268,257
Fund balances, end of year	\$ 1,908,362	\$ 6,706	\$ 473,586	\$ 2,388,654

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND *(Continued)*
Year Ended June 30, 2020

Net change in fund balances – total governmental funds **\$ 120,397**

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 capital outlays exceeded depreciation expense in the
current period. 643,870

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:

Pension expense	(396,488)
OPEB expense	<u>(60,738)</u>

Change in net position of governmental activities **\$ 307,041**

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF NET POSITION – DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2020

	Water and Sewer System	Gas System	Total
Assets			
Current assets			
Cash	\$ 8,334	\$ 353,020	\$ 361,354
Accounts receivable	90,886	56,327	147,213
Accrued unbilled income	73,917	24,336	98,253
Prepaid insurance	31,318	31,317	62,635
Materials and supplies	<u>19,521</u>	<u>45,556</u>	<u>65,077</u>
Total current assets	223,976	510,556	734,532
Noncurrent assets			
Restricted cash	44,171	88,053	132,224
Certificates of deposit	-0-	118,153	118,153
Capital assets, net	<u>2,039,038</u>	<u>537,184</u>	<u>2,576,222</u>
Total noncurrent assets	<u>2,083,209</u>	<u>743,390</u>	<u>2,826,599</u>
Total assets	2,307,185	1,253,946	3,561,131
Deferred outflows of resources			
Deferred outflows – pension	140,246	189,202	329,448
Deferred outflows – OPEB	<u>56,896</u>	<u>76,757</u>	<u>133,653</u>
Total deferred outflows of resources	197,142	265,959	463,101
Total assets and deferred outflows of resources	<u>\$ 2,504,327</u>	<u>\$ 1,519,905</u>	<u>\$ 4,024,232</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 62,368	\$ 16,683	\$ 79,051
Payroll taxes payable	961	1,148	2,109
Other payables	4,597	3,812	8,409
Accrued wages	6,503	11,377	17,880
Accrued compensated absences	<u>14,068</u>	<u>20,911</u>	<u>34,979</u>
Total current liabilities	88,497	53,931	142,428
Noncurrent liabilities			
Customer deposits	40,682	84,565	125,247
Net pension liability	633,061	854,045	1,487,106
Net OPEB liability	<u>151,356</u>	<u>204,191</u>	<u>355,547</u>
Total noncurrent liabilities	<u>825,099</u>	<u>1,142,801</u>	<u>1,967,900</u>
Total liabilities	913,596	1,196,732	2,110,328
Deferred inflows of resources			
Deferred inflows – pension	29,773	40,166	69,939
Deferred inflows – OPEB	<u>57,602</u>	<u>77,709</u>	<u>135,311</u>
Total deferred inflows of resources	87,375	117,875	205,250
Net position			
Invested in capital assets, net of related debt	2,039,038	537,184	2,576,222
Unrestricted	<u>(535,682)</u>	<u>(331,886)</u>	<u>(867,568)</u>
Total net position	1,503,356	205,298	1,708,654
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,504,327</u>	<u>\$ 1,519,905</u>	<u>\$ 4,024,232</u>

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF ACTIVITIES – DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2020

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
Operating revenues			
Sales	\$ 882,072	\$ 1,122,186	\$ 2,004,258
Penalties	11,190	10,150	21,340
Tap fees, service charges, and miscellaneous	5,951	3,490	9,441
Installation fees	650	56	706
Total operating revenues	899,863	1,135,882	2,035,745
Operating expenses			
Salaries	243,072	335,433	578,505
Gas purchases	-0-	329,353	329,353
Retirement	23,127	182,324	205,451
Depreciation	112,387	47,606	159,993
Water plant	132,736	-0-	132,736
Employee benefits	65,642	65,642	131,284
Sewer plant	82,122	-0-	82,122
General repairs	64,433	796	65,229
Insurance	29,813	29,815	59,628
Payroll taxes	18,633	25,312	43,945
Sewer lift station	34,692	-0-	34,692
Purifying agents	26,627	-0-	26,627
Professional services	12,943	13,542	26,485
Materials and supplies	23,081	1,611	24,692
Miscellaneous	10,513	11,203	21,716
Equipment maintenance	8,299	10,731	19,030
Commissioner fees	9,420	9,421	18,841
Gas and oil	7,517	7,396	14,913
Office supplies	6,840	7,242	14,082
Power purchased	6,182	6,700	12,882
Telephone	6,159	4,297	10,456
Training	2,213	7,810	10,023
Utilities	6,325	-0-	6,325
Contract labor	918	4,572	5,490
Engineering fees	-0-	4,758	4,758
Bad debts	779	3,321	4,100
Dues	1,309	1,905	3,214
Total operating expenses	935,782	1,110,790	2,046,572
Operating income (loss)	(35,919)	25,092	(10,827)
Non-operating revenues (expenses)			
Interest income	71	1,384	1,455
Interest expense	(143)	-0-	(143)
Total non-operating revenues (expenses)	(72)	1,384	1,312
Income (loss) before transfers	(35,991)	26,476	(9,515)
Transfers in (out)	40,000	(40,000)	-0-
Change in net position	4,009	(13,524)	(9,515)
Net position, beginning of year	1,499,347	218,822	1,718,169
Net position, end of year	\$ 1,503,356	\$ 205,298	\$ 1,708,654

See accompanying notes.

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS – DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2020

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers	\$ 904,713	\$ 1,131,343	\$ 2,036,056
Cash payments to supplies	(513,834)	(498,501)	(1,012,335)
Cash payments to employees	<u>(314,899)</u>	<u>(429,142)</u>	<u>(744,041)</u>
Net cash provided by operating activities	75,980	203,700	279,680
Cash flows from capital and related financing activities			
Repayment of note payable	(10,489)	-0-	(10,489)
Interest paid on note payable	(142)	-0-	(142)
Purchase of equipment	<u>(52,182)</u>	<u>(74,314)</u>	<u>(126,496)</u>
Net cash used by capital and related financing activities	(62,813)	(74,314)	(137,127)
Cash flows from noncapital financing activities			
Change in outstanding checks in excess of bank balance	(733)	-0-	(733)
Transfer in (out)	<u>40,000</u>	<u>(40,000)</u>	<u>-0-</u>
Net cash provided (used) by noncapital financing activities	39,267	(40,000)	(733)
Cash flows from investing activities			
Purchase of certificate of deposit	-0-	(1,178)	(1,178)
Interest income	<u>71</u>	<u>1,384</u>	<u>1,455</u>
Net cash provided by investing activities	<u>71</u>	<u>206</u>	<u>277</u>
Net increase in cash	52,505	89,592	142,097
Cash, beginning of year	<u>-0-</u>	<u>351,481</u>	<u>351,481</u>
Cash, end of year	<u>\$ 52,505</u>	<u>\$ 441,073</u>	<u>\$ 493,578</u>
Reconciliation of cash to the balance sheet			
Cash	\$ 8,334	\$ 353,020	\$ 361,354
Restricted cash	<u>44,171</u>	<u>88,053</u>	<u>132,224</u>
Total cash	<u>\$ 52,505</u>	<u>\$ 441,073</u>	<u>\$ 493,578</u>

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS – DISCRETELY PRESENTED COMPONENT UNIT (Continued)
Year Ended June 30, 2020

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
Reconciliation of loss from operations to net cash provided by operating activities			
Income (loss) from operations	\$ (35,919)	\$ 25,092	\$ (10,827)
Adjustments to reconcile loss from operations to net cash provided by operating activities			
Depreciation	112,386	47,606	159,992
Decrease (increase) in deferred outflows	23,519	(15,104)	8,415
Increase (decrease) in deferred inflows	(2,753)	15,414	12,661
Change in assets and liabilities			
(Increase) decrease in accounts receivable	1,181	(10,966)	(9,785)
(Increase) decrease in accrued unbilled income	(211)	407	196
(Increase) decrease in prepaid insurance	(14,619)	(14,619)	(29,238)
(Increase) decrease in materials and supplies	(1,793)	32,078	30,285
Increase (decrease) in accounts payable	38,836	1,256	40,092
Increase (decrease) in payroll taxes payable	(28)	(90)	(118)
Increase (decrease) in other payables	87	743	830
Increase (decrease) in accrued wages	1,846	2,099	3,945
Increase (decrease) in accrued compensated absences	2,938	7,950	10,888
Increase (decrease) in customer deposits	3,880	6,020	9,900
Increase (decrease) in net pension liability	(15,616)	(10,795)	(26,411)
Increase (decrease) in net OPEB liability	<u>(37,754)</u>	<u>116,609</u>	<u>78,855</u>
Net cash provided by operating activities	<u>\$ 75,980</u>	<u>\$ 203,700</u>	<u>\$ 279,680</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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 City Tourism and Convention Commission (the “Tourism Commission”) and the Industrial Holding Corporation (the “IHC”) are included as blended component units of the City. Tourism Commission was created by ordinance to account for monies derived from a restaurant transient tax. The monies are to be used to promote convention and tourist activity in Morgantown. The City appoints the Commissioners and has the ability to impose its will on the organization.

The Morgantown Utilities Commission (the “Utilities Commission”) is included as a discretely presented component unit of the City. The Utilities 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 Utilities Commission provides gas, water, and sewer services in the City. The City has the authority to appoint the Utilities Commission’s governing body and the ability to impose its will on the Utilities Commission. The Utilities Commission is separately audited, and a copy of the independent auditor’s report can be obtained by writing to the Morgantown Utilities 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.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 activities from the Utilities 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 two special revenue funds, which accounts for specific revenues and expenditures of the Tourism Commission and the Industrial Holding Corporation.

The Tourism Commission special revenue fund is a major fund and reports revenues from a restaurant transient tax. The Industrial Holding Corporation special revenue fund is a major fund and reports revenues from property leases and interest income from financing property sales. The Industrial Holding Corporation fund holds title to various real estate properties in the City and is responsible for mortgage debt on the properties.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 5.

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.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2019 tax rate was \$0.111 per \$100 assessed valuation for real property and \$0.2790 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.

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 25, 2021, the date financial statements were available to be issued.

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, 2020

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, 2020, the book balance of the City's deposits was \$2,451,082, and the bank balances were \$2,521,091. The book balance of the Utilities Commission's deposits and certificates of deposit was \$611,731 and the bank balance was \$693,775.

Deposits at June 30, 2020, categorized by level of risk were:

	Category 1	Category 2	Category 3	Category 4	Bank Balance	Book Value
Primary government	\$ 307,670	\$ 2,213,421	\$ -0-	\$ -0-	\$ 2,521,091	\$ 2,451,082
Component unit	368,153	325,622	-0-	-0-	693,775	611,731
Total	\$ 675,823	\$ 2,539,043	\$ -0-	\$ -0-	\$ 3,214,866	\$ 3,062,813

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, 2020 was \$102,959. There were no repayments received in the current year or the preceding five years. Because of the lack of payments, the City recorded an allowance for doubtful accounts of \$102,959.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 5. CAPITAL ASSETS

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2020:

Governmental Activities

	<u>Balance</u> <u>07-01-19</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-20</u>
Capital assets not being depreciated:				
Land	\$ 1,690,444	\$ 64,346	\$ -0-	\$ 1,754,790
Capital assets being depreciated:				
Buildings and improvement	3,230,272	432,642	-0-	3,662,914
Infrastructure	2,196,428	292,207	-0-	2,488,635
Vehicles	808,782	19,672	(19,661)	808,793
Furniture, machinery, and equipment	<u>649,051</u>	<u>51,581</u>	<u>(3,650)</u>	<u>696,982</u>
Total capital assets being depreciated	6,884,533	796,102	(23,311)	7,657,324
Less: accumulated depreciation				
Buildings and improvement	(1,111,212)	(50,164)	-0-	(1,161,376)
Infrastructure	(1,125,218)	(82,641)	-0-	(1,207,859)
Vehicles	(525,251)	(41,714)	19,661	(547,304)
Furniture, machinery, and equipment	<u>(324,021)</u>	<u>(42,059)</u>	<u>3,650</u>	<u>(362,430)</u>
Total accumulated depreciation	<u>(3,085,702)</u>	<u>(216,578)</u>	<u>23,311</u>	<u>(3,278,969)</u>
Capital assets, net	<u>\$ 5,489,275</u>	<u>\$ 643,870</u>	<u>\$ -0-</u>	<u>\$ 6,133,145</u>

A summary of changes in capital assets of the Utilities Commission for 2020 is as follows:

Component Unit

	<u>Balance</u> <u>07-01-19</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-20</u>
Capital assets not being depreciated:				
Land	\$ 161,084	\$ -0-	\$ -0-	\$ 161,084
Capital assets being depreciated:				
Buildings, tanks, and improvements	2,450,675	17,314	-0-	2,467,989
Distribution system	5,366,650	66,749	-0-	5,433,399
Furniture, machinery, and equipment	<u>577,964</u>	<u>42,431</u>	<u>-0-</u>	<u>620,395</u>
Total capital assets being depreciated	8,395,289	126,494	-0-	8,521,783
Less: accumulated depreciation				
Buildings, tanks, and improvements	(1,753,710)	(46,246)	-0-	(1,799,956)
Distribution system	(3,642,711)	(94,684)	-0-	(3,737,395)
Furniture, machinery, and equipment	<u>(550,231)</u>	<u>(19,063)</u>	<u>-0-</u>	<u>(569,294)</u>
Total accumulated depreciation	<u>(5,946,652)</u>	<u>(159,993)</u>	<u>-0-</u>	<u>(6,106,645)</u>
Capital assets, net	<u>\$ 2,609,721</u>	<u>\$ (33,499)</u>	<u>\$ -0-</u>	<u>\$ 2,576,222</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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, 2020, the interest rate was 5.50%. Changes in the note payable for the year ended June 30, 2020 were as follows:

	<u>Balance</u> <u>07-01-19</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-20</u>	<u>Current</u> <u>Portion</u>
Note payable	\$ 58,835	\$ -0-	\$ (19,115)	\$ 39,720	\$ 20,225

A schedule of the note payable debt service payment requirements at June 30, 2020 are as follows:

June 30,	Principal	Interest	Total
2021	\$ 20,225	\$ 1,678	\$ 21,903
2022	19,495	530	20,025
	<u>\$ 39,720</u>	<u>\$ 2,208</u>	<u>\$ 41,928</u>

The Utilities 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:

	<u>Balance</u> <u>07-01-2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-2020</u>	<u>Current</u> <u>Portion</u>
Note payable	\$ 10,489	\$ -0-	\$ (10,489)	\$ -0-	\$ -0-

NOTE 7. DEPRECIATION EXPENSE

Depreciation expense was charged to functions/programs as follows:

Governmental activities

General government	\$ 34,477
Police	15,306
Fire	27,516
Highways and streets	108,346
Recreational	22,104
Cemetery	389
Industrial Holding Corporation	8,440
	<u>\$ 216,578</u>

Component unit

Utility Commission	<u>\$ 159,993</u>
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NOTE 8. INTEREST EXPENSE

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

General government	<u>\$ 2,778</u>
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CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 9. RISK MANAGEMENT – INSURANCE

The City and Utilities 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 Utilities 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 Utilities 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 Utilities 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, 2020

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.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 10. PENSION PLAN *(Continued)*

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

The actuarially accrued liability shall be determined by 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, 2020, the City contributed 24.06% (non-hazardous – 19.30% for the pension fund and 4.76% for insurance) and 39.58% (hazardous – 30.06% for the pension fund and 9.52% for insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer contributions to CERS for pension benefits were \$134,868 (\$58,709 non-hazardous and \$76,159 hazardous) for the year ended June 30, 2020.

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

At June 30, 2020, the City reported a liability of \$1,949,174 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 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, 2020, the City's proportionate share was 0.010293% for non-hazardous and 0.044353% for hazardous.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 10. PENSION PLAN (Continued)

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 70,540	\$ 3,059
Changes of assumptions	192,203	-0-
Difference between projected and actual earnings on plan investments	32,745	61,756
Changes in proportion and differences between employer contributions and proportionate share of contributions	148,272	32,254
City contributions subsequent to the measurement date	<u>134,869</u>	<u>-0-</u>
	<u>\$ 578,629</u>	<u>\$ 97,069</u>

The \$134,869 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2021	\$ 208,534
2022	95,852
2023	40,373
2024	<u>1,932</u>
	<u>\$ 346,691</u>

Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the measurement period ending June 30, 2019, using generally accepted actuarial principles. Subsequent to the actuarial valuation date (June 30, 2018), 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, 2019.

Inflation	2.30%
Salary increases	3.30%, average, including inflation
Payroll growth rate	2.00%
Investment rate of return	6.25%, net of pension plan expense, including inflation

The mortality table used for active members was a PUB-2010 General Mortality table, 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 member 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 four-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

NOTE 10. PENSION PLAN (Continued)

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	18.75%	4.30%
International equity	18.75%	4.80%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	2.60%
Core bonds	13.50%	1.35%
Cash and cash equivalents	1.00%	0.20%
Real estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real return	<u>15.00%</u>	4.10%
	100.00%	

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 employee contributions will be made at the current rate, and contributions from the Service 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. Thus, 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	\$ 905,535	\$ 724,013	\$ 572,716
Hazardous	<u>1,531,726</u>	<u>1,225,161</u>	<u>973,822</u>
Total	<u>\$ 2,437,261</u>	<u>\$ 1,949,174</u>	<u>\$ 1,546,538</u>

Payable to the Pension Plan

At June 30, 2020, the City reported a payable of \$27,522 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

Plan Description

Employees of the City and Utilities 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, 2020 was 4.76% (non-hazardous) and 9.52% (hazardous) of covered payroll. Contributions to the Insurance Fund were \$38,599 (\$14,479 non-hazardous and \$24,120 hazardous) for the year ended June 30, 2020. 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 2019. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2020, the City's proportion was 0.010290% (non-hazardous) and 0.044345% (hazardous).

Net OPEB Liability

At June 30, 2020, the City reported a liability of \$501,191 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, 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.

The mortality table used for active members was a PUB-2010 General Mortality table, 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 member 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 four-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	18.75%	4.30%
International equity	18.75%	4.80%
Private equity	10.00%	6.65%
Specialty credit/high yield	15.00%	2.60%
Core bonds	13.50%	1.35%
Cash and cash equivalents	1.00%	0.20%
Real estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real return	<u>15.00%</u>	4.10%
	100.00%	

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

Discount Rate

The discount rate used to measure the total OPEB liability was 5.68%. The discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13% as reported in Fidelity's "20-Year Municipal GO AA Index" as of June 30, 2019. 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 (24 years as of June 30, 2019).

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

The following presents the City's proportionate share of the collective net OPEB liability calculated using the discount rate of 5.68% (non-hazardous) and 5.69% (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 (4.68% and 4.69%) or 1-percentage-point higher (6.68% or 6.69%) than the current rate:

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$ 231,893	\$ 173,108	\$ 124,672
Hazardous	457,742	328,083	222,838
Total	<u>\$ 689,635</u>	<u>\$ 501,191</u>	<u>\$ 347,510</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	\$ 128,741	\$ 173,108	\$ 226,907
Hazardous	228,285	328,083	449,832
Total	<u>\$ 357,026</u>	<u>\$ 501,191</u>	<u>\$ 676,739</u>

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

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -0-	\$ 113,265
Changes of assumptions	150,369	964
Difference between projected and actual earnings on plan investments	3,382	29,934
Changes in proportion and differences between employer contributions and proportionate share of contributions	42,713	17,349
City contributions subsequent to the measurement date	38,600	-0-
	<u>\$ 235,064</u>	<u>\$ 161,512</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020

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

The \$38,600 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2021	\$ 25,595
2022	8,143
2023	2,629
2024	3,285
2025	(3,984)
Thereafter	<u>(716)</u>
	<u>\$ 34,952</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL – GENERAL FUND
Year Ended June 30, 2020

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Property taxes	\$ 188,700	\$ 188,700	\$ 360,203	\$ 171,503
Licenses and permits	1,000	1,000	6,600	5,600
Intergovernmental revenue	73,000	73,000	83,075	10,075
Insurance fees	300,000	300,000	387,926	87,926
Occupational fees	1,400,000	1,550,000	1,694,260	144,260
Grants	110,500	250,500	124,885	(125,615)
Interest income	5,750	5,750	26,404	20,654
Charges for services	23,000	23,000	29,170	6,170
Other revenues	<u>11,200</u>	<u>11,200</u>	<u>555</u>	<u>(10,645)</u>
Total revenues	<u>2,113,150</u>	<u>2,403,150</u>	<u>2,713,078</u>	<u>309,928</u>
Expenditures				
General government	1,191,500	1,256,500	1,079,877	176,623
Police	508,900	508,900	517,733	(8,833)
Fire	63,150	63,150	33,901	29,249
Highways and streets	723,000	773,000	745,958	27,042
Recreational	248,300	345,800	159,360	186,440
Cemetery	<u>5,500</u>	<u>5,500</u>	<u>4,254</u>	<u>1,246</u>
Total expenditures	<u>2,740,350</u>	<u>2,952,850</u>	<u>2,541,083</u>	<u>411,767</u>
Excess (deficit) of revenues over (under) expenditures	(627,200)	(549,700)	171,995	721,695
Other financing sources				
Sale of capital assets	<u>-0-</u>	<u>-0-</u>	<u>5,000</u>	<u>5,000</u>
Total other financing sources	<u>-0-</u>	<u>-0-</u>	<u>5,000</u>	<u>5,000</u>
Net change in fund balance	(627,200)	(549,700)	176,995	726,695
Fund balance, beginning of year	<u>1,731,367</u>	<u>1,731,367</u>	<u>1,731,367</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 1,104,167</u>	<u>\$ 1,181,667</u>	<u>\$ 1,908,362</u>	<u>\$ 726,695</u>

CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL – TOURISM SPECIAL REVENUE FUND
Year Ended June 30, 2020

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Restaurant transient tax	\$ 5,000	\$ 5,000	\$ 6,700	\$ 1,700
Interest income	<u>-0-</u>	<u>-0-</u>	<u>6</u>	<u>6</u>
Total revenues	5,000	5,000	6,706	1,706
Expenditures				
Tourism and conventions	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net change in fund balance	5,000	5,000	6,706	1,706
Fund balance, beginning of year	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 6,706</u>	<u>\$ 1,706</u>

CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL - IHC SPECIAL REVENUE FUND
For the Year Ended June 30, 2020

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Rent	\$ 7,200	\$ 7,200	\$ 25,715	\$ 18,515
Interest income	<u>6,000</u>	<u>6,000</u>	<u>5,800</u>	<u>(200)</u>
Total revenues	13,200	13,200	31,515	18,315
Expenditures				
Industrial development	<u>30,000</u>	<u>30,000</u>	<u>94,819</u>	<u>(64,819)</u>
Total expenditures	30,000	30,000	94,819	(64,819)
Net change in fund balance	(16,800)	(16,800)	(63,304)	(46,504)
Fund balance, beginning of year	<u>536,890</u>	<u>536,890</u>	<u>536,890</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 520,090</u>	<u>\$ 520,090</u>	<u>\$ 473,586</u>	<u>\$ (46,504)</u>

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

NON-HAZARDOUS

	2020	2019	2018
Proportion of total net pension liability	0.010293%	0.009009%	0.008453%
Proportionate share of the net pension liability	\$ 724,013	\$ 548,659	\$ 494,789
Covered employee payroll	\$ 304,190	\$ 282,467	\$ 218,793
Share of the net pension liability (asset) as a % of its covered payroll	238.01%	194.24%	226.14%
Plan fiduciary net position as a % of total pension liability	49.87%	53.54%	53.32%

HAZARDOUS

	2020	2019	2018
Proportion of total net pension liability	0.044353%	0.035649%	0.039390%
Proportionate share of the net pension liability	\$ 1,225,161	\$ 862,156	\$ 881,264
Covered employee payroll	\$ 253,358	\$ 248,687	\$ 242,247
Share of the net pension liability (asset) as a % of its covered payroll	483.57%	346.68%	363.79%
Plan fiduciary net position as a % of total pension liability	46.02%	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

	2020	2019	2018
Contractually required contribution	\$ 58,709	\$ 45,816	\$ 31,681
Actual contribution	<u>(58,709)</u>	<u>(45,816)</u>	<u>(31,681)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 304,190	\$ 282,467	\$ 218,793
Contributions as a % of covered employee payroll	19.30%	16.22%	14.48%

HAZARDOUS

	2020	2019	2018
Contractually required contribution	\$ 76,159	\$ 61,848	\$ 53,779
Actual contribution	<u>(76,159)</u>	<u>(61,848)</u>	<u>(53,779)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 253,358	\$ 248,687	\$ 242,247
Contributions as a % of covered employee payroll	30.06%	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

	2020	2019	2018
Proportion of total net OPEB liability	0.010290%	0.009007%	0.010602%
Proportionate share of the net OPEB liability	\$ 173,108	\$ 159,921	\$ 213,136
Covered employee payroll	\$ 304,190	\$ 282,467	\$ 218,793
Share of the net OPEB liability (asset) as a % of its covered payroll	56.91%	56.62%	97.41%
Plan fiduciary net position as a % of total OPEB liability	72.02%	78.06%	65.94%

HAZARDOUS

	2020	2019	2018
Proportion of total net OPEB liability	0.044345%	0.035650%	0.039389%
Proportionate share of the net OPEB liability	\$ 328,083	\$ 254,177	\$ 325,626
Covered employee payroll	\$ 253,358	\$ 248,687	\$ 242,247
Share of the net OPEB liability (asset) as a % of its covered payroll	129.49%	102.21%	134.42%
Plan fiduciary net position as a % of total OPEB liability	77.37%	79.07%	66.48%

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

	2020	2019	2018
Contractually required contribution	\$ 14,479	\$ 14,858	\$ 10,283
Actual contribution	<u>(14,479)</u>	<u>(14,858)</u>	<u>(10,283)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 304,190	\$ 282,467	\$ 218,793
Contributions as a % of covered employee payroll	4.76%	5.26%	4.70%

HAZARDOUS

	2020	2019	2018
Contractually required contribution	\$ 24,120	\$ 26,038	\$ 22,650
Actual contribution	<u>(24,120)</u>	<u>(26,038)</u>	<u>(22,650)</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 253,358	\$ 248,687	\$ 242,247
Contributions as a % of covered employee payroll	9.52%	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 the City of Morgantown, Kentucky as of and for the year ended June 30, 2020 and the related notes to the financial statements, and have issued our report thereon dated January 25, 2021.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 25, 2021