

CITY OF MORGANTOWN, KENTUCKY

ANNUAL FINANCIAL REPORT

JUNE 30, 2022

C O N T E N T S

	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 Activities – 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
Schedule of Finding and Response	38

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Morgantown, Kentucky

Report on the Audit of the Financial Statements

Opinions

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, 2022, 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.

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, and each major fund of the City of Morgantown, Kentucky, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 32 through 34 and certain pension and OPEB information on pages 35 and 36 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 26, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Morgantown, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Morgantown, Kentucky's internal control over financial reporting and compliance.

Hensley & Throneberry, CPAs

January 26, 2023

BASIC FINANCIAL STATEMENTS

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2022

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Utilities Commission</u>
Assets		
Current assets		
Cash	\$ 4,778,952	\$ 776,065
Property tax receivable, net	2,868	-0-
Accounts receivable, net	-0-	178,720
Accrued unbilled income	-0-	115,656
Prepaid expenses	90,839	42,659
Materials and supplies	<u>-0-</u>	<u>77,353</u>
Total current assets	4,872,659	1,190,453
Noncurrent assets		
Restricted cash	259,313	139,008
Certificates of deposit	-0-	119,711
Capital assets, net	<u>10,369,207</u>	<u>2,356,400</u>
Total noncurrent assets	<u>10,628,520</u>	<u>2,615,119</u>
Total assets	15,501,179	3,805,572
Deferred outflows of resources		
Deferred outflows – pension	345,828	210,676
Deferred outflows – OPEB	<u>287,510</u>	<u>209,963</u>
Total deferred outflows of resources	633,338	420,639
Total assets and deferred outflows of resources	<u>\$ 16,134,517</u>	<u>\$ 4,226,211</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 329,647	\$ 51,688
Payroll taxes payable	7,230	2,069
Retirement payable	39,000	-0-
Other payables	-0-	9,651
Accrued wages	34,712	26,261
Accrued compensated absences	71,274	29,967
General obligation lease payable, current portion	<u>127,083</u>	<u>-0-</u>
Total current liabilities	608,946	119,636
Noncurrent liabilities		
Customer deposits	-0-	135,103
General obligation lease payable, noncurrent portion, plus premium	3,271,490	-0-
Net pension liability	1,803,194	1,238,493
Net OPEB liability	<u>545,428</u>	<u>371,793</u>
Total noncurrent liabilities	<u>5,620,112</u>	<u>1,745,389</u>
Total liabilities	6,229,058	1,865,025
Deferred inflows of resources		
Deferred inflows – pension	306,152	257,541
Deferred inflows – OPEB	<u>242,881</u>	<u>209,323</u>
Total deferred inflows of resources	549,033	466,864
Net position		
Invested in capital assets, net of related debt	6,970,634	2,356,400
Restricted for capital projects	259,313	-0-
Unrestricted	<u>2,126,479</u>	<u>(462,078)</u>
Total net position	<u>9,356,426</u>	<u>1,894,322</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 16,134,517</u>	<u>\$ 4,226,211</u>

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

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	\$ 717,255	\$ 6,550	\$ 323,140	\$ -0-	\$ (387,565)	\$ -0-
Public safety						
Police	755,110	-0-	29,042	-0-	(726,068)	-0-
Fire	10,208	-0-	-0-	-0-	(10,208)	-0-
Highway and streets	685,225	-0-	446,400	-0-	(238,825)	-0-
Recreational	251,273	33,396	-0-	-0-	(217,877)	-0-
Cemetery	2,545	8,400	-0-	-0-	5,855	-0-
Tourism Commission	-0-	-0-	-0-	-0-	-0-	-0-
Industrial Holding Corporation	17,231	-0-	-0-	-0-	(17,231)	-0-
Interest on long-term debt	102,762	-0-	-0-	-0-	(102,762)	-0-
Total governmental activities	2,541,609	48,346	798,582	-0-	(1,694,681)	-0-
Total primary government	\$ 2,541,609	\$ 48,346	\$ 798,582	\$ -0-	(1,694,681)	-0-
Component unit						
Utilities Commission	\$ 2,261,333	\$ 2,343,798	\$ -0-	\$ -0-	-0-	82,465
General revenues						
Taxes						
Property					360,348	-0-
Municipal insurance					399,879	-0-
Restaurant transient					338,889	-0-
Franchise					57,686	-0-
Occupational fees					2,126,257	-0-
Alcohol regulatory fees					60,886	-0-
Interest income					14,231	1,439
IHC lease income					6,600	-0-
Donations					546	-0-
Miscellaneous					5,172	-0-
Gain / (Loss) on disposition of capital asset					(5,046)	8,912
Total general revenues					3,365,448	10,351
Change in net position					1,670,767	92,816
Net position, beginning of year					7,685,659	1,801,506
Net position, end of year					\$ 9,356,426	\$ 1,894,322

CITY OF MORGANTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2022

	Governmental Funds			
	General	Tourism Special Revenue	IHC Special Revenue	Total Governmental Funds
Assets				
Cash	\$ 4,130,756	\$ 181,483	\$ 466,713	\$ 4,778,952
Property tax receivable, net	2,868	-0-	-0-	2,868
Interfund receivable	111,954	-0-	-0-	111,954
Prepaid expenses	90,839	-0-	-0-	90,839
Restricted cash	259,313	-0-	-0-	259,313
Total assets	\$ 4,595,730	\$ 181,483	\$ 466,713	\$ 5,243,926
Liabilities				
Accounts payable	\$ 329,647	\$ -0-	\$ -0-	\$ 329,647
Payroll taxes payable	7,230	-0-	-0-	7,230
Retirement payable	39,000	-0-	-0-	39,000
Accrued wages	34,712	-0-	-0-	34,712
Accrued compensated absences	71,274	-0-	-0-	71,274
Interfund payable	-0-	111,954	-0-	111,954
Total liabilities	481,863	111,954	-0-	593,817
Fund balances				
Nonspendable				
Prepaid items	90,839	-0-	-0-	90,839
Assigned to:				
Industrial development	-0-	-0-	466,713	466,713
Tourism	-0-	69,529	-0-	69,529
Parks	47,237	-0-	-0-	47,237
Cemetery care	47,193	-0-	-0-	47,193
Community development block grant	426,413	-0-	-0-	426,413
Capital projects	259,313	-0-	-0-	259,313
Unassigned	3,242,872	-0-	-0-	3,242,872
Total fund balances	4,113,867	69,529	466,713	4,650,109
Total liabilities and fund balances	\$ 4,595,730	\$ 181,483	\$ 466,713	\$ 5,243,926

CITY OF MORGANTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS (Continued)
June 30, 2022

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

Total fund balances – total governmental funds **\$ 4,650,109**

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. 10,369,207

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

General obligation lease payable	(3,398,573)
Net pension liability	(1,803,194)
Net OPEB liability	(545,428)
Net deferred outflows and inflows related to pensions	39,676
Net deferred outflows and inflows related to OPEB	<u>44,629</u>

Net position of governmental activities **\$ 9,356,426**

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS
Year Ended June 30, 2022

	Governmental Funds			
	General	Tourism Special Revenue	IHC Special Revenue	Total Governmental Funds
Revenues				
Property taxes	\$ 418,034	\$ -0-	\$ -0-	\$ 418,034
Licenses and permits	2,593,572	-0-	-0-	2,593,572
Restaurant transient taxes	2,978	335,911	-0-	338,889
Intergovernmental	798,582	-0-	-0-	798,582
Charges for services	41,796	-0-	-0-	41,796
Interest income	11,175	940	2,116	14,231
Other revenues	5,719	-0-	22,440	28,159
Total revenues	3,871,856	336,851	24,556	4,233,263
Expenditures				
General government	672,276	-0-	-0-	672,276
Public safety				
Police	667,995	-0-	-0-	667,995
Fire	23,307	-0-	-0-	23,307
Highways and streets	591,764	-0-	-0-	591,764
Recreational	183,445	-0-	-0-	183,445
Cemetery	1,470	-0-	-0-	1,470
Industrial Holding Corporation	-0-	-0-	8,790	8,790
Capital outlay	4,531,246	-0-	-0-	4,531,246
Debt service				
Principal	139,583	-0-	19,491	159,074
Interest	116,369	-0-	436	116,805
Total expenditures	6,927,455	-0-	28,717	6,956,172
Excess (deficit) of revenues over (under) expenditures	(3,055,599)	336,851	(4,161)	(2,722,909)
Other financing sources (uses)				
Proceeds from disposition of capital asset	25,000	-0-	-0-	25,000
Transfers in / (out)	302,320	(302,320)	-0-	-0-
Total other financing sources (uses)	327,320	(302,320)	-0-	25,000
Net change in fund balances	(2,728,279)	34,531	(4,161)	(2,697,909)
Fund balances, beginning of year	6,842,146	34,998	470,874	7,348,018
Fund balances, end of year	\$ 4,113,867	\$ 69,529	\$ 466,713	\$ 4,650,109

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND (Continued)
Year Ended June 30, 2022

Net change in fund balances – total governmental funds **\$ (2,697,909)**

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. 4,199,494

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. (19,491)

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.

Amortization of debt premium	14,043
Principal payments	159,074

Lease income is reported in the statement of activities when earned, but lease income is reported when received in the governmental funds. This is the amount of lease income reported in the statement of activities but not in the in governmental funds. 3,652

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	7,487
OPEB expense	<u>4,417</u>

Change in net position of governmental activities **\$ 1,670,767**

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT
June 30, 2022

	Water and Sewer System	Gas System	Total
Assets			
Current assets			
Cash	\$ 156,312	\$ 619,753	\$ 776,065
Accounts receivable	106,537	72,183	178,720
Accrued unbilled income	89,575	26,081	115,656
Prepaid insurance	21,330	21,329	42,659
Materials and supplies	<u>27,498</u>	<u>49,855</u>	<u>77,353</u>
Total current assets	401,252	789,201	1,190,453
Noncurrent assets			
Restricted cash	48,317	90,691	139,008
Certificates of deposit	-0-	119,711	119,711
Capital assets, net	<u>1,872,102</u>	<u>484,298</u>	<u>2,356,400</u>
Total noncurrent assets	<u>1,920,419</u>	<u>694,700</u>	<u>2,615,119</u>
Total assets	2,321,671	1,483,901	3,805,572
Deferred outflows of resources			
Deferred outflows – pension	96,362	114,314	210,676
Deferred outflows – OPEB	<u>96,036</u>	<u>113,927</u>	<u>209,963</u>
Total deferred outflows of resources	192,398	228,241	420,639
Total assets and deferred outflows of resources	<u>\$ 2,514,069</u>	<u>\$ 1,712,142</u>	<u>\$ 4,226,211</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 31,922	\$ 19,766	\$ 51,688
Payroll taxes payable	1,158	911	2,069
Other payables	5,510	4,141	9,651
Accrued wages	10,885	15,376	26,261
Accrued compensated absences	<u>14,491</u>	<u>15,476</u>	<u>29,967</u>
Total current liabilities	63,966	55,670	119,636
Noncurrent liabilities			
Customer deposits	46,146	88,957	135,103
Net pension liability	566,480	672,013	1,238,493
Net OPEB liability	<u>170,056</u>	<u>201,737</u>	<u>371,793</u>
Total noncurrent liabilities	<u>782,682</u>	<u>962,707</u>	<u>1,745,389</u>
Total liabilities	846,648	1,018,377	1,865,025
Deferred inflows of resources			
Deferred inflows – pension	117,798	139,743	257,541
Deferred inflows – OPEB	<u>95,743</u>	<u>113,580</u>	<u>209,323</u>
Total deferred inflows of resources	213,541	253,323	466,864
Net position			
Invested in capital assets, net of related debt	1,872,102	484,298	2,356,400
Unrestricted	<u>(418,222)</u>	<u>(43,856)</u>	<u>(462,078)</u>
Total net position	1,453,880	440,442	1,894,322
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,514,069</u>	<u>\$ 1,712,142</u>	<u>\$ 4,226,211</u>

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2022

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
Operating revenues			
Sales	\$ 1,017,046	\$ 1,290,497	\$ 2,307,543
Penalties	12,389	8,638	21,027
Tap fees, service charges, and miscellaneous	7,895	5,130	13,025
Installation fees	700	1,503	2,203
Total operating revenues	1,038,030	1,305,768	2,343,798
Operating expenses			
Salaries	282,646	331,024	613,670
Gas purchases	-0-	474,559	474,559
Retirement	132,292	50,682	182,974
Employee benefits	84,096	84,096	168,192
Depreciation	118,309	47,788	166,097
Sewer plant	104,812	-0-	104,812
Water plant	104,311	-0-	104,311
Materials and supplies	24,835	46,787	71,622
Insurance	28,573	27,489	56,062
Payroll taxes	24,632	29,724	54,356
Purifying agents	38,823	-0-	38,823
Professional services	15,723	20,612	36,335
Sewer lift station	25,254	-0-	25,254
Gas and oil	11,540	11,728	23,268
Office supplies	10,964	11,249	22,213
Engineering fees	-0-	19,772	19,772
Commissioner fees	9,123	9,123	18,246
Miscellaneous	7,978	9,473	17,451
Power purchased	6,150	6,146	12,296
Training	3,172	8,206	11,378
Telephone	6,234	4,526	10,760
General repairs	6,049	1,974	8,023
Equipment maintenance	4,069	1,822	5,891
Utilities	5,345	-0-	5,345
Bad debts	993	3,970	4,963
Dues	1,418	2,068	3,486
Contract labor	595	579	1,174
Total operating expenses	1,057,936	1,203,397	2,261,333
Operating income (loss)	(19,906)	102,371	82,465
Non-operating revenues			
Gain on disposal of capital asset	4,456	4,456	8,912
Interest income	211	1,228	1,439
Total non-operating revenues	4,667	5,684	10,351
Change in net position	(15,239)	108,055	92,816
Net position, beginning of year	1,469,119	332,387	1,801,506
Net position, end of year	\$ 1,453,880	\$ 440,442	\$ 1,894,322

See accompanying notes.

Page 11

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2022

	<u>Water and Sewer System</u>	<u>Gas System</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from customers	\$ 1,028,421	\$ 1,304,450	\$ 2,332,871
Cash payments to suppliers	(514,441)	(754,190)	(1,268,631)
Cash payments to employees	(376,133)	(450,436)	(826,569)
Net cash provided by operating activities	137,847	99,824	237,671
Cash flows from capital and related financing activities			
Proceeds from sale of capital assets	9,271	9,271	18,542
Purchase of equipment	(31,106)	(28,456)	(59,562)
Net cash used by capital and related financing activities	(21,835)	(19,185)	(41,020)
Cash flows from investing activities			
Purchase of certificate of deposit	-0-	(537)	(537)
Interest income	211	1,228	1,439
Net cash provided by investing activities	211	691	902
Net increase in cash	116,223	81,330	197,553
Cash, beginning of year	88,406	629,114	717,520
Cash, end of year	<u>\$ 204,629</u>	<u>\$ 710,444</u>	<u>\$ 915,073</u>
Reconciliation of cash to the statement of net position			
Cash	\$ 156,312	\$ 619,753	\$ 776,065
Restricted cash	48,317	90,691	139,008
Total cash	<u>\$ 204,629</u>	<u>\$ 710,444</u>	<u>\$ 915,073</u>

CITY OF MORGANTOWN, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT (Continued)
Year Ended June 30, 2022

	<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	\$ (19,906)	\$ 102,371	\$ 82,465
Adjustments to reconcile loss from operations to net cash provided by operating activities			
Depreciation	118,309	47,788	166,097
Decrease (increase) in deferred outflows	7,476	39,064	46,540
Increase (decrease) in deferred inflows	127,024	137,617	264,641
Change in assets and liabilities			
(Increase) decrease in accounts receivable	(1,973)	(3,938)	(5,911)
(Increase) decrease in accrued unbilled income	(10,861)	79	(10,782)
(Increase) decrease in prepaid insurance	1,548	1,548	3,096
(Increase) decrease in materials and supplies	(3,899)	(7,952)	(11,851)
Increase (decrease) in accounts payable	(12,599)	(2,865)	(15,464)
Increase (decrease) in payroll taxes payable	69	(467)	(398)
Increase (decrease) in other payables	497	(276)	221
Increase (decrease) in accrued wages	2,582	296	2,878
Increase (decrease) in accrued compensated absences	1,966	(3,595)	(1,629)
Increase (decrease) in customer deposits	3,225	2,542	5,767
Increase (decrease) in net pension liability	(51,249)	(154,117)	(205,366)
Increase (decrease) in net OPEB liability	<u>(24,362)</u>	<u>(58,271)</u>	<u>(82,633)</u>
Net cash provided by operating activities	<u>\$ 137,847</u>	<u>\$ 99,824</u>	<u>\$ 237,671</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

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, and 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. The 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, 2022

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, 2022

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, 2022

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. 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, 2022

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 2021 tax rate was \$0.1040 per \$100 assessed valuation for real property and \$0.1096 per \$100 assessed valuation for tangible property. The City is permitted by the State Constitution to levy taxes up to \$0.75 per \$100 assessed valuation; however, according to statutes, the City may not increase the tax rate on real property by more than four percent per year (exclusive of assessment growth) without obtaining consent through referendum.

Motor vehicle taxes 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 26, 2023, 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, 2022

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, 2022 the book balance of the City's deposits was \$5,038,265, and the bank balances total \$5,062,123. The book balance of the Utilities Commission's deposits and certificates of deposit was \$1,034,784 and the bank balance was \$1,066,844.

Deposits at June 30, 2022, categorized by level of risk were:

	Category 1	Category 2	Category 3	Category 4	Bank Balance	Book Value
Primary government	\$ 597,826	\$ 4,265,288	\$ -0-	\$ 199,009	\$ 5,062,123	\$ 5,038,265
Component unit	369,711	697,133	-0-	-0-	1,066,844	1,034,784
Total	\$ 967,537	\$ 4,962,421	\$ -0-	\$ 199,009	\$ 6,128,967	\$ 6,073,049

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, 2022 was \$102,959. There were no repayments received in the current year or the preceding six 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, 2022

NOTE 5. CAPITAL ASSETS

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2022:

Governmental Activities

	<u>Balance 07-01-21</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06-30-22</u>
Capital assets not being depreciated:				
Land	\$ 1,798,999	\$ 150,850	\$ -0-	\$ 1,949,849
Capital assets being depreciated:				
Buildings and improvement	3,674,914	-0-	-0-	3,674,914
Infrastructure	2,596,303	4,063,329	-0-	6,659,632
Vehicles	791,597	182,778	-0-	974,375
Furniture, machinery, and equipment	<u>715,856</u>	<u>132,309</u>	<u>(41,100)</u>	<u>807,065</u>
Total capital assets being depreciated	7,778,670	4,378,416	(41,100)	12,115,986
Less: accumulated depreciation				
Buildings and improvement	(1,213,422)	(43,154)	-0-	(1,256,576)
Infrastructure	(1,293,765)	(153,645)	-0-	(1,447,410)
Vehicles	(546,923)	(53,943)	-0-	(600,866)
Furniture, machinery, and equipment	<u>(353,846)</u>	<u>(48,984)</u>	<u>11,054</u>	<u>(391,776)</u>
Total accumulated depreciation	<u>(3,407,956)</u>	<u>(299,726)</u>	<u>11,054</u>	<u>(3,696,628)</u>
Capital assets, net	<u>\$ 6,169,713</u>	<u>\$ 4,229,540</u>	<u>\$ (30,046)</u>	<u>\$ 10,369,207</u>

A summary of changes in capital assets of the Utilities Commission for 2022 is as follows:

Component Unit

	<u>Balance 07-01-21</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06-30-22</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	5,442,653	8,506	-0-	5,451,159
Furniture, machinery, and equipment	<u>674,653</u>	<u>51,056</u>	<u>(57,191)</u>	<u>668,518</u>
Total capital assets being depreciated	8,585,295	59,562	(57,191)	8,587,666
Less: accumulated depreciation				
Buildings, tanks, and improvements	(1,847,438)	(47,355)	-0-	(1,894,793)
Distribution system	(3,833,730)	(95,717)	-0-	(3,929,447)
Furniture, machinery, and equipment	<u>(592,646)</u>	<u>(22,888)</u>	<u>47,424</u>	<u>(568,110)</u>
Total accumulated depreciation	<u>(6,273,814)</u>	<u>(165,960)</u>	<u>47,424</u>	<u>(6,392,350)</u>
Capital assets, net	<u>\$ 2,472,565</u>	<u>\$ (106,398)</u>	<u>\$ (9,767)</u>	<u>\$ 2,356,400</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

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, 2022:

	<u>Balance</u> <u>07-01-21</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06-30-22</u>	<u>Current</u> <u>Portion</u>
Morgantown Bank loan (a)	\$ 19,491	\$ -0-	\$ (19,491)	\$ -0-	\$ -0-
General obligation lease (b)	3,272,500	-0-	(139,583)	3,132,917	127,083
Premium on lease (b)	<u>279,700</u>	<u>-0-</u>	<u>(14,044)</u>	<u>265,656</u>	<u>-0-</u>
Total governmental activities	<u>\$3,571,691</u>	<u>\$ -0-</u>	<u>\$(173,118)</u>	<u>\$3,398,573</u>	<u>\$ 127,083</u>

(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. This was paid in full during the year ended June 30, 2022.

(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, 2022 are as follows:

June 30,	Principal	Interest	Total
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
2027	142,083	85,167	227,250
2028 – 2032	785,417	353,318	1,138,735
2033 – 2037	922,500	217,265	1,139,765
2038 – 2041	<u>756,668</u>	<u>59,625</u>	<u>816,293</u>
	<u>\$ 3,132,917</u>	<u>\$ 1,099,322</u>	<u>\$ 4,232,239</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 7. DEPRECIATION EXPENSE

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 47,858
Police	20,874
Fire	21,901
Highways and streets	133,730
Recreational	65,848
Cemetery	1,075
Industrial Holding Corporation	<u>8,440</u>
	<u>\$ 299,726</u>
Component unit	
Utility Commission	<u>\$ 165,960</u>

NOTE 8. INTEREST EXPENSE

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

General government	\$ 102,326
Industrial Holding Corporation	<u>436</u>
	<u>\$ 102,762</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, 2022:

	<u>Cash</u>
Governmental activities	
Capital project – park renovations	<u>\$ 259,313</u>
Total governmental activities	<u>\$ 259,313</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 Public Pensions Authority ("KPPA") administers the CERS. The plan issues publicly available financial statements on the KPPA website at <http://kyret.ky.gov/>.

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

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, 2022

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

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

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

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 11. PENSION PLAN (Continued)

For the year ended June 30, 2022, the City contributed 26.95% (non-hazardous – 21.17% for the pension fund and 5.78% for insurance) and 44.33% (hazardous – 33.86% for the pension fund and 10.47% for insurance) of each employee's creditable compensation to CERS, in accordance with its actuarially determined contribution rate. The City's employer contributions to CERS for pension benefits were \$184,215 (\$78,084 non-hazardous and \$106,131 hazardous) for the year ended June 30, 2022.

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

At June 30, 2022, the City reported a liability of \$1,803,194 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and rolled-forward using generally accepted actuarial principles. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportionate share was 0.009981% for non-hazardous and 0.043830% for hazardous.

For the year ended June 30, 2022, the City recognized a pension expense reduction of \$7,487 to its pension fund contributions of \$184,215. At June 30, 2022, 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	\$ 39,484	\$ 6,176
Changes of assumptions	23,114	-0-
Difference between projected and actual earnings on plan investments	61,947	272,025
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,068	27,951
Company contributions subsequent to the measurement date	<u>184,215</u>	<u>-0-</u>
	<u>\$ 345,828</u>	<u>\$ 306,152</u>

The \$184,215 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, 2023.

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,	
2023	\$ (6,342)
2024	(37,003)
2025	(38,136)
2026	<u>(63,058)</u>
	<u>\$ (144,539)</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

NOTE 11. PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled forward from the valuation date (June 30, 2020) to the measurement period ending June 30, 2021, using generally accepted actuarial principles. There was no legislation enacted during the 2021 legislative session that had a material change in benefit provisions for any of the systems.

The Board of Trustees adopted new actuarial assumptions for the period ended June 30, 2021. These assumptions are documented in the report titled "Kentucky Public Pensions Authority 2018 Actuarial Experience Study for the Period Ending June 30, 2020". The total pension liability as of June 30, 2021, was determined using these updated assumptions. The assumptions are:

Inflation	2.30%
Salary increases	3.30% to 10.30%
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 projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy (non-disabled) 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 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. equity	21.75%	5.70%
Non-U.S. equity	21.75%	6.35%
Private equity	10.00%	9.70%
Specialty credit / high yield	15.00%	2.80%
Core bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real estate	10.00%	5.40%
Real return	<u>10.00%</u>	4.55%
Total	100.00%	

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

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, 2021. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KPPA Board of Trustees as required to be paid by state statute.

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

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

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

	1% Decrease (5.25%)	Current Rate (6.25%)	1% Increase (7.25%)
Non-hazardous	\$ 816,174	\$ 636,370	\$ 487,586
Hazardous	<u>1,487,280</u>	<u>1,166,824</u>	<u>905,655</u>
Total	<u>\$ 2,303,454</u>	<u>\$ 1,803,194</u>	<u>\$ 1,393,241</u>

Payable to the Pension Plan

At June 30, 2022, the City reported a payable of \$39,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

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

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Public Pensions Authority' 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 Public Pensions Authority ("KPPA"), pursuant to Kentucky Revised Statute Section 61.645 and covers substantially all regular full-time City employees (members). KPPA issues publicly available financial statements on the KPPA 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 every 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, 2022

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

Contributions

The contribution requirements of the participating employers are established and may be amended by the KPPA Board of Trustees. The City's contractually required contribution rate for the year ended June 30, 2022 was 5.78% (non-hazardous) and 10.47% (hazardous) of covered payroll. Contributions to the Insurance Fund were \$54,136 (\$21,319 non-hazardous and \$32,817 hazardous) for the year ended June 30, 2022. 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 2021. This method is expected to be reflective of the employers' long-term contribution effort. At June 30, 2022, the City's proportion was 0.009979% (non-hazardous) and 0.043830% (hazardous).

Net OPEB Liability

At June 30, 2022, the City reported a liability of \$545,428 for its proportionate share of the net OPEB liability. The City's net OPEB liability was measured as of June 30, 2021 and was based on an actuarial valuation date as of June 30, 2020. The net OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles.

Actuarial Assumptions

The total OPEB liability in the June 30, 2020, 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%
Investment rate of return	6.25%
Healthcare cost trend rates (Pre-65)	Initial trend starting at 6.25% at January 1, 2021, 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 5.50% at January 1, 2021, 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 projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy (non-disabled) 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 2019. 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, 2022

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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equity	21.75%	5.70%
Non-U.S. equity	21.75%	6.35%
Private equity	10.00%	9.70%
Specialty credit / high yield	15.00%	2.80%
Core bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real estate	10.00%	5.40%
Real return	<u>10.00%</u>	<u>4.55%</u>
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 5.20% for non-hazardous and 5.05% 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 1.92% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2021. 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 5.20% (non-hazardous) and 5.05% (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 (4.20% and 4.05%) or 1-percentage-point higher (6.20% or 6.05%) than the current rate:

	1% Decrease	Current Rate	1% Increase
Non-hazardous	\$ 262,291	\$ 191,036	\$ 132,560
Hazardous	<u>513,801</u>	<u>354,392</u>	<u>226,316</u>
Total	<u>\$ 776,092</u>	<u>\$ 545,428</u>	<u>\$ 358,876</u>

CITY OF MORGANTOWN, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

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	\$ 137,523	\$ 191,036	\$ 255,627
Hazardous	232,217	354,392	504,027
Total	<u>\$ 369,740</u>	<u>\$ 545,428</u>	<u>\$ 759,654</u>

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

At June 30, 2022, 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	\$ 41,114	\$ 95,164
Changes of assumptions	139,520	310
Difference between projected and actual earnings on plan investments	31,980	128,570
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,760	18,837
City contributions subsequent to the measurement date	<u>54,136</u>	<u>-0-</u>
	<u>\$ 287,510</u>	<u>\$ 242,881</u>

The \$54,136 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, 2023. 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,	
2023	\$ 2,854
2024	3,563
2025	(4,203)
2026	(19,541)
2027	<u>7,820</u>
	<u>\$ (9,507)</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, 2022

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Property taxes	\$ 237,000	\$ 265,000	\$ 360,348	\$ 95,348
Licenses and permits	35,500	5,500	67,436	61,936
Intergovernmental revenue	351,500	76,500	77,066	566
Insurance fees	350,000	350,000	399,879	49,879
Occupational fees	1,600,000	1,600,000	2,126,257	526,257
Grants	1,108,500	1,108,500	721,516	(386,984)
Interest income	900	900	11,174	10,274
Charges for services	23,500	23,500	41,796	18,296
Other revenues	<u>48,200</u>	<u>50,200</u>	<u>66,384</u>	<u>16,184</u>
Total revenues	3,755,100	3,480,100	3,871,856	391,756
Expenditures				
General government	1,243,000	1,278,000	1,096,078	181,922
Police	865,400	865,400	787,539	77,861
Fire	98,150	63,150	23,307	39,843
Highways and streets	1,411,500	1,411,500	1,455,043	(43,543)
Recreational	4,750,600	4,750,600	3,564,018	1,186,582
Cemetery	<u>44,500</u>	<u>44,500</u>	<u>1,470</u>	<u>43,030</u>
Total expenditures	<u>8,413,150</u>	<u>8,413,150</u>	<u>6,927,455</u>	<u>1,485,695</u>
Excess (deficit) of revenues over (under) expenditures	(4,658,050)	(4,933,050)	(3,055,599)	1,877,451
Other financing sources				
Proceeds from disposition of capital asset	-0-	-0-	25,000	25,000
Transfers in	<u>-0-</u>	<u>-0-</u>	<u>302,320</u>	<u>302,320</u>
Total other financing sources	<u>-0-</u>	<u>-0-</u>	<u>327,320</u>	<u>327,320</u>
Net change in fund balance	(4,658,050)	(4,933,050)	(2,728,279)	2,204,771
Fund balance, beginning of year	<u>6,842,146</u>	<u>6,842,146</u>	<u>6,842,146</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 2,184,096</u>	<u>\$ 1,909,096</u>	<u>\$ 4,113,867</u>	<u>\$2,204,771</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, 2022

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Restaurant transient tax	\$ 260,000	\$ 240,000	\$ 335,911	\$ 95,911
Interest income	<u>-0-</u>	<u>-0-</u>	<u>940</u>	<u>940</u>
Total revenues	260,000	240,000	336,851	96,851
Expenditures				
Recreational	<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>
Excess (deficit) of revenues over (under) expenditures	260,000	240,000	336,851	96,851
Other financing uses				
Transfers out	<u>(270,000)</u>	<u>(270,000)</u>	<u>(302,320)</u>	<u>(32,320)</u>
Total other financing uses	<u>(270,000)</u>	<u>(270,000)</u>	<u>(302,320)</u>	<u>(32,320)</u>
Net change in fund balance	(10,000)	(30,000)	34,531	64,531
Fund balance, beginning of year	<u>34,998</u>	<u>34,998</u>	<u>34,998</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 24,998</u>	<u>\$ 4,998</u>	<u>\$ 69,529</u>	<u>\$ 64,531</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, 2022

	Original Budget	Amended Budget	Actual	Variance
Revenues				
Rent	\$ 7,200	\$ 7,200	\$ 22,440	\$ 15,240
Interest income	<u>4,000</u>	<u>4,000</u>	<u>2,116</u>	<u>(1,884)</u>
Total revenues	11,200	11,200	24,556	13,356
Expenditures				
Industrial development	<u>233,000</u>	<u>233,000</u>	<u>28,717</u>	<u>204,283</u>
Total expenditures	233,000	233,000	28,717	204,283
Net change in fund balance	(221,800)	(221,800)	(4,161)	217,639
Fund balance, beginning of year	<u>470,874</u>	<u>470,874</u>	<u>470,874</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 249,074</u>	<u>\$ 249,074</u>	<u>\$ 466,713</u>	<u>\$ 217,639</u>

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

	2022	2021	2020	2019	2018
Proportion of total net pension liability	0.019025%	0.019073%	0.019052%	0.015836%	0.016489%
Proportionate share of the net pension liability	\$ 1,803,194	\$ 2,108,440	\$ 1,949,174	\$ 1,410,811	\$ 1,473,636
Covered employee payroll	\$ 682,282	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Share of the net pension liability (asset) as a % of its covered payroll	264.29%	388.52%	349.60%	265.61%	319.63%
Plan fiduciary net position as a % of total pension liability	55.95%	46.82%	49.43%	52.40%	52.40%

SCHEDULE OF PENSION CONTRIBUTIONS

	2022	2021	2020	2019	2018
Contractually required contribution	\$ 184,215	\$ 132,600	\$ 134,868	\$ 107,665	\$ 124,902
Actual contribution	(184,215)	(132,600)	(134,868)	(107,665)	(124,902)
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered employee payroll	\$ 682,282	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Contributions as a % of covered employee payroll	27.00%	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

	2022	2021	2020	2019	2018
Proportion of net OPEB liability	0.020772%	0.020750%	0.020624%	0.015862%	0.017990%
Proportionate share of the net OPEB liability	\$ 545,428	\$ 652,700	\$ 501,191	\$ 414,098	\$ 538,762
Covered employee payroll in year of measurement	\$ 682,282	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Share of the net OPEB liability (asset) as a % of its covered payroll	79.94%	120.27%	89.89%	77.96%	116.86%
Plan fiduciary net position as a % of total OPEB liability	62.91%	53.89%	61.75%	59.76%	54.52%

SCHEDULE OF OPEB CONTRIBUTIONS

	2022	2021	2020	2019	2018
Contractually required contribution	\$ 54,136	\$ 38,157	\$ 38,599	\$ 40,895	\$ 33,300
Actual contribution	(54,136)	(38,157)	(38,599)	(40,895)	(33,300)
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered employee payroll	\$ 682,282	\$ 542,682	\$ 557,547	\$ 531,154	\$ 461,040
Contributions as a % of covered employee payroll	7.93%	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, 2022 and the related notes to the financial statements, and have issued our report thereon dated January 26, 2023.

Report on Internal Control over Financial Reporting

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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and response as item 2022-01.

City of Morgantown, Kentucky's Response to Findings

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

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 26, 2023

**CITY OF MORGANTOWN, KENTUCKY
SCHEDULE OF FINDING AND RESPONSE
June 30, 2022**

FINDING – FINANCIAL STATEMENT AUDIT

2022-01 Uninsured Deposits

Criteria

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

Condition

At June 30, 2022, the City's bank balance of \$5,062,123 exceeded the FDIC insurance coverage and pledged securities by \$199,009.

Effect

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

Recommendation

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

Response

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

Beginning in January 2023, the City of Morgantown and the banking institution began using the IntraFi network deposits. This network of financial institutions is utilized to divide the total amount of deposits into separate amounts nightly at different institutions under the FDIC insurance maximum coverage of \$250,000. This allows for all bank balances to be FDIC insured without the need for pledged securities.

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