

**CITY OF MORGANTOWN, KENTUCKY**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2021**

## CONTENTS

	Page
Independent Auditor's Report	1-2
Basic Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Balance Sheet – Governmental Funds	6 – 7
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	8 – 9
Combining Statement of Net Position – Discretely Presented Component Unit	10
Combining Statement of Revenues, Expenses, and Changes in Net Position – Discretely Presented Component Unit	11
Combining Statement of Cash Flows – Discretely Presented Component Unit	12 – 13
Notes to the Financial Statements	14 – 30
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual – General Fund	32
Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual – Tourism Special Revenue Fund	33
Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget to Actual – IHC Special Revenue Fund	34
Schedule of Proportionate Share of the Net Pension Liability	35
Schedule of Pension Contributions	35
Schedule of Proportionate Share of the Net OPEB Liability	36
Schedule of OPEB Contributions	36
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37

## 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, 2021, 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 respective 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, 2021, 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 32 through 34 and certain pension and OPEB information on pages 35 and 36 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 February 5, 2022, 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*

February 5, 2022

## **BASIC FINANCIAL STATEMENTS**

**CITY OF MORGANTOWN, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2021**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Utilities Commission</u>
<b>Assets</b>		
Current assets		
Cash	\$ 3,968,326	\$ 579,424
Property tax receivable, net	1,912	-0-
Accounts receivable, net	-0-	172,809
Accrued unbilled income	-0-	104,874
Prepaid expenses	62,420	45,756
Materials and supplies	-0-	65,502
Lease receivable, current portion	<u>19,491</u>	<u>-0-</u>
Total current assets	4,052,149	968,365
Noncurrent assets		
Restricted cash	3,478,762	138,096
Certificates of deposit	-0-	119,174
Capital assets, net	<u>6,169,713</u>	<u>2,472,565</u>
Total noncurrent assets	<u>9,648,475</u>	<u>2,729,835</u>
<b>Total assets</b>	<b>13,700,624</b>	<b>3,698,200</b>
<b>Deferred outflows of resources</b>		
Deferred outflows – pension	430,706	261,549
Deferred outflows – OPEB	<u>277,062</u>	<u>205,630</u>
<b>Total deferred outflows of resources</b>	<b>707,768</b>	<b>467,179</b>
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 14,408,392</u></b>	<b><u>\$ 4,165,379</u></b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 44,601	\$ 67,153
Payroll taxes payable	5,900	2,467
Retirement payable	30,272	-0-
Other payables	-0-	9,430
Accrued wages	24,503	23,383
Accrued compensated absences	58,126	31,596
Advanced rents received	3,651	-0-
Notes payable, current portion	19,491	-0-
General obligation lease payable, current portion	<u>139,583</u>	<u>-0-</u>
Total current liabilities	326,127	134,029
Noncurrent liabilities		
Customer deposits	-0-	129,336
General obligation lease payable, noncurrent portion, plus premium	3,412,617	-0-
Net pension liability	2,108,440	1,443,859
Net OPEB liability	<u>652,700</u>	<u>454,426</u>
Total noncurrent liabilities	<u>6,173,757</u>	<u>2,027,621</u>
<b>Total liabilities</b>	<b>6,499,884</b>	<b>2,161,650</b>
<b>Deferred inflows of resources</b>		
Deferred inflows – pension	93,271	88,778
Deferred inflows – OPEB	<u>129,578</u>	<u>113,445</u>
<b>Total deferred inflows of resources</b>	<b>222,849</b>	<b>202,223</b>
<b>Net position</b>		
Invested in capital assets, net of related debt	2,598,022	2,472,565
Restricted for capital projects	3,478,762	-0-
Unrestricted	<u>1,608,875</u>	<u>(671,059)</u>
<b>Total net position</b>	<b>7,685,659</b>	<b>1,801,506</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b><u>\$ 14,408,392</u></b>	<b><u>\$ 4,165,379</u></b>

**CITY OF MORGANTOWN, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2021**

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
<b>Primary Government</b>						
<b>Governmental activities</b>						
General government	\$ 775,897	\$ 8,000	\$ 238,817	\$ -0-	\$ (529,080)	\$ -0-
Public safety						
Police	723,804	929	29,084	-0-	(693,791)	-0-
Fire	78,175	-0-	-0-	-0-	(78,175)	-0-
Highway and streets	567,191	-0-	44,115	-0-	(523,076)	-0-
Recreational	136,195	15,410	-0-	-0-	(120,785)	-0-
Cemetery	2,202	10,250	-0-	-0-	8,048	-0-
Tourism Commission	-0-	-0-	-0-	-0-	-0-	-0-
Industrial Holding Corporation	12,850	-0-	48,040	-0-	35,190	-0-
Interest on long-term debt	10,820	-0-	-0-	-0-	(10,820)	-0-
<b>Total governmental activities</b>	<b>2,307,134</b>	<b>34,589</b>	<b>360,056</b>	<b>-0-</b>	<b>(1,912,489)</b>	<b>-0-</b>
<b>Total primary government</b>	<b>\$ 2,307,134</b>	<b>\$ 34,589</b>	<b>\$ 360,056</b>	<b>\$ -0-</b>	<b>(1,912,489)</b>	<b>-0-</b>
<b>Component unit</b>						
Utilities Commission	\$ 2,170,648	\$ 2,262,425	\$ -0-	\$ -0-	-0-	91,777
<b>General revenues</b>						
Taxes						
Property					317,625	-0-
Municipal insurance					401,771	-0-
Restaurant transient					282,970	-0-
Franchise					52,414	-0-
Occupational fees					1,884,836	-0-
Interest income					6,737	1,075
IHC lease income					7,800	-0-
Donations					10,225	-0-
Miscellaneous					10,874	-0-
Gain on disposition of capital asset					-0-	-0-
<b>Total general revenues</b>					<b>2,975,252</b>	<b>1,075</b>
<b>Change in net position</b>					<b>1,062,763</b>	<b>92,852</b>
Net position, beginning of year					6,622,896	1,708,654
<b>Net position, end of year</b>					<b>\$ 7,685,659</b>	<b>\$ 1,801,506</b>

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

	<b>Governmental Funds</b>			
	<b>General</b>	<b>Tourism Special Revenue</b>	<b>IHC Special Revenue</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash	\$ 3,413,230	\$ 84,222	\$ 470,874	\$ 3,968,326
Property tax receivable, net	1,912	-0-	-0-	1,912
Interfund receivable	49,224	-0-	-0-	49,224
Prepaid expenses	62,420	-0-	-0-	62,420
Restricted cash	3,478,762	-0-	-0-	3,478,762
<b>Total assets</b>	<b>\$ 7,005,548</b>	<b>\$ 84,222</b>	<b>\$ 470,874</b>	<b>\$ 7,560,644</b>
<b>Liabilities</b>				
Accounts payable	\$ 44,601	\$ -0-	\$ -0-	\$ 44,601
Payroll taxes payable	5,900	-0-	-0-	5,900
Retirement payable	30,272	-0-	-0-	30,272
Accrued wages	24,503	-0-	-0-	24,503
Accrued compensated absences	58,126	-0-	-0-	58,126
Interfund payable	-0-	49,224	-0-	49,224
<b>Total liabilities</b>	<b>163,402</b>	<b>49,224</b>	<b>-0-</b>	<b>212,626</b>
<b>Fund balances</b>				
Nonspendable				
Prepaid items	62,420	-0-	-0-	62,420
Assigned to:				
Industrial development	-0-	-0-	470,874	470,874
Tourism	-0-	34,998	-0-	34,998
Parks	41,151	-0-	-0-	41,151
Cemetery care	39,097	-0-	-0-	39,097
Community development block grant	424,834	-0-	-0-	424,834
Capital projects	3,478,762	-0-	-0-	3,478,762
Unassigned	2,795,882	-0-	-0-	2,795,882
<b>Total fund balances</b>	<b>6,842,146</b>	<b>34,998</b>	<b>470,874</b>	<b>7,348,018</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,005,548</b>	<b>\$ 84,222</b>	<b>\$ 470,874</b>	<b>\$ 7,560,644</b>



**CITY OF MORGANTOWN, KENTUCKY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS (Continued)**  
**June 30, 2021**

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

**Total fund balances – total governmental funds** **\$ 7,348,018**

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. 6,169,713

The capital lease receivable and advanced rents received are not current financial  
resources, and therefore, are not reported in the funds. 15,840

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

Note payable	(19,491)
General obligation lease payable	(3,552,200)
Net pension liability	(2,108,440)
Net OPEB liability	(652,700)
Net deferred outflows and inflows related to pensions	337,435
Net deferred outflows and inflows related to OPEB	<u>147,484</u>

**Net position of governmental activities** **\$ 7,685,659**

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

	<b>Governmental Funds</b>			
	<b>General</b>	<b>Tourism Special Revenue</b>	<b>IHC Special Revenue</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Property taxes	\$ 370,039	\$ -0-	\$ -0-	\$ 370,039
Licenses and permits	2,294,607	-0-	-0-	2,294,607
Restaurant transient taxes	-0-	282,970	-0-	282,970
Intergovernmental	312,015	-0-	48,040	360,055
Charges for services	26,589	-0-	-0-	26,589
Interest income	3,115	-0-	3,622	6,737
Other revenues	<u>21,102</u>	<u>-0-</u>	<u>28,029</u>	<u>49,131</u>
<b>Total revenues</b>	<b>3,027,467</b>	<b>282,970</b>	<b>79,691</b>	<b>3,390,128</b>
<b>Expenditures</b>				
General government	682,852	-0-	-0-	682,852
Public safety				
Police	481,823	-0-	-0-	481,823
Fire	14,331	-0-	-0-	14,331
Highways and streets	392,401	-0-	-0-	392,401
Recreational	114,267	-0-	-0-	114,267
Cemetery	1,470	-0-	-0-	1,470
Industrial Holding Corporation	-0-	-0-	4,410	4,410
Capital outlay	204,151	-0-	56,209	260,360
Debt service				
Principal	12,500	-0-	20,229	32,729
Interest	<u>10,436</u>	<u>-0-</u>	<u>1,555</u>	<u>11,991</u>
<b>Total expenditures</b>	<b>1,914,231</b>	<b>-0-</b>	<b>82,403</b>	<b>1,996,634</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>1,113,236</b>	<b>282,970</b>	<b>(2,712)</b>	<b>1,393,494</b>
<b>Other financing sources (uses)</b>				
Proceeds from general obligation lease	3,285,000	-0-	-0-	3,285,000
Premium on general obligation lease	280,870	-0-	-0-	280,870
Transfers in / (out)	<u>254,678</u>	<u>(254,678)</u>	<u>-0-</u>	<u>-0-</u>
<b>Total other financing sources (uses)</b>	<b>3,820,548</b>	<b>(254,678)</b>	<b>-0-</b>	<b>3,565,870</b>
<b>Net change in fund balances</b>	<b>4,933,784</b>	<b>28,292</b>	<b>(2,712)</b>	<b>4,959,364</b>
Fund balances, beginning of year	<u>1,908,362</u>	<u>6,706</u>	<u>473,586</u>	<u>2,388,654</u>
<b>Fund balances, end of year</b>	<b>\$ 6,842,146</b>	<b>\$ 34,998</b>	<b>\$ 470,874</b>	<b>\$ 7,348,018</b>

**CITY OF MORGANTOWN, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE – GOVERNMENTAL FUND (Continued)**  
**Year Ended June 30, 2021**

**Net change in fund balances – total governmental funds** **\$ 4,959,364**

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. 36,568

Governmental funds report payments on a long-term lease when received. The statement of activities reports capital lease receivables on the accrual basis of accounting. This is the change in capital lease receivables recognized in the statement of activities. (20,230)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

Long-term debt issuance	(3,285,000)
Premium on long-term debt	(280,870)
Amortization of debt premium	1,170
Principal payments	32,729

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	(303,391)
OPEB expense	<u>(77,577)</u>

**Change in net position of governmental activities** **\$ 1,062,763**

**CITY OF MORGANTOWN, KENTUCKY**  
**COMBINING STATEMENT OF NET POSITION**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**June 30, 2021**

	<b>Water and Sewer System</b>	<b>Gas System</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash	\$ 41,105	\$ 538,319	\$ 579,424
Accounts receivable	104,564	68,245	172,809
Accrued unbilled income	78,714	26,160	104,874
Prepaid insurance	22,878	22,878	45,756
Materials and supplies	<u>23,599</u>	<u>41,903</u>	<u>65,502</u>
Total current assets	270,860	697,505	968,365
Noncurrent assets			
Restricted cash	47,301	90,795	138,096
Certificates of deposit	-0-	119,174	119,174
Capital assets, net	<u>1,964,120</u>	<u>508,445</u>	<u>2,472,565</u>
Total noncurrent assets	<u>2,011,421</u>	<u>718,414</u>	<u>2,729,835</u>
<b>Total assets</b>	<b>2,282,281</b>	<b>1,415,919</b>	<b>3,698,200</b>
<b>Deferred outflows of resources</b>			
Deferred outflows – pension	111,899	149,650	261,549
Deferred outflows – OPEB	<u>87,975</u>	<u>117,655</u>	<u>205,630</u>
<b>Total deferred outflows of resources</b>	<b>199,874</b>	<b>267,305</b>	<b>467,179</b>
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 2,482,155</u></b>	<b><u>\$ 1,683,224</u></b>	<b><u>\$ 4,165,79</u></b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 44,521	\$ 22,632	\$ 67,153
Payroll taxes payable	1,089	1,378	2,467
Other payables	5,013	4,417	9,430
Accrued wages	8,303	15,080	23,383
Accrued compensated absences	<u>12,525</u>	<u>19,071</u>	<u>31,596</u>
Total current liabilities	71,451	62,578	134,029
Noncurrent liabilities			
Customer deposits	42,921	86,415	129,336
Net pension liability	617,729	826,130	1,443,859
Net OPEB liability	<u>194,418</u>	<u>260,008</u>	<u>454,426</u>
Total noncurrent liabilities	<u>855,068</u>	<u>1,172,553</u>	<u>2,027,621</u>
<b>Total liabilities</b>	<b>926,519</b>	<b>1,235,131</b>	<b>2,161,650</b>
<b>Deferred inflows of resources</b>			
Deferred inflows – pension	37,982	50,796	88,778
Deferred inflows – OPEB	<u>48,535</u>	<u>64,910</u>	<u>113,445</u>
<b>Total deferred inflows of resources</b>	<b>86,517</b>	<b>115,706</b>	<b>202,223</b>
<b>Net position</b>			
Invested in capital assets, net of related debt	1,964,120	508,445	2,472,565
Unrestricted	<u>(495,001)</u>	<u>(176,058)</u>	<u>(671,059)</u>
<b>Total net position</b>	<b><u>1,469,119</u></b>	<b><u>332,387</u></b>	<b><u>1,801,506</u></b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b><u>\$ 2,482,155</u></b>	<b><u>\$ 1,683,224</u></b>	<b><u>\$ 4,165,379</u></b>

**CITY OF MORGANTOWN, KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**Year Ended June 30, 2021**

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
<b>Operating revenues</b>			
Sales	\$ 949,607	\$ 1,287,044	\$ 2,236,651
Penalties	4,994	7,691	12,685
Tap fees, service charges, and miscellaneous	6,125	4,808	10,933
Installation fees	-0-	2,156	2,156
<b>Total operating revenues</b>	<b>960,726</b>	<b>1,301,699</b>	<b>2,262,425</b>
<b>Operating expenses</b>			
Salaries	244,306	330,417	574,723
Gas purchases	-0-	395,821	395,821
Employee benefits	91,189	91,189	182,378
Retirement	80,983	100,407	181,390
Depreciation	116,936	50,233	167,169
Sewer plant	115,785	-0-	115,785
Water plant	93,326	-0-	93,326
Materials and supplies	10,003	59,265	69,268
General repairs	56,545	8,809	65,354
Insurance	26,052	24,948	51,000
Payroll taxes	18,691	25,447	44,138
Sewer lift station	32,696	-0-	32,696
Purifying agents	28,831	-0-	28,831
Professional services	13,089	13,675	26,764
Office supplies	9,537	10,681	20,218
Commissioner fees	9,421	9,421	18,842
Miscellaneous	7,041	8,571	15,612
Telephone	8,365	5,901	14,266
Gas and oil	7,074	6,810	13,884
Power purchased	6,254	7,553	13,807
Equipment maintenance	5,207	7,647	12,854
Dues	5,397	1,124	6,521
Bad debts	1,195	5,095	6,290
Utilities	6,044	-0-	6,044
Engineering fees	-0-	6,197	6,197
Contract labor	524	5,118	5,642
Training	482	1,346	1,828
<b>Total operating expenses</b>	<b>994,973</b>	<b>1,175,675</b>	<b>2,170,648</b>
<b>Operating income (loss)</b>	<b>(34,247)</b>	<b>126,024</b>	<b>91,777</b>
<b>Non-operating revenues (expenses)</b>			
Interest income	10	1,065	1,075
<b>Total non-operating revenues (expenses)</b>	<b>10</b>	<b>1,065</b>	<b>1,075</b>
<b>Change in net position</b>	<b>(34,237)</b>	<b>127,089</b>	<b>92,852</b>
Net position, beginning of year	1,503,356	205,298	1,708,654
<b>Net position, end of year</b>	<b>\$ 1,469,119</b>	<b>\$ 332,387</b>	<b>\$ 1,801,506</b>

See accompanying notes.

Page 11

**CITY OF MORGANTOWN, KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**Year Ended June 30, 2021**

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 944,492	\$ 1,289,809	\$ 2,234,301
Cash payments to supplies	(544,752)	(648,050)	(1,192,802)
Cash payments to employees	(321,831)	(432,268)	(754,099)
Net cash provided by operating activities	77,909	209,491	287,400
<b>Cash flows from capital and related financing activities</b>			
Purchase of equipment	(42,018)	(21,494)	(63,512)
Net cash used by capital and related financing activities	(42,018)	(21,494)	(63,512)
<b>Cash flows from investing activities</b>			
Purchase of certificate of deposit	-0-	(1,021)	(1,021)
Interest income	10	1,065	1,075
Net cash provided by investing activities	10	44	54
<b>Net increase in cash</b>	<b>35,901</b>	<b>188,041</b>	<b>223,942</b>
Cash, beginning of year	52,505	441,073	493,578
<b>Cash, end of year</b>	<b><u>\$ 88,406</u></b>	<b><u>\$ 629,114</u></b>	<b><u>\$ 717,520</u></b>
<b>Reconciliation of cash to the balance sheet</b>			
Cash	\$ 41,105	\$ 538,319	\$ 579,424
Restricted cash	47,301	90,795	138,096
<b>Total cash</b>	<b><u>\$ 88,406</u></b>	<b><u>\$ 629,114</u></b>	<b><u>\$ 717,520</u></b>

**CITY OF MORGANTOWN, KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**DISCRETELY PRESENTED COMPONENT UNIT (Continued)**  
**Year Ended June 30, 2021**

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
<b>Reconciliation of loss from operations to net cash provided by operating activities</b>			
Income (loss) from operations	\$ (34,247)	\$ 126,024	\$ 91,777
Adjustments to reconcile loss from operations to net cash provided by operating activities			
Depreciation	116,936	50,233	167,169
Decrease (increase) in deferred outflows	(2,732)	(1,346)	(4,078)
Increase (decrease) in deferred inflows	(858)	(2,169)	(3,027)
Change in assets and liabilities			
(Increase) decrease in accounts receivable	(13,677)	(11,917)	(25,594)
(Increase) decrease in accrued unbilled income	(4,797)	(1,824)	(6,621)
(Increase) decrease in prepaid insurance	8,439	8,439	16,878
(Increase) decrease in materials and supplies	(4,078)	3,653	(425)
Increase (decrease) in accounts payable	(17,847)	5,948	(11,899)
Increase (decrease) in payroll taxes payable	128	230	358
Increase (decrease) in other payables	416	605	1,021
Increase (decrease) in accrued wages	1,800	3,703	5,503
Increase (decrease) in accrued compensated absences	(1,543)	(1,840)	(3,383)
Increase (decrease) in customer deposits	2,239	1,850	4,089
Increase (decrease) in net pension liability	(15,332)	(27,915)	(43,247)
Increase (decrease) in net OPEB liability	<u>43,062</u>	<u>55,817</u>	<u>98,879</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 77,909</u></b>	<b><u>\$ 209,491</u></b>	<b><u>\$ 287,400</u></b>

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

**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 existence 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, 2021**

**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, 2021**

**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 account 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, 2021**

**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, 2021**

**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 2020 tax rate was \$0.109 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.

**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 February 5, 2022, 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.

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

**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, 2021, the book balance of the City's deposits was \$7,447,088, and the bank balances were \$7,437,551. The book balance of the Utilities Commission's deposits and certificates of deposit was \$836,694 and the bank balance was \$861,863.

Deposits at June 30, 2021, categorized by level of risk were:

	Category 1	Category 2	Category 3	Category 4	Bank Balance	Book Value
Primary government	\$ 500,000	\$ 6,937,551	\$ -0-	\$ -0-	\$ 7,437,551	\$ 7,447,088
Component unit	369,174	492,689	-0-	-0-	861,863	836,694
<b>Total</b>	<b>\$ 869,174</b>	<b>\$ 7,430,240</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 8,299,414</b>	<b>\$ 8,283,782</b>

**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, 2021 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, 2021**

**NOTE 5. CAPITAL ASSETS**

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

**Governmental Activities**

	<u>Balance</u> <u>07-01-20</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-21</u>
Capital assets not being depreciated:				
Land	\$ 1,754,790	\$ 44,209	\$ -0-	\$ 1,798,999
Capital assets being depreciated:				
Buildings and improvement	3,662,914	12,000	-0-	3,674,914
Infrastructure	2,488,635	110,152	(2,484)	2,596,303
Vehicles	808,793	21,475	(38,671)	791,597
Furniture, machinery, and equipment	<u>696,982</u>	<u>72,524</u>	<u>(53,650)</u>	<u>715,856</u>
Total capital assets being depreciated	7,657,324	216,151	(94,805)	7,778,670
Less: accumulated depreciation				
Buildings and improvement	(1,161,376)	(52,046)	-0-	(1,213,422)
Infrastructure	(1,207,859)	(88,390)	2,484	(1,293,765)
Vehicles	(547,304)	(38,290)	38,671	(546,923)
Furniture, machinery, and equipment	<u>(362,430)</u>	<u>(45,066)</u>	<u>53,650</u>	<u>(353,846)</u>
Total accumulated depreciation	<u>(3,278,969)</u>	<u>(223,792)</u>	<u>94,805</u>	<u>(3,407,956)</u>
<b>Capital assets, net</b>	<b><u>\$ 6,133,145</u></b>	<b><u>\$ 36,568</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 6,169,713</u></b>

A summary of changes in capital assets of the Utilities Commission for 2021 is as follows:

**Component Unit**

	<u>Balance</u> <u>07-01-20</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-21</u>
Capital assets not being depreciated:				
Land	\$ 161,084	\$ -0-	\$ -0-	\$ 161,084
Capital assets being depreciated:				
Buildings, tanks, and improvements	2,467,989	-0-	-0-	2,467,989
Distribution system	5,433,399	9,254	-0-	5,442,653
Furniture, machinery, and equipment	<u>620,395</u>	<u>54,258</u>	<u>-0-</u>	<u>674,653</u>
Total capital assets being depreciated	8,521,783	63,512	-0-	8,585,295
Less: accumulated depreciation				
Buildings, tanks, and improvements	(1,799,956)	(47,482)	-0-	(1,847,438)
Distribution system	(3,737,395)	(96,335)	-0-	(3,833,730)
Furniture, machinery, and equipment	<u>(569,294)</u>	<u>(23,352)</u>	<u>-0-</u>	<u>(592,646)</u>
Total accumulated depreciation	<u>(6,106,645)</u>	<u>(167,169)</u>	<u>-0-</u>	<u>(6,273,814)</u>
<b>Capital assets, net</b>	<b><u>\$ 2,576,222</u></b>	<b><u>\$ (103,657)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 2,472,565</u></b>

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

**NOTE 6. LONG-TERM OBLIGATIONS**

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2021:

	<u>Balance</u> <u>07-01-20</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-21</u>	<u>Current</u> <u>Portion</u>
Morgantown Bank loan (a)	\$ 39,720	\$ -0-	\$ (20,229)	\$ 19,491	\$ 19,491
General obligation lease (b)	-0-	3,285,000	(12,500)	3,272,500	139,583
Premium on lease (b)	-0-	280,870	(1,170)	279,700	-0-
<b>Total governmental activities</b>	<b>\$ 39,720</b>	<b>\$3,565,870</b>	<b>\$ (33,899)</b>	<b>\$3,571,691</b>	<b>\$ 159,074</b>

**(a) Morgantown Bank and Trust Loan Payable**

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, 2021, the interest rate was 5.00%.

A schedule of the note payable debt service payment requirements at June 30, 2021 are as follows:

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	\$ 19,491	\$ 538	\$ 20,029
	<u>\$ 19,491</u>	<u>\$ 538</u>	<u>\$ 20,029</u>

**(b) General Obligation Lease – Kentucky Bond Corporation Series 2021B**

On April 21, 2021 the city entered into a lease agreement with the Kentucky Bond Corporation to finance a capital project of significant renovation to the City park. Proceeds of the variable rate (3.00% to 3.75%) lease agreement totaled \$3,285,000. There was also a premium of \$280,870 associated with the lease, and it is amortized over the life of the lease.

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

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	\$ 139,583	\$ 116,369	\$ 255,952
2023	127,083	102,270	229,353
2024	130,000	98,140	228,140
2025	132,083	93,915	225,998
2026	137,083	89,622	226,705
2017 – 2031	760,417	378,032	1,138,449
2032 – 2036	892,500	246,271	1,138,771
2037 – 2041	953,751	91,072	1,044,823
	<u>\$ 3,272,500</u>	<u>\$ 1,215,691</u>	<u>\$ 4,488,191</u>

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

**NOTE 7. DEPRECIATION EXPENSE**

Depreciation expense was charged to functions/programs as follows:

<b>Governmental activities</b>	
General government	\$ 40,135
Police	9,902
Fire	28,844
Highways and streets	113,811
Recreational	21,928
Cemetery	732
Industrial Holding Corporation	<u>8,440</u>
	<u>\$ 223,792</u>
<b>Component unit</b>	
Utility Commission	<u>\$ 167,169</u>

**NOTE 8. INTEREST EXPENSE**

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

General government	\$ 9,265
Industrial Holding Corporation	<u>1,555</u>
	<u>\$ 10,820</u>

**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. RESTRICTED ASSETS**

The City's restricted assets are as follows at June 30, 2021:

	<u>Cash</u>
<b>Governmental activities</b>	
Capital project – park renovations	<u>\$ 3,478,762</u>
<b>Total governmental activities</b>	<u>\$ 3,478,762</u>

**NOTE 11. 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/>.



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

**NOTE 11. PENSION PLAN *(Continued)***

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

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

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

**NOTE 11. PENSION PLAN *(Continued)***

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

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

**CERS Contributions**

Employee contribution rates are set by statutes governing the Kentucky 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. 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.

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

**NOTE 11. PENSION PLAN (Continued)**

For the year ended June 30, 2021, the City contributed 24.06% (non-hazardous – 19.30% for the pension fund and 4.76% for insurance) and 39.58% (hazardous – 30.06% for the pension fund and 9.52% for insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer contributions to CERS for pension benefits were \$132,600 (\$54,762 non-hazardous and \$77,838 hazardous) for the year ended June 30, 2021.

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

At June 30, 2021, the City reported a liability of \$2,108,440 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the City's proportionate share was 0.010443% for non-hazardous and 0.043365% for hazardous.

For the year ended June 30, 2021, the City recognized pension expense of \$303,391 in addition to its pension fund contributions of \$132,600. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 60,524	\$ -0-
Changes of assumptions	80,864	-0-
Difference between projected and actual earnings on plan investments	84,232	34,734
Changes in proportion and differences between employer contributions and proportionate share of contributions	72,486	58,537
Company contributions subsequent to the measurement date	<u>132,600</u>	<u>-0-</u>
	<b><u>\$ 430,706</u></b>	<b><u>\$ 93,271</u></b>

The \$132,600 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 pension liability in the year ending June 30, 2022.

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

Year ending June 30,	
2022	\$ 108,190
2023	53,217
2024	22,815
2025	<u>20,613</u>
	<b><u>\$ 204,835</u></b>

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

**NOTE 11. PENSION PLAN (Continued)**

**Actuarial Assumptions**

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

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

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

The mortality table used for active members was a Pub-2010 general mortality table, for the non-hazardous system, and the Pub-2010 public safety mortality table for the hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rate from the MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled member was PUB-2010 disabled mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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

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

**NOTE 11. PENSION PLAN (Continued)**

**Discount Rate**

The discount rate used to measure the total pension liability was 6.25% for the year ended June 30, 2020. 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:

	<b>1% Decrease (5.25%)</b>	<b>Current Rate (6.25%)</b>	<b>1% Increase (7.25%)</b>
Non-hazardous	\$ 987,774	\$ 800,973	\$ 646,294
Hazardous	<u>1,615,843</u>	<u>1,307,467</u>	<u>1,055,751</u>
<b>Total</b>	<b><u>\$ 2,603,617</u></b>	<b><u>\$ 2,108,440</u></b>	<b><u>\$ 1,702,045</u></b>

**Payable to the Pension Plan**

At June 30, 2021, the City reported a payable of \$30,272 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

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

**Plan Description**

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

**Benefits Provided**

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

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

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

**Contributions**

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2021 was 4.76% (non-hazardous) and 9.52% (hazardous) of covered payroll. Contributions to the Insurance Fund were \$38,157 (\$13,506 non-hazardous and \$24,651 hazardous) for the year ended June 30, 2021. Employees that entered the plan prior to September 1, 2008, are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008, are required to contribute 1% of their annual creditable compensation, which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2020. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2021, the City's proportion was 0.010440% (non-hazardous) and 0.043351% (hazardous).

**Net OPEB Liability**

At June 30, 2021, the City reported a liability of \$652,700 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of June 30, 2020 and was based on an actuarial valuation date as of June 30, 2019. The net OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

**Actuarial Assumptions**

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

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

The mortality table used for active members was a Pub-2010 general mortality table, for the non-hazardous system, and the Pub-2010 public safety mortality table for the hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system specific mortality table based on mortality experience from 2013 – 2018, projected with the ultimate rate from the MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled member was PUB-2010 disabled mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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

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

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

**Discount Rate**

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

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

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

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

	<b>1% Decrease</b>	<b>Current Rate</b>	<b>1% Increase</b>
Non-hazardous	\$ 323,862	\$ 252,091	\$ 193,142
Hazardous	<u>543,816</u>	<u>400,609</u>	<u>285,213</u>
<b>Total</b>	<b><u>\$ 867,678</u></b>	<b><u>\$ 652,700</u></b>	<b><u>\$ 478,355</u></b>

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

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

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

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

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$ 195,181	\$ 252,091	\$ 321,152
Hazardous	286,287	400,609	541,158
<b>Total</b>	<b>\$ 481,468</b>	<b>\$ 652,700</b>	<b>\$ 862,310</b>

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 55,866	\$ 82,157
Changes of assumptions	109,204	636
Difference between projected and actual earnings on plan investments	43,187	17,025
Changes in proportion and differences between employer contributions and proportionate share of contributions	30,648	29,760
City contributions subsequent to the measurement date	38,157	-0-
	<b>\$ 277,062</b>	<b>\$ 129,578</b>

The \$38,157 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2022	\$ 32,058
2023	26,808
2024	27,220
2025	19,470
2026	3,771
	<b>\$ 109,327</b>



## **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, 2021**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Property taxes	\$ 185,000	\$ 230,000	\$ 370,039	\$ 140,039
Licenses and permits	25,500	5,500	8,000	2,500
Intergovernmental revenue	306,500	71,500	73,413	1,913
Insurance fees	300,000	300,000	401,771	101,771
Occupational fees	1,250,000	1,250,000	1,884,836	634,836
Grants	150,500	322,500	238,602	(83,898)
Interest income	3,250	3,250	3,115	(135)
Charges for services	22,750	27,250	26,589	(661)
Other revenues	<u>30,700</u>	<u>4,200</u>	<u>21,102</u>	<u>16,902</u>
<b>Total revenues</b>	<b><u>2,274,200</u></b>	<b><u>2,214,200</u></b>	<b><u>3,027,467</u></b>	<b><u>813,267</u></b>
<b>Expenditures</b>				
General government	941,500	1,011,000	771,291	239,709
Police	522,400	522,400	481,823	40,577
Fire	98,150	63,150	48,617	14,533
Highways and streets	620,000	620,000	440,134	179,866
Recreational	194,600	194,600	163,676	30,924
Cemetery	<u>5,500</u>	<u>13,500</u>	<u>8,690</u>	<u>4,810</u>
<b>Total expenditures</b>	<b><u>2,382,150</u></b>	<b><u>2,424,650</u></b>	<b><u>1,914,231</u></b>	<b><u>510,419</u></b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(107,950)</b>	<b>(210,450)</b>	<b>1,113,236</b>	<b>1,323,686</b>
<b>Other financing sources</b>				
Proceeds from general obligation lease	-0-	3,500,000	3,285,000	(215,000)
Premium on general obligation lease	-0-	-0-	280,870	280,870
Transfers in	<u>200,000</u>	<u>200,000</u>	<u>254,678</u>	<u>54,678</u>
<b>Total other financing sources</b>	<b><u>200,000</u></b>	<b><u>3,700,000</u></b>	<b><u>3,820,548</u></b>	<b><u>120,548</u></b>
<b>Net change in fund balance</b>	<b>92,050</b>	<b>3,489,550</b>	<b>4,933,784</b>	<b>1,444,234</b>
Fund balance, beginning of year	<u>1,908,362</u>	<u>1,908,362</u>	<u>1,908,362</u>	<u>-0-</u>
<b>Fund balance, end of year</b>	<b><u>\$ 2,000,412</u></b>	<b><u>\$ 5,397,912</u></b>	<b><u>\$ 6,842,146</u></b>	<b><u>\$1,444,234</u></b>

**CITY OF MORGANTOWN, KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET TO ACTUAL – TOURISM SPECIAL REVENUE FUND**  
**Year Ended June 30, 2021**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Restaurant transient tax	\$ <u>324,000</u>	\$ <u>324,000</u>	\$ <u>282,970</u>	\$ <u>(41,030)</u>
<b>Total revenues</b>	<b>324,000</b>	<b>324,000</b>	<b>282,970</b>	<b>(41,030)</b>
<b>Expenditures</b>				
Recreational	<u>114,000</u>	<u>114,000</u>	<u>-0-</u>	<u>114,000</u>
<b>Total expenditures</b>	<b><u>114,000</u></b>	<b><u>114,000</u></b>	<b><u>-0-</u></b>	<b><u>114,000</u></b>
<b>Excess of revenues     over expenditures</b>	<b>210,000</b>	<b>210,000</b>	<b>282,970</b>	<b>72,970</b>
<b>Other financing uses</b>				
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(254,678)</u>	<u>(54,678)</u>
<b>Total other financing uses</b>	<b><u>(200,000)</u></b>	<b><u>(200,000)</u></b>	<b><u>(254,678)</u></b>	<b><u>(54,678)</u></b>
<b>Net change in fund balance</b>	<b>10,000</b>	<b>10,000</b>	<b>28,292</b>	<b>18,292</b>
Fund balance, beginning of year	<u>6,706</u>	<u>6,706</u>	<u>6,706</u>	<u>-0-</u>
<b>Fund balance, end of year</b>	<b><u>\$ 16,706</u></b>	<b><u>\$ 16,706</u></b>	<b><u>\$ 34,998</u></b>	<b><u>\$ 18,292</u></b>

**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, 2021**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
Rent	\$ 7,200	\$ 7,200	\$ 28,029	\$ 20,829
Grants	-0-	-0-	48,040	48,040
Interest income	<u>7,000</u>	<u>7,000</u>	<u>3,622</u>	<u>(3,378)</u>
<b>Total revenues</b>	<b>14,200</b>	<b>14,200</b>	<b>79,691</b>	<b>65,491</b>
<b>Expenditures</b>				
Industrial development	<u>126,000</u>	<u>126,000</u>	<u>82,403</u>	<u>43,597</u>
<b>Total expenditures</b>	<b>126,000</b>	<b>126,000</b>	<b>82,403</b>	<b>43,597</b>
<b>Net change in fund balance</b>	<b>(111,800)</b>	<b>(111,800)</b>	<b>(2,712)</b>	<b>109,088</b>
Fund balance, beginning of year	<u>473,586</u>	<u>473,586</u>	<u>473,586</u>	<u>-0-</u>
<b>Fund balance, end of year</b>	<b><u>\$ 361,786</u></b>	<b><u>\$ 361,786</u></b>	<b><u>\$ 470,874</u></b>	<b><u>\$ 109,088</u></b>

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Proportion of total net pension liability	0.019073%	0.019052%	0.015836%	0.016489%
Proportionate share of the net pension liability	\$ 2,108,440	\$ 1,949,174	\$ 1,410,811	\$ 1,473,636
Covered employee payroll	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Share of the net pension liability (asset) as a % of its covered payroll	388.52%	349.60%	265.61%	319.63%
Plan fiduciary net position as a % of total pension liability	46.82%	49.43%	52.40%	52.40%

**SCHEDULE OF PENSION CONTRIBUTIONS**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 132,600	\$ 134,868	\$ 107,665	\$ 124,902
Actual contribution	(132,600)	(134,868)	(107,665)	(124,902)
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Contributions as a % of covered employee payroll	24.43%	24.19%	20.27%	27.09%

**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**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Proportion of net OPEB liability	0.020750%	0.020624%	0.015862%	0.017990%
Proportionate share of the net OPEB liability	\$ 652,700	\$ 501,191	\$ 414,098	\$ 538,762
Covered employee payroll in year of measurement	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Share of the net OPEB liability (asset) as a % of its covered payroll	120.27%	89.89%	77.96%	116.86%
Plan fiduciary net position as a % of total OPEB liability	53.89%	61.75%	59.76%	54.52%

**SCHEDULE OF OPEB CONTRIBUTIONS**

	<b>2020</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 38,157	\$ 38,599	\$ 40,895	\$ 33,300
Actual contribution	(38,157)	(38,599)	(40,895)	(33,300)
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered employee payroll	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Contributions as a % of covered employee payroll	7.03%	6.92%	7.70%	7.22%

**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, 2021 and the related notes to the financial statements, and have issued our report thereon dated February 5, 2022.

#### **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*  
February 5, 2022