

CITY OF MORGANTOWN, KENTUCKY
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION

JUNE 30, 2018

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OFFICIALS OF THE CITY OF MORGANTOWN, KENTUCKY

JUNE 30, 2018

MAYOR

Honorable Billy Phelps

CITY COUNCIL MEMBERS

Mr. Dustin Embry

Mrs. Sharon Johnson

Mr. Jason Gaskey

Mr. Russell Givens

Mr. Gary Southerland

Mr. Sterling White

CITY ADMINISTRATIVE OFFICER

Mr. Jerrod Barks



DAVID GILBERT CPA
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MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Morgantown, Kentucky

We have audited the accompanying financial statements of the governmental activities and the business-type activities, and each major fund of City of Morgantown, Kentucky as of and for the year ended June 30, 2018, 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 an opinion 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. 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 opinion.

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 business-type activities, and each major fund of City of Morgantown, Kentucky, as of June 30, 2018, 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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as pages 27-28, and certain pension plan information on pages 29-31 be presented to supplement the basic financial statements. Such 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. 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.

City of Morgantown has elected to omit the Management Discussion and Analysis. Such 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018, 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 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.

Gilbert & Gilbert CPA's,
Gilbert & Gilbert CPA's
December 19, 2018

BASIC FINANCIAL STATEMENTS

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS:			
Cash on Hand and in Bank and Certificates of Deposit	\$ 2,750,244	\$ 448,737	\$3,198,981
Property Tax Receivable, Net	3,695	0	3,695
Accounts Receivable, Net	0	106,309	106,309
Other Receivables	0	0	0
Note Receivable	102,959	0	102,959
Capital Lease Receivable	75,448	0	75,448
Accrued Income Unbilled	0	46,063	46,063
Restricted Cash	0	0	0
Prepaid Insurance	25,844	34,452	60,296
Materials and Supplies	0	43,845	43,845
Capital Assets, Net	<u>5,041,115</u>	<u>2,756,036</u>	<u>7,797,151</u>
TOTAL ASSETS	<u>7,999,305</u>	<u>3,435,442</u>	<u>11,434,747</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows-Pensions	<u>552,436</u>	<u>374,494</u>	<u>926,930</u>
CURRENT LIABILITIES:			
Accounts Payable	448,118	41,857	489,975
Taxes Payable	39,693	8,938	48,631
Accrued Wages and Taxes	12,412	13,973	26,385
Accrued Compensated Absences	27,898	22,885	50,783
Advanced Rent	3,651	0	3,651
Customer Deposits	0	115,806	115,806
Current Portion of Notes and Lease Purchases Obligation	0	11,548	11,548
Current Portion of Notes Payable IHC	<u>18,208</u>	<u>0</u>	<u>18,208</u>
TOTAL CURRENT LIABILITIES	<u>549,980</u>	<u>215,007</u>	<u>764,987</u>
NONCURRENT LIABILITIES:			
Notes Payable and Lease Purchases Obligation, Net of Current Portion	0	31,764	31,764
Net Pension Liability	1,473,636	1,288,530	2,762,166
Notes Payable, IHC, Net of Current Portion	<u>57,240</u>	<u>0</u>	<u>57,240</u>
TOTAL NONCURRENT LIABILITIES	<u>1,530,876</u>	<u>1,320,294</u>	<u>2,851,170</u>
TOTAL LIABILITIES	<u>2,080,856</u>	<u>1,535,301</u>	<u>3,616,157</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows-Pensions	<u>32,696</u>	<u>33,855</u>	<u>66,551</u>
NET POSITION:			
Unrestricted	4,965,667	(471,945)	4,493,722
Restricted for Debt Service	0	0	0
Restricted for Capital Improvements	0	0	0
Invested in Capital Assets, Net Of Related Debt	<u>1,472,522</u>	<u>2,712,725</u>	<u>4,185,247</u>
TOTAL NET POSITION	<u>\$ 6,438,189</u>	<u>\$ 2,240,780</u>	<u>\$ 8,678,969</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Net (Expense) Revenue and Changes in Net Position						
	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities:							
General Government	\$ 618,725	\$ 17,203	\$ 3,251	\$ 0	\$ (598,271)	\$ 0	\$ (598,271)
Public Safety:							
Police Department	570,635	1,190	26,102	0	(543,343)	0	(543,343)
Fire Department	54,909	650	0	0	(54,259)	0	(54,259)
Highways and Streets	493,791	0	48,213	0	(445,578)	0	(445,578)
Recreational	188,425	28,421	0	0	(160,004)	0	(160,004)
Cemetery	1,039	4,500	0	0	3,461	0	3,461
Industrial Holding Corp.	<u>149,416</u>	<u>0</u>	<u>19,995</u>	<u>0</u>	<u>(129,421)</u>	<u>0</u>	<u>(129,421)</u>
Total Governmental Activities	<u>2,076,940</u>	<u>51,964</u>	<u>97,561</u>	<u>0</u>	<u>(1,927,415)</u>	<u>0</u>	<u>(1,927,415)</u>
Business-Type Activities:							
Water-Sewer System	967,285	798,635	0	0	0	(168,650)	(168,650)
Gas System	<u>1,199,595</u>	<u>1,218,947</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,352</u>	<u>19,352</u>
Total Business-Type Activities	<u>2,166,880</u>	<u>2,017,582</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(149,298)</u>	<u>(149,298)</u>
Total Primary Government	<u>\$4,243,820</u>	<u>\$2,069,546</u>	<u>\$ 97,561</u>	<u>\$ 0</u>	<u>\$ (1,927,415)</u>	<u>\$ (149,298)</u>	<u>\$ (2,076,713)</u>

General Revenues		
Taxes		
Property	212,540	212,540
Franchise	10,298	10,298
Occupational Fees	1,671,452	1,671,452
Licenses and Permits	355,639	355,639
Interest Income	2,221	2,878
Miscellaneous	17,390	17,390
Disposition of Assets	(113,586)	(113,586)
Donations	20,049	20,049
IHC Interest Income	3,293	3,293
IHC Loan and Capital Lease Income	<u>14,790</u>	<u>14,790</u>
Total General Revenues and Transfers	<u>2,194,086</u>	<u>2,194,743</u>
Change in Net Position	<u>266,671</u>	<u>118,030</u>

NET POSITION-BEGINNING	5,904,423	2,685,796	8,590,219
PRIOR PERIOD-ADJUSTMENT	<u>267,095</u>	<u>(296,375)</u>	<u>(29,280)</u>
NET POSITION-BEGINNING AS ADJUSTED	<u>6,171,518</u>	<u>2,389,421</u>	<u>8,560,939</u>
NET POSITION-ENDING	<u>\$ 6,438,189</u>	<u>\$ 2,240,780</u>	<u>\$ 8,678,969</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MORGANTOWN, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>Governmental Funds</u>		Total
	General	Special Revenue	Governmental Funds
ASSETS:			
Cash on hand and in Bank and Certificates of Deposit	\$2,220,378	\$529,866	\$2,750,244
Property Tax Receivable, Net	3,695	0	3,695
Note Receivable	102,959	0	102,959
Grant Receivable	0	0	0
Prepaid Insurance	<u>25,844</u>	<u>0</u>	<u>25,844</u>
TOTAL ASSETS	<u>\$2,352,876</u>	<u>\$529,866</u>	<u>\$2,882,742</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Accounts Payable	440,468	7,650	448,118
Taxes Payable	39,693	0	39,693
Accrued Wages & Taxes	12,412	0	12,412
Accrued Compensated Absences	27,898	0	27,898
Deferred Revenue	<u>102,959</u>	<u>0</u>	<u>102,959</u>
TOTAL LIABILITIES	<u>623,430</u>	<u>7,650</u>	<u>631,080</u>
FUND EQUITY:			
Unassigned Fund Balance	<u>1,729,446</u>	<u>522,216</u>	<u>2,251,662</u>
TOTAL FUND EQUITY	<u>1,729,446</u>	<u>522,216</u>	<u>2,251,662</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$2,352,876</u>	<u>\$529,866</u>	<u>\$2,882,742</u>

Total Fund Balances-Total Governmental funds \$ 2,251,662

Amounts reported for *Governmental Activities* in the Statement of Net Position are different because:

For governmental fund accounting, notes receivable are required to be off set by a liability, deferred revenue as those funds are not readily available to expend, and cannot be included in fund balance.

102,959

Capital leases receivable of \$75,448 less advanced rents of \$3,651 related to financing land and buildings sold to level industries are reported in the funds.

71,797

Capital assets of \$7,966,203 net of accumulated depreciation of (2,925,088) are not financial resources and therefore, are not reported in the funds. See Note 6 for additional detail.

5,041,115

Net Pension Liability of \$1,473,636 plus deferred inflows of resources of \$32,696 less deferred outflows of resources of \$552,432 associated with the pension plan liability are not reported in the fund financial statements.

(953,896)

Notes payable obligation of \$75,448 is not due and payable in the current period and is not reported in the funds. See Note 7 for additional detail.

(75,448)

Net Position of Governmental Activities

\$ 6,438,189

The notes to the financial statements are an integral part of this statement.

CITY OF MORGANTOWN, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE - GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2018

	<u>Governmental Funds</u>		Total
	<u>General</u>	Special <u>Revenue</u>	Governmental <u>Funds</u>
REVENUES:			
Property Taxes	\$ 222,838	\$ 0	\$ 222,838
Licenses and Permits	2,044,294	0	2,044,294
Intergovernmental	77,566	19,995	97,561
Charges for Services	33,465	0	33,465
Interest Income	2,221	3,293	5,514
Donations	20,049	0	20,049
Other Revenues	<u>33,142</u>	<u>33,420</u>	<u>66,562</u>
TOTAL REVENUES	<u>2,433,575</u>	<u>56,708</u>	<u>2,490,283</u>
EXPENDITURES:			
Administrative	561,172	0	561,172
Public Safety:			
Police Department	424,352	0	424,352
Fire Department	32,379	0	32,379
Highways and Streets	401,755	0	401,755
Recreational	168,259	0	168,259
Cemetery	650	0	650
Industrial Development	0	99,875	99,875
Capital Outlay	474,355	36,215	510,570
Debt Services:			
Principal	12,782	1,295,860	1,308,642
Interest	<u>179</u>	<u>41,101</u>	<u>41,280</u>
TOTAL EXPENDITURES	<u>2,075,883</u>	<u>1,473,051</u>	<u>3,548,934</u>
EXCESS/(DEFICIENCY) OF			
REVENUES OVER EXPENDITURE	<u>357,692</u>	<u>(1,416,343)</u>	<u>(1,058,651)</u>
OTHER FINANCING SOURCES/(USES):			
Proceeds from Sale of Assets	0	1,350,000	1,350,000
Operating Transfers In or (Out)	<u>(150,000)</u>	<u>150,000</u>	<u>0</u>
Net Other Financing Sources/(Uses):	<u>(150,000)</u>	<u>1,500,000</u>	<u>1,350,000</u>
EXCESS/(DEFICIENCY) OF			
REVENUES OVER EXPENDITURES			
AND OTHER SOURCES/(USES)	207,692	83,657	291,349
FUND BALANCE AT BEGINNING			
OF YEAR	<u>1,521,754</u>	<u>438,559</u>	<u>1,960,313</u>
FUND BALANCE AT END OF YEAR			
	\$ <u>1,729,446</u>	\$ <u>522,216</u>	\$ <u>2,251,662</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MORGANTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND-CONTINUED
YEAR ENDED JUNE 30, 2018

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the
Statements of Activities**

Amounts reported for *Governmental Activities* in the Statement
of Activities are different because:

Net Changes in Fund Balances-Total Governmental Funds \$ 291,349

Governmental Funds report capital outlays as expenditures. However, in the
Statement of Activities, the cost of those assets are allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which depreciation of \$147,842 and capital asset dispositions of
\$1,478,042 exceeded capital outlays of \$510,570 in the current period. (1,115,314)

Governmental Funds report capital lease as revenue when received,
however in the Statement of Activities capital lease are reported on
the accrued basis of accounting. This is the amount of change in
capital lease receivable recognized in the Statement of Activities. (18,630)

Pension expense is reported in the Governmental Fund when paid as
contribution to the retirement system, however in the Statement of
Activities pension expense is the City's proportionate share of the
State Pension expense as adjusted by current year changes to
deferred outflows and inflows of resources. (199,376)

The proceeds of debt issuance provide current financial resources to
Governmental Funds, but issuing debt increases long-term liabilities in the
Statement of Net Position. Repayment of debt principal is an expenditure
in the governmental funds, but the repayment reduces long-term debt in the
Statement of Net Position. This is the amount by which debt repayments
of \$1,308,642 exceeded debt proceeds of \$0. 1,308,642

Change in Net Position of Governmental Activities \$ 266,671

The notes to the financial statements are an integral part of this statement.

CITY OF MORGANTOWN, KENTUCKY
MORGANTOWN UTILITY COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2018

	Water-Sewer System	Gas System	Total
CURRENT ASSETS			
Petty Cash and Cash on Hand	\$ 110	\$ 110	\$ 220
Cash in Bank	(9,584)	341,768	332,184
Certificates of Deposit	0	116,333	116,333
Accounts Receivable	74,591	31,718	106,309
Other Receivables	0	0	0
Accrued Income Unbilled	35,175	10,888	46,063
Prepaid Insurance	17,226	17,226	34,452
Materials and Supplies	<u>15,422</u>	<u>28,423</u>	<u>43,845</u>
Total Current Assets	<u>132,940</u>	<u>546,466</u>	<u>679,406</u>
RESTRICTED FUNDS			
Bond Interest and Redemption Fund	0	0	0
Depreciation Fund	0	0	0
Debt Reserve Fund	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL RESTRICTED ASSETS	<u>0</u>	<u>0</u>	<u>0</u>
FIXED PROPERTY			
Property, Plant & Equipment	6,028,802	2,503,596	8,532,398
Accumulated Depreciation	<u>(3,816,833)</u>	<u>(1,959,529)</u>	<u>(5,776,362)</u>
TOTAL NET FIXED ASSETS	<u>2,211,969</u>	<u>544,067</u>	<u>2,756,036</u>
TOTAL ASSETS	<u>2,344,909</u>	<u>1,090,533</u>	<u>3,435,442</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows of Resources	<u>185,200</u>	<u>189,294</u>	<u>374,494</u>
CURRENT LIABILITIES			
Accounts Payable	27,517	14,340	41,857
Taxes Payables	1,699	1,519	3,218
Other Payables	3,190	2,530	5,720
Accrued Wages	5,858	8,115	13,973
Accrued Compensated Absences	9,510	13,375	22,885
Lease Purchase Obligations	0	0	0
Current Portion of Note Payable	5,774	5,774	11,548
Customer Meter Deposits	<u>37,076</u>	<u>78,730</u>	<u>115,806</u>
TOTAL CURRENT LIABILITIES	<u>90,624</u>	<u>124,383</u>	<u>215,007</u>
NON CURRENT LIABILITIES			
Long Term Portion of Note Payable	15,882	15,882	31,764
Net Pension Liability	<u>639,987</u>	<u>648,543</u>	<u>1,288,530</u>
TOTAL NON CURRENT LIABILITIES	<u>655,869</u>	<u>664,425</u>	<u>1,320,294</u>
TOTAL LIABILITIES	<u>746,493</u>	<u>788,808</u>	<u>1,535,301</u>
DEFERRED INFLOWS OF REVENUES:			
Deferred Inflows-Pensions	<u>15,738</u>	<u>18,117</u>	<u>33,855</u>
NET POSITION			
Investment in Capital Assets, Net of related debt	2,190,314	522,411	2,712,725
Restricted for Debt Service	0	0	0
Restricted for Capital Improvements	0	0	0
Unrestricted	<u>(422,436)</u>	<u>(49,509)</u>	<u>(471,945)</u>
TOTAL NET POSITION	<u>1,767,878</u>	<u>472,902</u>	<u>2,240,780</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MORGANTOWN, KENTUCKY
MORGANTOWN UTILITY COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Water-Sewer <u>System</u>	Gas <u>System</u>	<u>Total</u>
OPERATING REVENUES			
Metered Sales of Water, Sewer & Gas	\$ 777,803	\$ 1,199,564	\$ 1,977,367
Installation Fees	3,450	2,247	5,697
Tap Fees, Service Charges, Misc.	7,556	7,140	14,696
Penalties	<u>9,826</u>	<u>9,996</u>	<u>19,822</u>
TOTAL OPERATING REVENUES	<u>798,635</u>	<u>1,218,947</u>	<u>2,017,582</u>
OPERATING EXPENSES			
Salaries	272,240	305,819	578,059
Gas Purchases	0	437,113	437,113
Materials and Supplies	20,341	10,487	30,828
Purifying Agents	26,720	0	26,720
Office Supplies	10,775	10,622	21,397
Gas & Oil	6,904	6,902	13,806
Equipment Maintenance	4,694	4,082	8,776
Telephone	6,787	4,050	10,837
Power Purchased	5,639	6,112	11,751
Utilities	6,555	0	6,555
Insurance	30,659	30,659	61,318
Commissioner's Fees	9,421	9,421	18,842
Rent Expense	0	0	0
Payroll Tax Expense	19,794	23,964	43,758
Kentucky Retirement	12,283	14,222	26,505
Pension Expense	111,189	128,702	239,891
Contract Labor	828	7,915	8,743
Professional Fees	10,628	11,355	21,983
Depreciation Expense	121,709	55,812	177,521
Bad Debts	3,760	16,043	19,803
Employee Benefits	93,403	93,403	186,806
Miscellaneous	12,270	10,699	22,969
Training School Expense	2,328	2,578	4,906
Dues	3,931	1,320	5,251
General Repairs	11,503	1,837	13,340
Sewer Repairs	0	0	0
Sewer Lift Station Expense	15,496	0	15,496
Sewer Plant Expense	70,615	0	70,615
Water Plant Expense	75,858	0	75,858
Engineering Fees	<u>0</u>	<u>5,333</u>	<u>5,333</u>
TOTAL OPERATING EXPENSES	<u>966,330</u>	<u>1,198,450</u>	<u>2,164,780</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>(167,695)</u>	<u>20,497</u>	<u>(147,198)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	39	618	657
Interest Expense	(955)	(1,145)	(2,100)
Inner Company Transfers	<u>(25,000)</u>	<u>25,000</u>	<u>0</u>
NONOPERATING REVENUE (EXPENSES)	<u>(25,916)</u>	<u>24,473</u>	<u>(1,443)</u>
NET INCOME	<u>(193,611)</u>	<u>44,970</u>	<u>(148,641)</u>
NET POSITION, JULY 1, 2017	2,098,626	587,170	2,685,796
PRIOR PERIOD ADJUSTMENT	<u>(137,137)</u>	<u>(159,238)</u>	<u>(296,375)</u>
NET POSITION, JULY 1, 2018 (RESTATED)	<u>1,961,489</u>	<u>427,932</u>	<u>2,389,421</u>
NET POSITION JUNE 30, 2018	\$ <u>1,767,878</u>	\$ <u>472,902</u>	\$ <u>2,240,780</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MORGANTOWN, KENTUCKY
MORGANTOWN UTILITY COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Water Sewer System</u>	<u>Gas System</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers	\$ 796,598	\$ 1,217,791	\$2,014,389
Cash payments to suppliers for goods and services	(262,356)	(499,299)	(761,655)
Cash payments to employees for services	<u>(519,441)</u>	<u>(572,678)</u>	<u>(1,092,119)</u>
Net cash provided (used) by operating activities	<u>14,801</u>	<u>145,814</u>	<u>160,615</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Interest paid on debt	(955)	(1,145)	(2,100)
Principal paid on debt	(8,093)	(8,093)	(16,186)
Intercompany Transfer	<u>(25,000)</u>	<u>25,000</u>	<u>0</u>
Net cash provided by (used) in capital and related financing activities	<u>(34,048)</u>	<u>15,762</u>	<u>(18,286)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment Income	39	618	657
Increase in restricted funds	<u>0</u>	<u>0</u>	<u>0</u>
Net cash provided by (used) in investing activities	<u>39</u>	<u>618</u>	<u>657</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(19,208)	162,194	142,986
Cash and cash equivalents, beginning of year	<u>9,734</u>	<u>296,017</u>	<u>305,751</u>
Cash and cash equivalents, end of year	<u>\$ (9,474)</u>	<u>\$ 458,211</u>	<u>\$ 448,737</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:			
Operating income	\$ (167,695)	\$ 20,497	\$ (147,198)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation Expense	121,709	55,812	177,521
Changes in assets and liabilities and deferred outflows and inflows:			
(Increase) decrease in accounts receivable	(1,226)	278	(948)
(Increase) decrease in accrued unbilled income	(841)	(1,434)	(2,275)
(Increase) decrease in prepaid insurance	(121)	(121)	(242)
(Increase) decrease in materials & supplies	639	275	914
Increase (decrease) in accounts payable	(12,392)	(12,459)	(24,851)
Increase (decrease) in taxes payable	(209)	(130)	(339)
Increase (decrease) in other payables	(641)	(210)	(851)
Increase (decrease) in accrued wages	579	214	793
Increase (decrease) in accrued compensated absences	532	(3,067)	(2,535)
Increase (decrease) in customer meter deposits	697	1,285	1,982
Increase (decrease) in net pension obligations	<u>73,770</u>	<u>84,874</u>	<u>158,644</u>
Net cash provided (uses) by operating activities	<u>\$ 14,801</u>	<u>\$ 145,814</u>	<u>\$ 160,615</u>

SUPPLEMENTAL CASH FLOW INFORMATION:

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
CITY OF MORGANTOWN, KENTUCKY
JUNE 30, 2018

1. Summary Of Significant Accounting Policies

This summary of significant accounting policies of Morgantown, Kentucky, is presented to assist in the understanding of the financial statements.

The City of Morgantown was incorporated on January 6, 1813 and operates under a mayor-council form of government and provides the following services as authorized: public safety (police and fire), highways and streets, recreational, planning and zoning, cemetery, industrial development general administrative services and utilities (water and gas).

A. 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 the 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 following entities have been included in the City's financial statements:

Morgantown Utility Commission
City of Morgantown Industrial Holding Corporation

Separate audited financial statements for Morgantown Utility Commission are also available, and can be obtained by contacting Morgantown Utility Commission, Morgantown, KY 42261.

B. Basis of Accounting and Measurement Focus

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all funds of the primary government except for fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Fiduciary funds are also excluded from the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The primary effect of internal activity has been eliminated from the government-wide financial statements. The government-wide Statement of Activities presents a comparison between expenses and program revenues. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants received that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which governmental functions are self-financing or draw from the general revenues of the City. Direct expenses are those that are clearly identifiable within a specific function or activity.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of the governmental and enterprise fund financial statements is on major funds, rather than reporting funds by type. Each major fund is presented in a separate column.

C. Basis of Presentation-Fund Accounting

The accounts of the City of Morgantown are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. The City has various types of funds as defined below.

Governmental Funds

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund-this fund is 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-These 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 specified purposes. The City of Morgantown has only special revenue fund, the Industrial Holding Fund. The Industrial Holding Fund reports revenues from property leases and interest income from financing property sales. The Industrial Holding company holds title to various properties and is responsible for mortgage debt on various properties.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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 30 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

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

Fund balances of governmental funds financial statements are classified as follows:

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

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.

Proprietary Funds

These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are:

Enterprise Funds-These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City of Morgantown's enterprise fund is the Morgantown Utility Commission which provides natural gas and water/sewer services to the residence of City of Morgantown.

Proprietary Fund Financial Statements uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The accounts of the Morgantown Utility Commission are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Commission's assets, liabilities, net position, revenues and expenses. Enterprises Funds account for activities; (I) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (II) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (III) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Proprietary Fund Financial Statements include a statement of net position, a statement of activities and changes in net position and a statement of cash flows. It requires the classification of net position into three components: (I) invested in capital assets, net of related debt, (II) restricted, and (III) unrestricted.

These classifications are defined as follows:

- Invested in capital assets, net of related debt-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position-this component of net position consists of net position that do meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

D. Cash and Investments

The City's cash consist of cash on hand and demand deposits and certificates of deposit. Cost approximates fair value.

The City has not formally adopted a deposit and investment policy, however, 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. Additional information concerning cash is presented in note 3.

E. 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Capital assets, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation will be 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, in years, for depreciable assets are as follows:

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

For information describing capital assets, see Note 6.

F. 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.

G. Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period.

The City of Morgantown governmental activities long-term debt consist of a lease purchase obligation for the renovation of the city pool and various notes payable. Additional information regarding long-term debt is shown in Note 7.

H. 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.

The 2017 tax rate is \$.119 per \$100 assessed valuation for real and personal property and \$.279 per \$100 assessed valuation for vehicles. The City is permitted by the State Constitution to levy taxes up to \$.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.

I. Use of Estimates and Assumptions

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Material estimates that are particularly susceptible to significant change relate to the determination of annual depreciation and net fixed assets.

J. Pensions

Employer contributions to KRS are calculated based upon creditable compensation for active members reported by employers. Employer contributions are accrued when earned and the employer has made a formal commitment to provide the contributions.

2. Budgetary Information

Budget Policy and Practice:

The Mayor submits an annual budget to the City Council in accordance with the City Charter and Kentucky Revised Statutes. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In 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.

Basis of Budgeting:

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; however, any revisions that alter total fund expenditures must be approved by the City Council. Total expenditures for a fund legally may not exceed the total appropriations. The budget was amended only once during the year. The amendment date was September 14, 2017.

3. Cash and 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, or interest bearing deposits of insured national or state banks.

At June 30, 2018, the book balance of the City's deposits were \$3,198,761 and the bank balances were \$3,266,135.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. 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

Deposits at June 30, 2018, categorized by level of risk are :

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>Bank Balance</u>	<u>Book Value</u>
Total deposit						
General Government	\$ 492,004	\$ 1,109,065	\$ 0	\$ 635,535	\$2,236,604	\$2,220,378
Special Revenues	250,000	0	0	279,866	529,866	529,866
Enterprise Funds	<u>368,333</u>	<u>131,332</u>	<u>0</u>	<u>0</u>	<u>499,665</u>	<u>448,517</u>
	<u>\$ 1,110,337</u>	<u>\$ 1,240,397</u>	<u>\$ 0</u>	<u>\$ 915,401</u>	<u>\$3,266,135</u>	<u>\$ 3,198,761</u>

The city also had \$220 of cash on hand at fiscal year end.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

4. Accounts Receivable

Enterprise funds' accounts receivable change as follows:

	<u>Water/Sewer</u>	<u>Natural Gas</u>	<u>Total Enterprise Funds</u>
Accounts Receivable, Beginning	\$ 73,365	\$ 31,996	\$ 105,361
Change in Accounts Receivable	<u>1,226</u>	<u>(278)</u>	<u>948</u>
Accounts Receivable, Ending	\$ <u>74,591</u>	\$ <u>31,718</u>	\$ <u>106,309</u>

Management has determined that all receivables carried on the balance sheet at June 30, 2018, are collectible.

5. Note Receivable

City of Morgantown agreed to loan Pride Plastics of Morgantown funds not to exceed \$150,000 for 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 to the company was \$105,000. The balance of the loan as of June 30, 2017 equalled \$102,959. There were no repayments received in the current year or the preceding four years.

6. Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2018:

Governmental Activities

General Fund

	<u>Balance 07-01-17</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Balance 06-30-18</u>
Capital Assets Not Being Depreciated:				
Land	\$ 570,638	\$ 20,000	\$ 0	\$ 590,638
Total Capital Assets Not Being Depreciated	\$ 570,638	\$ 20,000	\$ 0	\$ 590,638
Other Capital Assets:				
Buildings & Improvement	2,667,231	4,175	0	2,667,231
Infrastructure	1,696,223	420,780	0	1,696,223
Vehicles	771,088	0	109,822	771,088
Furniture, Machinery & Equipment	<u>676,425</u>	<u>29,400</u>	<u>140,855</u>	<u>676,425</u>
Total Other Capital Assets	<u>5,810,967</u>	<u>454,355</u>	<u>250,679</u>	<u>5,810,967</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	819,648	38,160	0	857,808
Infrastructure	1,012,592	36,802	0	1,049,394
Vehicles	544,943	40,256	96,679	488,520
Furniture, Machinery and Equipment	<u>393,753</u>	<u>24,184</u>	<u>95,351</u>	<u>322,586</u>
Total Accumulated Depreciation	<u>2,770,936</u>	<u>139,402</u>	<u>192,030</u>	<u>2,718,308</u>
Other Capital Assets, Net	<u>3,040,031</u>	<u>314,953</u>	<u>58,647</u>	<u>3,316,337</u>
TOTALS	\$ <u>3,610,669</u>	\$ <u>334,953</u>	\$ <u>58,647</u>	\$ <u>3,886,975</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Governmental Activities

Special Revenue Fund

	Balance <u>07-01-17</u>	<u>Acquisitions</u>	<u>Dispositions</u>	Balance <u>6-30-18</u>
Land	\$ <u>2,427,290</u>	\$ <u>36,215</u>	\$ <u>1,440,199</u>	\$ <u>1,023,306</u>
Other Capital Assets:				
Buildings	<u>337,614</u>	<u>0</u>	<u>0</u>	<u>337,614</u>
Total Other Capital Assets	<u>337,614</u>	<u>0</u>	<u>0</u>	<u>337,614</u>
Less Accumulated Depreciation for:				
Buildings	<u>219,144</u>	<u>8,440</u>	<u>20,804</u>	<u>206,780</u>
Total Accumulated Depreciation	<u>219,144</u>	<u>8,440</u>	<u>20,804</u>	<u>206,780</u>
Total Other Capital Assets, Net	<u>118,470</u>	<u>(8,440)</u>	<u>(20,804)</u>	<u>130,834</u>
Totals	<u>2,545,760</u>	<u>27,775</u>	<u>1,419,395</u>	<u>1,154,140</u>
Total Governmental Activities	\$ <u>6,156,429</u>	\$ <u>362,728</u>	\$ <u>1,478,042</u>	\$ <u>5,041,115</u>

Business-Type Activities

Water and Gas System

	Balance <u>07-01-17</u>	<u>Acquisitions</u>	<u>Dispositions</u>	Balance <u>06-30-18</u>
Capital Assets Not Being Depreciated:				
Land	\$ <u>161,084</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>161,084</u>
Total Capital Assets Not Being Depreciated	\$ <u>161,084</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>161,084</u>
Other Capital Assets:				
Buildings, Tanks, & Improvements	2,450,675	0	0	2,450,675
Distribution System	5,342,675	0	0	5,342,675
Furniture, Machinery & Equipment	<u>577,964</u>	<u>0</u>	<u>0</u>	<u>577,964</u>
Total Other Capital Assets	<u>8,371,314</u>	<u>0</u>	<u>0</u>	<u>8,371,314</u>
Less Accumulated Depreciation for:				
Buildings, Tanks & Improvements	1,643,256	55,673	0	1,698,929
Distribution System	3,451,236	96,674	0	3,547,910
Furniture, Machinery and Equipment	<u>504,349</u>	<u>25,174</u>	<u>0</u>	<u>529,523</u>
Total Accumulated Depreciation	<u>5,598,841</u>	<u>177,521</u>	<u>0</u>	<u>5,776,362</u>
Other Capital Assets, Net	<u>2,772,473</u>	<u>(177,521)</u>	<u>0</u>	<u>2,594,952</u>
TOTAL CAPITAL ASSETS	\$ <u>2,933,557</u>	\$ <u>(177,521)</u>	\$ <u>0</u>	\$ <u>2,756,036</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

7. Long-Term Debt

The City's long term debt consist of bonds payable and notes payable.

Governmental Activities

General Fund	Balance 07-01-17	Additional Borrowing	Principal Payments	Balance 06-30-18	Current Portion
A. <u>Notes Payable:</u>					
(a) Magnolia Bank	4,271	0	4,271	0	0
(b) Magnolia Bank	<u>8,511</u>	<u>0</u>	<u>8,511</u>	<u>0</u>	<u>0</u>
	<u>12,782</u>	<u>0</u>	<u>12,782</u>	<u>0</u>	<u>0</u>
 TOTAL	 \$ <u>12,782</u>	 \$ <u>0</u>	 \$ <u>12,782</u>	 \$ <u>0</u>	 \$ <u>0</u>

Governmental Activities

Special Revenue Fund (Industrial Holding Corporation)	Balance 07-01-17	Additional Borrowings	Principal Payments	Balance 06-30-18	Current Portion
B. <u>Notes Payable</u>					
(a) Morgantown Bank and Trust	\$ 94,007	\$ 0	\$ 18,559	\$ 75,448	\$ 18,208
(b) Morgantown Bank and Trust	787,712	0	787,712	0	0
(c) Morgantown Bank and Trust	31,985	0	31,985	0	0
(d) Seller Financial Mortgage	86,196	0	86,196	0	0
(e) Seller Financial Mortgage	28,732	0	28,732	0	0
(f) TVA	<u>342,676</u>	<u>0</u>	<u>342,676</u>	<u>0</u>	<u>0</u>
 TOTAL	 \$ <u>1,371,308</u>	 \$ <u>0</u>	 \$ <u>1,295,860</u>	 \$ <u>75,448</u>	 \$ <u>18,208</u>

Business-Type Activities

Water and Gas System	Balance 07-01-17	Additional Borrowings	Principal Payments	Balance 06-30-18	Current Portion
C. <u>Lease Purchase Obligation:</u>					
(a) Ford Financing:	5,068	0	5,068	0	0
Total	\$ <u>5,068</u>	\$ <u>0</u>	\$ <u>5,068</u>	\$ <u>0</u>	\$ <u>0</u>

	Balance 07-01-17	Additional Borrowing	Principal Payments	Balance 06-30-18	Current Portion
D. <u>Note Payable</u>					
Morgantown Bank and Trust	\$ <u>54,430</u>	\$ <u>0</u>	\$ <u>11,118</u>	\$ <u>43,312</u>	\$ <u>11,547</u>

NOTES TO FINANCIAL STATEMENTS-CONTINUED

7. Long-Term Debt-Continued

A Notes Payable-Governmental Activities-General Fund

(a) On October 23, 2014 the city entered into a lease purchase agreement with Magnolia Bank to purchase a vehicle for the street department. The lease bears interest at an effective interest rate of about 3.5% with semi annual payments of \$4338.16 required for three years.

b) On January 28, 2015 the city entered into a lease purchase agreement with Magnolia Bank to purchase two police cars. The lease bears interest at an effective interest rate of about 3.5% with semi annual payments of \$8,650.04 required for three years.

Street Department Principal Payments	\$ 4,271
Police Department Principal Payments	<u>8,511</u>
TOTAL	\$ <u>12,782</u>

B Notes Payable-Special Revenue Fund

(a) In May 2002, a \$260,000 loan was secured at Morgantown Bank and Trust bearing interest at 5% and maturing in May, 2022 with monthly payments of \$1,802.11. There was \$75,448 owed on this note at June 30, 2018. This note is secured by a mortgage on the land.

(b) In December, 2010 there was a \$1,300,000 loan secured at Morgantown Bank and Trust bearing interest at 4 1/2% and maturing in December 2024 with monthly payments of \$9,988.22. This note is secured by a mortgage on land owed by Morgantown Industrial Holding Corporation. During the year the property was sold and the debt was paid.

(c) In October, 2010 a \$50,140 loan was secured with Morgantown Bank & Trust bearing interest at 4 1/2% and maturing in October, 2025 with monthly payments of \$385.26. The note was paid off during the current year.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

(d-e) In December, 2011 the IHC jointly with Butler County Fiscal Court (1/2 ownership) purchased 21 acres of land. The total purchase price of \$500,000 was paid by a \$50,000 down payment and \$450,000 was financed by two sellers with 1/2 being owed by IHC. this note is secured by a mortgage on the land. This \$225,000 of notes payable bears interest at 5% and matures in December, 2021 with monthly payments of \$2,386.48. These debts were paid off during the current year.

(f) In June 2011 a \$750,000 of credit secured with Morgantown Bank and Trust was transferred to TVA. The loan bears an interest rate of 3% and requires monthly payments of \$7,298.08. The loan's were secured by a real estate mortgage. The debt was paid off during the current year.

C. Lease Purchase Obligations-Water and Gas System

(a) Lease purchase obligation through Ford Financing entered into on August 12, 2014 to purchase a 2014 Ford F 150 for \$26,214 and \$10,000 was paid at signing. The note was paid off in the current year.

D. Note Payable

The Utility Commission purchased a office building for \$300,000. The Commission initially paid \$150,506 towards the purchase and borrowed \$149,494 from Morgantown Bank and Trust to finance the balance of the purchase price. the mortgage requires 179 months payment of \$1071.91. The rate of interest is 3.50%.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

B. Future annual debt service requirements for the Special Revenue Fund (Industrial Holding Corporation) is as follows:

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2019	\$ 18,208	\$ 3,695	\$ 21,903
June 30, 2020	19,126	2,777	21,903
June 30, 2021	20,314	1,589	21,903
June 30, 2022	<u>17,800</u>	<u>452</u>	<u>18,252</u>
Total	\$ <u>75,448</u>	\$ <u>8,513</u>	\$ <u>83,961</u>

D. Future annual debt service requirements for the Business- Type Activities (Water and Gas System) for the note payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2019	\$11,547	\$1,316	\$ 12,863
June 30, 2020	11,957	906	12,863
June 30, 2021	12,383	480	12,863
June 30, 2022	<u>7,425</u>	<u>78</u>	<u>7,503</u>
	\$ <u>43,312</u>	\$ <u>2,780</u>	\$ <u>46,092</u>

8. Depreciation Expense

Depreciation expense was charged to governmental activities as follows:

General	\$ 18,971
Police	19,505
Fire	22,530
Streets & Infrastructure	57,841
Parks & Recreation	20,166
Cemetery	<u>389</u>
Total General Fund Depreciation Expense	139,402
Industrial Holding Corporation	<u>8,440</u>
Total Depreciation Expense	\$ <u>147,842</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

9. Interest Expense

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

Street Department	\$	40
Police Department		<u>139</u>
Total General Fund Interest Expense		179
Industrial Holding Corporation		<u>41,101</u>
Total Interest Expense	\$	<u>41,280</u>

10. Transfers

The City transferred \$200,000 to the Morgantown Industrial Holding Corporation this year.

11. Retirement Plan

Pension Plan

City of Morgantown is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions- For the year ended June 30, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, the City contributed 19.18% and 31.55% of each employee's nonhazardous or hazardous wages which equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% or 8.00% of wages to their own account and 1% to the health insurance fund. the employer contribution rate is set annually by the Board based on an actuarial valuation. the employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For nonhazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City contributed \$224,576 for the year ended June 30, 2018, or 100% of the required contribution. The contribution was allocated \$167,300 to the CERS pension fund and \$57,276 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources- At June 30, 2018, the City reported a liability of \$2,762,166 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was determined using the city's actual contributions for the year ended June 30, 2017. At June 30, 2017 the City's proportion was .0321340% nonhazardous and .039390% hazardous, while at June 30, 2016, the City's proportion was .0305390% nonhazardous and .0286850% hazardous.

For the year ended June 30, 2018, the City recognized pension expense of \$524,886. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual results	\$ 34,657	\$ 47,745
Changes of assumptions	522,869	0
Difference between projected and actual earnings on plan investments	30,765	0
Changes in proportion and differences between City contributions and proportionate share of contributions	171,339	18,805
Company contributions subsequent to the measurement date	<u>167,300</u>	<u>0</u>
Total	\$ <u>926,930</u>	\$ <u>66,550</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

The \$167,300 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 fiscal year ending June 30, 2019. Other Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expenses as follows:

Year ending June 30,	
2018	\$ 291,412
2019	304,802
2020	130,834
2021	(33,768)

Actuarial Assumptions- The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for any of the systems. However, subsequent to the actuarial valuation date (June 30, 2016), but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017.

Inflation	2.30%
Salary Increase	3.05%, average
Investment rate of Return	6.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash Equivalent	2.00%	1.88%
Total	100.00%	

Discount Rate- The discount rate used to measure the total pension liability was 6.25 percent at June 30, 2017. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

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

	City's proportionate share of net pension liability			
	Discount Rate	Non Hazardous	Hazardous	Total
1% decrease	5.25%	2,372,224	1,108,030	3,480,254
Current discount rate	6.25%	1,880,902	881,264	2,762,166
1% increase	7.25%	1,469,915	693,989	2,163,903

Payable to the Pension Plan- At June 30, 2018, the City reported a payable of \$30,162 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

13. Risk Management-Insurance

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. There have been claims against coverage for the current year.

14. Subsequent Events

Management has evaluated subsequent events through December 20, 2018, the date the financial statements were available to be issued.

15. Prior Period Adjustment

A. Prior period adjustment was made allocating a larger portion of the net pension liability and deferred inflows and outflows of resources associated with pensions to the Utility Commission based upon covered payroll percentages and to adjust \$29,280 as reduction to net position.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF MORGANTOWN, KENTUCKY
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET TO ACTUAL GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget
REVENUES				
Property Taxes	\$ 120,000	\$ 120,000	\$ 185,947	\$ 65,947
Licenses and Permits	29,000	29,000	54,093	25,093
Intergovernmental Revenue	108,000	108,000	77,566	(30,434)
Other Income	42,900	42,900	46,770	3,870
Insurance Fees	300,000	300,000	355,639	55,639
Occupational Fees	1,400,000	1,400,000	1,671,452	271,452
Grants Restricted	8,500	8,500	0	(8,500)
Interest	950	950	2,222	1,272
Rent	2,000	2,000	6,421	4,421
Drug Seizure	0	0	0	0
Charges for Services	<u>21,000</u>	<u>21,000</u>	<u>33,465</u>	<u>12,465</u>
TOTAL REVENUES	<u>2,032,350</u>	<u>2,032,350</u>	<u>2,433,575</u>	<u>401,225</u>
EXPENDITURES				
Administrative	783,000	783,000	573,691	209,309
Public Safety				
Police	465,900	465,900	430,933	34,967
Fire	108,150	108,150	32,012	76,138
Streets	718,500	718,500	432,287	286,213
Recreation	322,300	322,300	162,263	160,037
Cemetery	5,500	5,500	650	4,850
Industrial Development	<u>30,000</u>	<u>30,000</u>	<u>24,828</u>	<u>5,172</u>
TOTAL EXPENDITURES	<u>2,433,350</u>	<u>2,433,350</u>	<u>1,656,664</u>	<u>776,686</u>
Excess of Revenues Over (Under) Expenditures	<u>(401,000)</u>	<u>(401,000)</u>	<u>776,911</u>	<u>1,177,911</u>
Other Financing Sources (Uses)				
Transfers in (Out) to IHC-CDBG Grant	0	0	0	0
Transfers (Out) to IHC-Bond Payment	0	0	0	0
Transfers (Out) to Cem Perp	<u>(50,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>0</u>
	<u>(50,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(451,000)	(551,000)	626,911	1,177,911
Fund Balance, Beginning	<u>1,342,000</u>	<u>1,342,000</u>	<u>1,521,754</u>	<u>179,754</u>
Fund Balance, Ending	\$ <u>891,000</u>	\$ <u>791,000</u>	\$ <u>2,148,665</u>	\$ <u>1,357,665</u>

Budget Policy and Practice:

The Mayor submits an annual budget to the City Council in accordance with the City Charter and Kentucky Revised Statutes. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In 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.

Basis of Budgeting:

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; however, any revisions that alter total fund expenditures must be approved by the City Council. The budget was amended on August 13, 2017.

CITY OF MORGANTOWN, KENTUCKY
 SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET TO ACTUAL GENERAL FUND-Continued
 YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>
Explanation of differences between budgetary revenues and expenditures and GAAP revenues and expenditures.	
Revenues:	
Actual amounts (budgetary basis) "Total Revenues" From the budgetary comparison schedule.	\$ 2,433,575
Adjustments:	
None	_____0
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance-governmental funds	\$ <u>2,433,575</u>
Expenditures:	
Actual Amounts (budgetary basis) " Total Expenditures" from the budgetary comparison schedule.	\$ 1,656,664
Adjustments:	
The City budgets their expenditures on a cash basis, rather than on the modified accrual basis. On the budgetary basis expenditures are recognized when paid for and on the GAAP basis they are recognized when incurred.	
This is the change in prepaid insurance.	(1,966)
This is the change in accounts payable associated with expenditures	412,216
This is the change in payroll taxes payable.	5,700
This is the change in accrued wages payable	1,483
This is the change in accrued compensated absences	_____1,786
Total Expenditures as reported on the statement of revenues, Expenditures, and changes in fund balance-governmental funds	\$ <u>2,075,883</u>

See auditor's report.

CITY OF MORGANTOWN
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES' RETIREMENT SYSTEM
 JUNE 30, 2018

	<u>Governmental Activities</u>		<u>Business-Type</u>	<u>Total</u>
	<u>Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>	<u>Non-Hazardous</u>
Citys proportion of the net pension liability	.0286850	.015711	.014828	.0305390
Citys Proportionate share of the net pension liability	\$ 492,221	\$ 773,576	\$ 730,070	\$ 1,503,646
Citys covered-employee payroll	\$ 242,247	\$ 218,793	\$ 581,670	\$ 800,463
Citys proportionate share of the net pension liability as a percentage of its covered-employee payroll	203.19%	353.57%	148.40%	187.05%
Plan fiduciary net position as a percentage of the total pension liability	53.95%	55.50%	55.50%	55.50%

Notes:

Schedule is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

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

See accompanying notes to financial statements.

CITY OF MORGANTOWN
 SCHEDULE OF THE CITY'S CONTRIBUTIONS COUNTY
 EMPLOYEES' RETIREMENT SYSTEM FOR THE
 YEAR ENDED JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
Contractually required contribution (includes \$61,196 for Health Insurance Fund)	\$ 124,902	\$108,656	\$233,558
Contribution in relation to the contractually required contribution	<u>(124,902)</u>	<u>(108,656)</u>	<u>233,558</u>
Contribution deficiency (excess)	\$ <u> 0</u>	\$ <u> 0</u>	\$ <u> 0</u>
City's covered-employee payroll	\$ 461,040	581,670	1,042,710
Contributions as a percentage of covered-employee payroll	\$ 27.09%	18.68%	22.40%

Notes:

Schedule is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

Contractually required employer contributions exclude the portion of contribution paid to the CERS, but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of the reporting year-end of the city.

See accompanying notes to financial statements.

CITY OF MORGANTOWN
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED JUNE 30, 2018

County Employee Retirement System

Changes of benefit terms-None.

Changes in assumptions-None

The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.35 to 2.30%.
- The payroll growth assumption was reduced from 4.00% to 2.00%.
- The salary increase assumption was reduced from 4.00% average to 3.05% average.

The following changes were adopted by the Board of Trustees and reelected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to 0.75%.
- The payroll growth assumption was reduced from 4.50% to 4.00%.

-The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB 2013 (multiplied by 50% for males and 30% for females).

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

-Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

OTHER REPORTS



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KENTUCKY SOCIETY OF CPA'S

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 business-type activities, and each major fund of City of Morgantown, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2018. Which included an explanatory paragraph regarding the omission of Management Discussion and Analysis.

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) 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 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* .

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.

Gilbert & Gilbert, PSC
Certified Public Accountant

Glasgow, Kentucky
December 19, 2018