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## INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council  
City of Morganfield, Kentucky

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, of the City of Morganfield, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Morganfield, as of June 30, 2021, 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.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, budgetary comparison information on pages 61 through 62, schedule of proportionate share of net pension liability and contributions on pages 63 through 65, and schedule of OPEB liability and contributions on pages 66 through 68, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morganfield's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14<sup>th</sup>, 2022, on our consideration of the City of Morganfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Morganfield'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 the City of Morganfield's internal control over financial reporting and compliance.

*Kemper CPA Group LLP*

Kemper CPA Group LLP  
Certified Public Accountants and Consultants

Morganfield, Kentucky  
February 14, 2022



# CITY OF MORGANFIELD

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## Management's Discussion and Analysis June 30, 2021

As management of the City of Morganfield, we offer readers of the City's financial statement this overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2021. It is our intent that these comments provide all parties interested in the City's financial condition, especially the citizens of Morganfield, a better understanding of the City's operations and financial condition. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which begin on page 16 of this report.

### Financial Highlights

- The assets and deferred outflows of the City of Morganfield exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by approximately \$11.7 million (net position). The majority of the City's net position is invested in capital assets of approximately \$18.0 million. \$0.60 million is restricted for specific purposes. The remaining amount of \$3.3 million (excluding net pension and OPEB liability) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. If pension and OPEB liability were included the unrestricted net position would be a deficit of 6.9 million.
- The City's total net position increased approximately \$919,000 during the most recent fiscal year, approximately (\$626,000) decrease from the City's "governmental activities" and \$1,545,000 increase from the "business-type activities."
- The City's net investment in capital assets increased approximately \$0.6 million during the most recent fiscal year, to approximately \$18.0 million.
- As of June 30, 2021, unassigned fund balance for the General Fund was \$162,719 or 5.84% of total general fund expenditures

### Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

***Government-wide Financial Statements***- The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. They report on both governmental and business-type activities combined.

## Overview of Financial Statements, Continued

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is an important measure of the City's overall financial health. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The City's governmental activities include general government and administration, public safety, roads, recreation, sanitation and social services. The City's business-type activities include gas and water and sewer services and operations. The government-wide financial statements can be found on pages 16 -17 of this report.

***Fund Financial Statements-*** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General and the Local Government Economic Assistance funds, both of which are considered major funds. The other funds are combined into a single, aggregated presentation. The governmental funds financial statements can be found on pages 19-22 of this report.

## **Overview of Financial Statements, Continued**

Proprietary Funds- The City maintains two types of proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses proprietary funds to account for its gas and water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City does not maintain an internal service.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Gas and Water and Sewer funds since all are considered to be major funds of the City. The internal service fund is in a single aggregated presentation in the proprietary fund financial statements. The basic proprietary fund financial statements can be found on pages 23 - 25 of this report.

Notes to the Financial Statements- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 - 59.

Other Information- In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's governmental funds performance compared to budget, the City's funding of its obligation to provide pension/OPEB benefits to its employees and Schedule of Expenditures of Federal Awards. The required supplementary information can be found on pages 61- 68 of this report and the supplemental information can be found on pages 69-70.

## **Government-wide Financial Analysis**

### **Net Position**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. The City of Morganfield's assets exceeded liabilities by \$11.7 million as of June 30, 2021.

The largest portion of the City's net position, approximately \$18.0 million, reflects its investment in capital assets (e.g. land, buildings, equipment, improvements, construction in progress and infrastructure acquired since the implementation of GASB 34), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens, consequently these assets are not available for future spending, and with exception of business-type assets, do not generate direct revenue for the City. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position, approximately \$0.60 million, represents resources that are subject to external restrictions on how they may be used.

## Government-wide Financial Analysis, Continued

The following table reflects the condensed summary of net position as of June 30, 2021 and 2020:

	<b>Net Position</b>					
	(in thousands)					
	Governmental Activities		Business-Type Activities		Total Government	
	2021	2020	2021	2020	2021	2020
Current Assets	\$ 1,073	\$ 912	\$ 1,621	\$ 822	\$ 2,694	\$ 1,734
Capital Assets	2,805	2,877	20,471	20,159	23,276	23,036
Total Assets	<u>3,878</u>	<u>3,789</u>	<u>22,092</u>	<u>20,981</u>	<u>25,970</u>	<u>24,770</u>
Deferred outflows of resources	<u>1,543</u>	<u>1,470</u>	<u>1,018</u>	<u>887</u>	<u>2,561</u>	<u>2,357</u>
Current Liabilities	333	328	626	1,113	959	1,441
Non-current Liabilities	<u>6,368</u>	<u>5,399</u>	<u>8,866</u>	<u>8,555</u>	<u>15,234</u>	<u>13,954</u>
Total Liabilities	<u>6,701</u>	<u>5,727</u>	<u>9,492</u>	<u>9,668</u>	<u>16,193</u>	<u>15,395</u>
Deferred inflows of resources	<u>371</u>	<u>558</u>	<u>224</u>	<u>316</u>	<u>595</u>	<u>874</u>
Net Position:						
Net Investment in Capital Assets	2,804	2,868	15,238	14,496	18,042	17,364
Restricted	539	369	59	40	598	409
Unrestricted	<u>(4,994)</u>	<u>(4,262)</u>	<u>(1,902)</u>	<u>(2,653)</u>	<u>(6,896)</u>	<u>(6,915)</u>
Total Net Position	<u>\$ (1,651)</u>	<u>\$ (1,025)</u>	<u>\$ 13,395</u>	<u>\$ 11,883</u>	<u>\$ 11,744</u>	<u>\$ 10,858</u>

As of June 30, 2021 the City is able to report positive net position in the business-type activities but not for the governmental activities, as a whole the total government was able to report positive net position. The City's combined net position increased to \$11.8 million from \$10.9 million as a result of the change in net position reflected in the next table.

## Government-wide Financial Analysis, Continued

### Change in Net Position

The following table reflects a summary of the revenues and expenses from the City's activities as of June 30, 2021 and 2020:

	<b>Change in Net Position</b>					
	(in thousands)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues:						
Program Revenues:						
Charges for services	\$ 680	\$ 506	\$ 6,101	\$ 5,469	\$ 6,781	\$ 5,975
Operating grants and contribs	393	79	-	-	393	79
Capital grants and contribs	-	-	853	206	853	206
General Revenues:						
Taxes and related revenues	1,370	1,392	-	-	1,370	1,392
Intergovernmental	460	484	-	-	460	484
Franchise fees and licenses	230	237	-	-	230	237
Other revenues	82	252	-	-	82	252
Total Revenues	<u>3,215</u>	<u>2,950</u>	<u>6,954</u>	<u>5,675</u>	<u>10,169</u>	<u>8,625</u>
Expenses:						
General and Administrative	606	578	-	-	606	578
Public Safety:						
Police	893	1,431	-	-	893	1,431
Fire	1,001	936	-	-	1,001	936
Highways and streets	979	1,175	-	-	979	1,175
Public works	450	449	-	-	450	449
Parks and recreation	45	54	-	-	45	54
Interest and long-term debt	-	-	-	-	-	-
Gas	-	-	1,815	1,623	1,815	1,623
Water and sewer	-	-	3,455	3,504	3,455	3,504
Total Expenses	<u>3,974</u>	<u>4,623</u>	<u>5,270</u>	<u>5,127</u>	<u>9,244</u>	<u>9,750</u>
Increase(decrease) in net position before transfers	<u>(759)</u>	<u>(1,673)</u>	<u>1,684</u>	<u>548</u>	<u>925</u>	<u>(1,125)</u>
Transfers	133	929	(138)	(963)	(5)	(34)
Increase(decrease) in net position	<u>(626)</u>	<u>(744)</u>	<u>1,546</u>	<u>(415)</u>	<u>920</u>	<u>(1,159)</u>
Net Position, beginning of year	(1,025)	(281)	11,849	12,264	10,824	11,983
Net Position, end of year	<u>\$ (1,651)</u>	<u>\$ (1,025)</u>	<u>\$ 13,395</u>	<u>\$ 11,849</u>	<u>\$ 11,744</u>	<u>\$ 10,824</u>



**Government-wide Financial Analysis, Continued**

The City of Morganfield’s overall net position increased approximately \$920,000 from the prior fiscal year based on City operations. The reasons for this overall increase are discussed in the following sections for governmental and business-type activities.

Governmental Activities: Governmental activities decreased the City’s net position by approximately \$626,000. Taxes and related revenues, the largest governmental category, were \$1.37 million or 43% of total governmental revenues. Revenues from governmental activities total \$3.2 million, or 32%, of the total City revenue. Taxes and related revenue decreased from the previous year by approximately \$22,000 primarily due to decreases in insurance tax collected.

Certain revenues are generated that are specific to governmental program activity. These totaled approximately \$680,000. The following table shows expenses and program revenues of the governmental activities for the years ended June 30, 2021 and 2020:

**Net Cost of Governmental Activities**  
(in thousands)

	Total cost of services		Net cost of services	
	2021	2020	2021	2020
Expenses:				
General and administrative	\$ 606	\$ 578	\$ 107	\$ 396
Public Safety:				
Police	893	1,431	865	1,394
Fire	1,001	936	959	893
Highways and streets	979	1,175	979	1,175
Public Works	450	449	(55)	(53)
Parks and recreation	44	52	44	49
Total Expenses	<u>\$ 3,973</u>	<u>\$ 4,621</u>	<u>\$ 2,899</u>	<u>\$ 3,854</u>

As previously noted, total expenses from governmental activities were approximately \$3.97 million, a decrease of approximately \$648,000 or 14% from the previous year. This decrease was due primarily to decreases in personnel expenses (salaries and benefits) in the dispatch department. However, net costs of these services totaled \$2.9 million. The difference represents direct revenues received from charges for these services of approximately \$499,000 and operating grants and contributions of approximately \$393,000. Taxes and other general revenues of approximately \$3.2 million were collected to cover these net costs.

Business-type Activities: Business-type activities increased the City’s net position by approximately \$1.5 million. This increase was primarily due to additional grant funding for ongoing improvements and an increase in net operating income compared to the prior year.

## **Government-wide Financial Analysis, Continued**

Total revenues of the business-type activities increased approximately \$632,000 or 10%. This increase was primarily related to increases in gas revenue. City gas rates are adjusted monthly based on the cost to the City.

Total expenses of the business-type activities increased approximately \$144,000 or 2.7%. This increase was primarily related to the increase in gas purchased for resale.

## **Financial Analysis of the City's Funds**

As noted previously, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds- The focus of the City of Morganfield's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$0.72 million. Approximately 23% of this total amount constitutes unassigned fund balance. Approximately 3% represents assigned fund balance for security bonds. The remainder of the fund balance is restricted to indicate that it is not available for new spending because it has already been restricted 1) to provide for construction and maintenance of city streets and sidewalks of approximately \$219,000 and 2) to provide for capital outlay and economic development of approximately \$320,000.

Governmental funds total fund balance increased approximately \$115,000 compared to a decrease of \$242,000 from the prior year, primarily due to no expenses in the municipal road aid fund or economic assistance fund.

Proprietary Funds- the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net position of the respective proprietary funds are Gas of approximately \$1.47 million and Water and Sewer of approximately \$11.9 million. The total of this net position of approximately \$13.4 million equals the total net position of business-type activities in the government-wide financial statements. Change in net position for enterprise funds in 2021 were as follows: Gas fund increased approximately \$535,000; Water and Sewer increased approximately \$1.0 million. This total change in net position of approximately \$1.5 million equals the change in net position for the business-type activities in the government-wide financial statements.

## **Financial Analysis of the City's Funds, Continued**

General Fund Budgetary Highlights- the City Council made amendments to the original General and Local Government and Economic Assistance funds budgets approved by the City Council. These amendments were made to properly appropriate unbudgeted revenues and expenses.

Overall, the General fund revenues were over budget by approximately \$542,000 and budgeted expenditures were over budget by approximately \$33,000. The LGEA fund revenues were under budget by approximately \$87,000 and budgeted expenses exceeded actual expenditures by approximately \$130,000. The amended General fund budget was approved with anticipated expenses exceeding anticipated revenues. The difference was to come from transfers from proprietary funds and reserves.

Budgetary concerns for the future include the potential reduction in State funding to the City.

## **Capital Assets and Debt Administration**

Capital Assets - The City's investment in capital assets for its governmental and business-type activities as of June 30, 2021 amounted to approximately \$18.0 million (net of accumulated depreciation and related debt). The investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, construction in progress and infrastructure acquired since the implementation of GASB 34. The City's net capital assets for the current fiscal year increased approximately \$0.6 million or 3.3% due to current year additions exceeding disposals for the fiscal year.

Major capital events during the current fiscal year included the following:

- The City was awarded a Delta Regional Authority grant of \$779,646 to help replace failing sewer lines in the Martin View Estate/Job Corps Center. The City had previously incurred approximately \$140,000 of its own money for preliminary engineering work.
- Preliminary engineering is underway for the installation of a paracetic acid tank at the City's water treatment plant. This new tank design will assist with water testing compliance and reduce the amount of chemicals required annually to treat water.

Several capital projects related water transmission and sewer inflow/infiltration are in development and estimated to cost several million dollars. The City has identified the projects of need and are in planning and development stages. City is exploring potential funding sources including state funded loans and grants to assist in financing of these future projects.

Additional information on the City's capital assets can be found in Note 6 on pages 38 - 39 of this report.

Debt Administration- At the end of the current fiscal year, the City of Morganfield had two outstanding loans with the Kentucky Infrastructure Authority (KIA) and one outstanding loan with USDA Rural Development. The City has a \$1,300,000 line of credit through United Community Bank to assist in the cost of various capital projects. There was an outstanding balance of \$0 on the line of credit at United Community Bank as of June 30, 2021. Additional information regarding the City of Morganfield's debt can be found in Note 7 on pages 39-40 of this report.

## **Other Matters**

The following factors are expected to have a significant effect on the City's financial position and will be taken into account in developing future fiscal year budgets.

In December 2011, the City entered into another "agreed order" with the Natural Resource and Environmental Protection Cabinet of the Commonwealth of Kentucky to identify and eliminate all significant sources of inflow/infiltration into the sewer collection system. The City is still under this Letter of Agreement from the Kentucky Division of Water and has drafted a Combined Sewer Overflow Long Term Compliance Plan with the purpose to attain compliance by a series of phased construction projects to separate all combined sewers in the City. Construction of the entire project began in the spring 2012 and is scheduled for completion in fiscal year 2023. Total cost of these projects is estimated at \$11,500,000 with the first phase completed in the spring 2013 for approximately \$4.2 million, Phase II was completed in summer of 2017 for \$4,093,527 and Phase III is estimated to cost \$3,240,000. We plan to bid Phase III in the summer of 2022 and construction is scheduled to begin in the fall of 2022 and be completed by July 1, 2023. The City used a \$2,642,200 fund "A" loan from Kentucky Infrastructure Authority and received grant proceeds totaling \$1,000,000 for the completion of Phase II. A water rate increase of 25% was required by loan agencies in order to keep City fiscally viable while paying loan payments. The City has applied and was awarded a USDA Rural Development loan for Phase III in the amount of \$3,240,000 with a grant of 50% of the \$3,240,000, saving the City \$1,061,000. Derrick Engineering has been hired to complete this project as they did Phase I and II. The City was required and put into place an annual 5% rate increase for water and sewer in order to complete this loan application process.

The City has contracted with Strand Associates, Inc. to assist them in developing and implementing a plan to address the corrective measures recommended by the Natural Resources and Environmental Protection Cabinet which includes replacing the sewer lines and manholes from the treatment plant through most of the Camp Breckinridge (Job Corp) area. The estimated cost opinion is \$4,800,000 for sewer replacement and sewer rehab for the collection sewer. The trunk sewer will have to be sized after the collection sewer is completed. The preliminary cost for this is \$3,800,000. Both include 25% contingencies. In order to fund the initial study and design of the Camp Breckenridge (Job Corp) sewer rehab project, the City applied for a Fund "B" Loan through the Kentucky Infrastructure Authority in the amount of \$260,000 in April of 2016. On May 5, 2016 the City request was approved. As of June 30, 2021, the approximate principle balance owed on this loan is \$131,450. Strand Associates, Inc. completed cleaning and running cameras through the existing sewer system. In addition to the cameras they conducted smoke and dye tests as well to conclude their study. Union County has assisted Morganfield in securing \$779,646 in funding to replace the worst section of sewer lines in the Martin View Estates area. In addition, most of the equipment and structures at the Waste Water Treatment Plant has reached their useful life and needs replacement to enable the plant to stay in compliance. GRADD, Union County Fiscal Court and Strand Associates, Inc. are working together to secure funding for this \$14,500,000 project which will more than likely be done in Phases.

## **Request for Information**

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact Scott Clements, Morganfield City Administrator, at P. O. Box 420, Morganfield, KY 42437, call (270) 389-2525, or email at cityadm@att.net.

**BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF MORGANFIELD, KENTUCKY**  
**Statement of Net Position**  
**June 30, 2021**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 730,033	\$ 1,118,500	\$ 1,848,533
Accounts receivable, net:			
Utilities	7,631	47,702	55,333
Receivables, net:			
Intergovernmental	3,601	-	3,601
Taxes	269,600	-	269,600
Franchise fees	20,206	-	20,206
Other	3,361	11,501	14,862
Other current assets	38,495	384,348	422,843
Restricted assets:			
Cash and cash equivalents	-	58,628	58,628
Capital assets:			
Non-depreciable	503,085	136,660	639,745
Depreciable	5,455,336	36,121,522	41,576,858
Less: accumulated depreciation	<u>(3,153,320)</u>	<u>(15,787,065)</u>	<u>(18,940,385)</u>
Total assets	<u>3,878,028</u>	<u>22,091,797</u>	<u>25,969,825</u>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows related to pension/OPEB	<u>1,543,106</u>	<u>1,018,033</u>	<u>2,561,139</u>
<b>Liabilities:</b>			
Accounts payable	74,162	99,072	173,234
Unearned revenue	17,649	619	18,268
Utility deposits	-	169,143	169,143
Accrued liabilities	137,265	5,616	142,881
Other current liabilities	4,164	-	4,164
Compensated absences	82,594	91,605	174,199
Current portion of long-term debt	17,194	227,568	244,762
Liabilities payable from restricted assets:			
Accrued interest	-	32,196	32,196
Non-current liabilities:			
Net Pension Liability	4,818,060	2,920,372	7,738,432
Net OPEB Liability	1,533,412	894,836	2,428,248
Notes payable	2,910	5,005,963	5,008,873
Compensated absences	<u>13,382</u>	<u>44,662</u>	<u>58,044</u>
Total liabilities	<u>6,700,792</u>	<u>9,491,652</u>	<u>16,192,444</u>
<b>Deferred Inflow of Resources:</b>			
Deferred inflows related to pension/OPEB	<u>371,461</u>	<u>223,597</u>	<u>595,058</u>
<b>Net Position:</b>			
Net investment in capital assets	2,803,929	15,237,586	18,041,515
Restricted for:			
Capital projects	-	58,628	58,628
Special projects	539,392	-	539,392
Unrestricted	<u>(4,994,440)</u>	<u>(1,901,634)</u>	<u>(6,896,074)</u>
Total net position	<u>\$ (1,651,119)</u>	<u>\$ 13,394,581</u>	<u>\$ 11,743,462</u>

The accompanying notes are an integral part of the financial statements

CITY OF MORGANFIELD, KENTUCKY  
Statement of Activities  
For the fiscal year ended June 30, 2021

Functions/ Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General and administrative	\$ 605,736	\$ 174,308	\$ 324,657	\$ -	\$ (106,771)	\$ -	\$ (106,771)
Public safety:							
Police	892,654	-	27,402	-	(865,252)	-	(865,252)
Fire	1,000,631	-	41,153	-	(959,478)	-	(959,478)
Highways and streets	979,002	-	-	-	(979,002)	-	(979,002)
Public works	450,058	505,223	-	-	55,165	-	55,165
Parks and recreation	44,641	-	-	-	(44,641)	-	(44,641)
Total governmental activities	<u>3,972,722</u>	<u>679,531</u>	<u>393,212</u>	<u>-</u>	<u>(2,899,979)</u>	<u>-</u>	<u>(2,899,979)</u>
<b>Business-type activities:</b>							
Gas	1,815,831	3,002,798	-	-	-	1,186,967	1,186,967
Water and sewer	3,455,578	3,098,574	-	853,090	-	496,086	496,086
Total business-type activities	<u>5,271,408</u>	<u>6,101,372</u>	<u>-</u>	<u>853,090</u>	<u>-</u>	<u>1,683,053</u>	<u>1,683,053</u>
<b>Total government</b>	<u>\$ 9,244,130</u>	<u>\$ 6,780,902</u>	<u>\$ 393,212</u>	<u>\$ 853,090</u>	<u>(2,899,979)</u>	<u>1,683,053</u>	<u>(1,216,926)</u>
<b>General revenues:</b>							
Taxes and related revenues:							
Property					791,132	-	791,132
Insurance					373,222	-	373,222
Motor vehicle					130,491	-	130,491
Bank Deposit					74,752	-	74,752
Other					76,259	-	76,259
Franchise fees					229,832	-	229,832
Intergovernmental					459,597	-	459,597
Investment income					1,169	38	1,207
Gain on sale of municipal property					4,510	-	4,510
<b>Transfers</b>					<u>133,372</u>	<u>(137,882)</u>	<u>(4,510)</u>
Total general revenues and transfers					<u>2,274,334</u>	<u>(137,843)</u>	<u>2,136,491</u>
<b>Change in net position</b>					<u>(625,644)</u>	<u>1,545,210</u>	<u>919,565</u>
<b>Net position, beginning of year</b>					<u>(1,025,475)</u>	<u>11,849,372</u>	<u>10,823,897</u>
<b>Net position, end of year</b>					<u>\$ (1,651,119)</u>	<u>\$ 13,394,581</u>	<u>\$ 11,743,462</u>

The accompanying notes are an integral part of the financial statements



**FUND FINANCIAL STATEMENTS**

CITY OF MORGANFIELD, KENTUCKY

Balance Sheet

Governmental Funds

June 30, 2021

	General Fund	Local Government Economic Assistance	Total Governmental Funds
<b>Assets:</b>			
Cash and cash equivalents	\$ 190,641	\$ 539,392	\$ 730,033
Accounts receivable, net:			
Utilities	7,631	-	7,631
Receivables, net:			
Intergovernmental	3,601	-	3,601
Taxes	194,848	-	194,848
Franchise fees	20,206	-	20,206
Other	986	-	986
Other current assets	38,495	-	38,495
	<u>456,407</u>	<u>539,392</u>	<u>995,800</u>
Total assets	<u>\$ 456,407</u>	<u>\$ 539,392</u>	<u>\$ 995,800</u>
<b>Liabilities and Fund Balances:</b>			
Liabilities:			
Accounts payable	\$ 74,160	\$ -	\$ 74,160
Other current liabilities	4,164	-	4,164
Compensated absences	6,355	-	6,355
Accrued liabilities	137,265	-	137,265
Notes payable	34,094	-	34,094
Unearned revenue	17,649	-	17,649
	<u>273,688</u>	<u>-</u>	<u>273,688</u>
Total liabilities	<u>273,688</u>	<u>-</u>	<u>273,688</u>
Fund Balances:			
Restricted for:			
Special projects	-	539,392	539,392
Assigned	20,000	-	20,000
Unassigned	162,719	-	162,719
	<u>182,719</u>	<u>539,392</u>	<u>722,111</u>
Total fund balances	<u>182,719</u>	<u>539,392</u>	<u>722,111</u>
Total liabilities and fund balances	<u>\$ 456,407</u>	<u>\$ 539,392</u>	<u>\$ 995,800</u>

The accompanying notes are an integral part of these financial statements

**CITY OF MORGANFIELD, KENTUCKY**  
**Reconciliation of the Governmental Funds**  
**Balance Sheet to the Statement of Net Position**  
**June 30, 2021**

Total governmental fund balance per fund financial statements	\$	722,111
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. The cost of the assets is \$5,958,421, net of accumulated depreciation of (\$3,153,320).		2,805,101
Revenues are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Taxes receivable		74,752
Settlement of vendor credit on equipment		2,375
Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet. Those liabilities at year-end consist of:		
Notes payable:		
Due within one year	(17,194)	
Due in more than one year	31,183	
Net Pension Liability	(4,818,060)	
Net OPEB Liability	(1,533,412)	
Compensated absences	(89,621)	
	<u>                    </u>	(6,427,104)
Deferred outflows and inflows of resources related to pensions/OPEB are applicable to future periods and, therefore, are not reportable in governmental funds:		
Deferred outflows of resources represents contributions subsequent to plan measurement date.	1,543,106	
Deferred inflows of resources represent difference between projected and actual investment earnings.	(371,461)	
	<u>                    </u>	<u>1,171,645</u>
Net position of governmental activities	<u>\$</u>	<u>(1,651,119)</u>

**CITY OF MORGANFIELD, KENTUCKY**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the fiscal year ended June 30, 2021**

	<u>General Fund</u>	<u>Local Government Economic Assistance</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Taxes and related revenues:			
Property	\$ 791,131	\$ -	\$ 791,131
Insurance	373,222	-	373,222
Motor vehicle	130,491	-	130,491
Bank Deposit	63,114	-	63,114
Other	76,259	-	76,259
Service charges and fees	505,223	-	505,223
Licenses	7,075	-	7,075
Franchise fees	229,832	-	229,832
Intergovernmental	683,292	169,517	852,809
Miscellaneous	162,723	-	162,723
Investment income	60	1,109	1,170
	<u>3,022,422</u>	<u>170,626</u>	<u>3,193,048</u>
<b>Expenditures:</b>			
Current:			
General and administrative	516,541	-	516,541
Public safety:			
Police	666,971	-	666,971
Fire	651,907	-	651,907
Highways and streets	781,996	-	781,996
Public works	450,058	-	450,058
Parks and recreation	7,325	-	7,325
Debt Service			
Principal	30,472	-	30,472
Capital outlay	25,113	-	25,113
	<u>3,130,384</u>	<u>-</u>	<u>3,130,384</u>
Excess (deficiency) of revenues over expenditures	<u>(107,962)</u>	<u>170,626</u>	<u>62,664</u>
<b>Other financing sources (uses):</b>			
Note proceeds	-	-	-
Sale of municipal property	4,510	-	4,510
Transfers in	648,095	-	648,095
Transfers out	(600,000)	-	(600,000)
	<u>52,605</u>	<u>-</u>	<u>52,605</u>
Net change in fund balances	(55,357)	170,626	115,269
Fund balance, beginning of year	<u>238,076</u>	<u>368,766</u>	<u>606,841</u>
Fund balance, end of year	<u>\$ 182,719</u>	<u>\$ 539,392</u>	<u>\$ 722,111</u>

The accompanying notes are an integral part of these financial statements

**CITY OF MORGANFIELD, KENTUCKY**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances to the Statement of Activities**  
**For the fiscal year ended June 30, 2021**

Net change in fund balance per fund financial statements \$ 115,269

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives as depreciation expense. This is the amount of capital assets additions recorded in the current period. 25,113

Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. (202,259)

Some revenues will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in amount deferred on fund statements. 11,638

Governmental funds report the proceeds on sales/disposals of capital assets as increases to financial resources, whereas the statement of activities reports only the gain on the sale/disposal. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold. 89,787

The issuance of long-term debt provides 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 liabilities in the statement of activities. This is the amount by which repayments exceeded proceeds. 30,472

In the statement of activities, certain operating expenses and compensated absences, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation. 16,011

The net pension liability and related deferred outflows and inflows of resources are an obligation of the City of Morganfield not payable from current year resources and not reported as an expenditure of the current year. In the Statement of Activities, these costs represent expenses of the current year. (711,676)

Change in net position of governmental activities \$ (625,644)

CITY OF MORGANFIELD, KENTUCKY  
Statement of Net Position  
Proprietary Funds  
June 30, 2021

	<b>Business-Type Activities</b>		
	<b>Gas</b>	<b>Water and Sewer</b>	<b>Total</b>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 737,815	\$ 380,685	\$ 1,118,500
Accounts receivable, net:			
Utilities	8,849	38,853	47,702
Receivables, net:			
Intergovernmental	-	-	-
Other	8,387	3,114	11,501
Other current assets	116,365	267,983	384,348
Total current assets	<u>871,416</u>	<u>690,635</u>	<u>1,562,051</u>
<b>Restricted assets:</b>			
Cash and cash equivalents	-	58,628	58,628
Total restricted assets	<u>-</u>	<u>58,628</u>	<u>58,628</u>
<b>Capital Assets:</b>			
Non-depreciable	32,225	104,435	136,660
Depreciable	5,359,046	30,762,477	36,121,522
Less: accumulated depreciation	(4,031,199)	(11,755,866)	(15,787,065)
Total capital assets	<u>1,360,071</u>	<u>19,111,046</u>	<u>20,471,117</u>
Total assets	<u>2,231,488</u>	<u>19,860,309</u>	<u>22,091,797</u>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows related to pension/OPEB	195,301	822,732	1,018,033
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	66,588	32,485	99,072
Unearned revenue	619	-	619
Utility deposits	95,653	73,490	169,143
Due to other funds	-	-	-
Compensated absences	21,003	70,601	91,605
Accrued liabilities	987	4,629	5,616
Short-term debt	-	227,568	227,568
Total current liabilities	<u>184,850</u>	<u>408,773</u>	<u>593,623</u>
<b>Liabilities payable from restricted assets:</b>			
Accrued interest	-	32,196	32,196
Total liabilities payable from restricted assets	<u>-</u>	<u>32,196</u>	<u>32,196</u>
<b>Non-current liabilities:</b>			
Notes Payable	-	5,005,963	5,005,963
Net Pension Liability	543,838	2,376,534	2,920,372
Net OPEB Liability	174,111	720,725	894,836
Compensated absences	15,408	29,254	44,662
Total non-current liabilities	<u>733,357</u>	<u>8,132,476</u>	<u>8,865,833</u>
Total liabilities	<u>918,207</u>	<u>8,573,445</u>	<u>9,491,652</u>
<b>Deferred Inflow of Resources:</b>			
Deferred inflows related to pension/OPEB	43,059	180,538	223,597
<b>Net Position:</b>			
Net investment in capital assets	1,360,071	13,877,515	15,237,586
Restricted for:			
Capital projects	-	58,628	58,628
Unrestricted	105,452	(2,007,085)	(1,901,634)
Total net position	<u>\$ 1,465,523</u>	<u>\$ 11,929,058</u>	<u>\$ 13,394,581</u>

The accompanying notes are an integral part of these financial statements

**CITY OF MORGANFIELD, KENTUCKY**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the fiscal year ended June 30, 2021**

	<b>Business-Type Activities</b>		
	<b>Gas</b>	<b>Water and Sewer</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services	\$ 2,967,890	\$ 3,068,361	\$ 6,036,251
Service line and meter installation	23,295	26,155	49,450
Miscellaneous	11,613	4,057	15,670
<b>Total operating revenue</b>	<b>3,002,798</b>	<b>3,098,574</b>	<b>6,101,372</b>
<b>Operating expenses:</b>			
Salaries and labor	190,334	785,006	975,340
Telephone	-	13,346	13,346
Office supplies and expense	13,092	17,977	31,069
Natural gas purchased	1,157,107	-	1,157,107
Insurance and bonds	18,770	62,841	81,611
Repairs and maintenance	52,767	236,033	288,800
Legal and accounting	2,750	11,216	13,966
Employee benefits and payroll taxes	222,526	822,748	1,045,274
Gas and oil	10,284	11,414	21,698
Electricity	8,775	257,416	266,191
Consultant fees	2,262	102,489	104,752
Uniform expense	-	16,685	16,685
Depreciation	109,185	833,836	943,021
Chemicals	849	151,232	152,080
Other operating expenses	26,924	12,697	39,621
Bad debt expense	205	11,669	11,875
<b>Total operating expenses</b>	<b>1,815,831</b>	<b>3,346,604</b>	<b>5,162,434</b>
<b>Operating income (loss)</b>	<b>1,186,967</b>	<b>(248,030)</b>	<b>938,937</b>
<b>Non-operating revenues (expenses):</b>			
Investment income	38	-	38
Interest expense	-	(108,974)	(108,974)
<b>Total non-operating revenues (expenses)</b>	<b>38</b>	<b>(108,974)</b>	<b>(108,936)</b>
<b>Income (loss) before contributions and transfers</b>	<b>1,187,006</b>	<b>(357,004)</b>	<b>830,002</b>
Capital Grants	-	853,090	853,090
Transfers in	(2,141)	800,000	797,859
Transfers out	(650,000)	(285,741)	(935,741)
<b>Total contributions and transfers</b>	<b>(652,141)</b>	<b>1,367,349</b>	<b>715,208</b>
<b>Change in net position:</b>	<b>534,864</b>	<b>1,010,345</b>	<b>1,545,210</b>
<b>Net Position:</b>			
Beginning of year	930,659	10,918,713	11,849,372
End of year	<u>\$ 1,465,523</u>	<u>\$ 11,929,058</u>	<u>\$ 13,394,581</u>

The accompanying notes are an integral part of these financial statements

CITY OF MORGANFIELD, KENTUCKY  
Statement of Cash Flows  
Proprietary Funds  
For the fiscal year ended June 30, 2021

	<b>Business-Type Activities</b>		
	<b>Gas</b>	<b>Water &amp; Sewer</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 2,950,003	\$ 3,296,302	\$ 6,246,305
Payments to suppliers	(1,269,791)	(1,177,294)	(2,447,085)
Payments to employees	(338,828)	(1,405,558)	(1,744,386)
Net cash provided by operating activities	<u>1,341,385</u>	<u>713,449</u>	<u>2,054,834</u>
<b>Cash flows from non-capital financing activities:</b>			
Transfers in	(2,141)	800,000	797,859
Transfers out	(650,000)	(285,741)	(935,741)
Net cash provided (used) by non-capital financing activities	<u>(652,141)</u>	<u>514,259</u>	<u>(137,882)</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(31,003)	(1,423,192)	(1,454,195)
Principal payments on debt	-	(223,015)	(223,015)
Interest paid on debt	-	(108,974)	(108,974)
Grants and capital contributions	-	853,090	853,090
Proceeds from debt	-	-	-
Net cash used by capital and related financing activities	<u>(31,003)</u>	<u>(902,091)</u>	<u>(933,094)</u>
<b>Cash flows from investing activities:</b>			
Investment income	<u>38</u>	<u>-</u>	<u>38</u>
Net cash provided by investing activities	<u>38</u>	<u>-</u>	<u>38</u>
Net increase in cash and cash equivalents	658,279	325,617	983,897
Cash and cash equivalents, beginning of year	<u>79,536</u>	<u>113,695</u>	<u>193,232</u>
Cash and cash equivalents, end of year	<u>\$ 737,816</u>	<u>\$ 439,313</u>	<u>\$ 1,177,128</u>
<b>Reconciliation of total cash and cash equivalents:</b>			
Current assets- cash and cash equivalents	\$ 737,815	\$ 380,685	\$ 1,118,500
Restricted assets- cash and cash equivalents	<u>-</u>	<u>58,628</u>	<u>58,628</u>
	<u>\$ 737,815</u>	<u>\$ 439,313</u>	<u>\$ 1,177,128</u>

The accompanying notes are an integral part of these financial statements



CITY OF MORGANFIELD, KENTUCKY  
Statement of Cash Flows, Continued  
Proprietary Funds  
For the fiscal year ended June 30, 2021

	<b>Business-Type Activities</b>		
	<b>Gas</b>	<b>Water &amp; Sewer</b>	<b>Total</b>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 1,186,967	\$ (248,030)	\$ 938,937
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation	109,185	833,836	943,021
Changes in operating assets and liabilities:			
Decrease (increase) in assets:			
Receivables	(8,994)	208,868	199,874
Other current assets	(43,801)	(11,140)	(54,941)
Deferred outflows	(28,284)	(103,194)	(131,478)
Increase (decrease) in liabilities:			
Accounts payable	22,370	(271,592)	(249,222)
Net pension/opeb liability	116,615	417,201	533,816
Utility deposits	1,625	126	1,751
Deferred inflows	(7,886)	(84,622)	(92,508)
Compensated absences	(6,413)	(27,190)	(33,602)
Accrued liabilities	-	(815)	(815)
Net cash provided by operating activities	<u>\$ 1,341,385</u>	<u>\$ 713,449</u>	<u>\$ 2,054,834</u>

The accompanying notes are an integral part of these financial statements

**1. Summary of Significant Accounting Policies**

The City of Morganfield (the “City”) is a municipal corporation governed by an elected mayor and six-member council. It provides the following services as authorized by its charter: general governmental service, public safety, public works, and parks and recreation.

The accounting policies of the City of Morganfield, Kentucky conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

**a. Financial Reporting Entity**

The criteria for including organizations as component units within the City’s reporting entity include how the budget is adopted, whether debt is secured by general obligation of the City, the City’s duty to cover any deficits that may occur and supervision over the accounting functions. Based on the afore-mentioned criteria, the City of Morganfield, Kentucky has no component units.

**Union County Planning Commission**

The Union County Planning Commission is a jointly governed organization with the County of Union and various cities in the county. The board controlling this Commission is appointed by both the County and these cities. The City is responsible for funding a portion of the Commission’s operation. This funding amounted to \$39,804 for the year ended June 30, 2021 and is reported as expenditure in the General Fund. The City’s ongoing financial interest and responsibility to the Commission is not considered to be significant in relation to these financial statements.

**Morganfield Housing Authority**

The Morganfield Housing Authority was established by the United States Department of Housing and Urban Development (HUD). All members of the Authority’s Board are appointed by the Mayor. The City provides no funding.

**b. Basis of Presentation**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units as a whole. Interfund activity, within the governmental and business-type activities columns, which duplicates revenues or expenses, has been eliminated from these statements. Exceptions to this general rule are the transfers between the proprietary and the governmental funds. Transfers during fiscal year 2021 include both operating transfers and transfers for capital expenditures.

## 1. Summary of Significant Accounting Policies, Continued

### b. Basis of Presentation, Continued

Governmental activities and business-type activities are reported separately to highlight the differences in funding and operations. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, on the other hand, rely to a significant extent on fees and charges that are designed to recover the costs of operations, including the cost of capital.

The statement of activities outlines the direct expenses of each of the City's major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment and 2) operating and capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. Major funds are those whose assets, liabilities, revenues, or expenses/expenditures are at least ten percent of the corresponding totals (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenses/expenditures are at least five percent of the corresponding total for all governmental and enterprise funds combined. The funds of the financial reporting entity are described below:

#### **Governmental Funds**

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds.

##### General Fund-

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except where the Department of Local Government or management requires that a separate fund be used for some functions.

##### Local Government Economic Assistance Fund-

The Local Government Economic Assistance (LGEA) Fund is a special revenue fund that accounts for the state allocation of the gasoline tax and the coal and mineral severance tax to local governments for road improvements. Expenditures for street construction, reconstruction and maintenance are eligible for this funding source. The Department of Local Government requires the City to maintain these receipts and expenditures separately from the General Fund.

**1. Summary of Significant Accounting Policies, Continued**

**b. Basis of Presentation, Continued**

**Proprietary Funds**

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

**Gas Fund-**

The Gas Fund is used to account for the provision of gas services to the residents of the City. Activities of the fund include administration, operations and maintenance of the gas system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for gas debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted as needed to ensure the integrity of the funds.

**Water and Sewer Fund-**

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted as needed to ensure the integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utilities are charges to the customers for services. The City's utilities also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**c. Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

**1. Summary of Significant Accounting Policies, Continued**

**c. Measurement Focus/Basis of Accounting, Continued**

The government-wide financial statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting revenues are recognized when earned, including unbilled utility services which are accrued. Expenses are recognized at the time the liability is incurred. Property tax revenues are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e. when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment has matured and will be payable shortly after year end.

Property taxes, franchise taxes, licenses, charges for services, intergovernmental revenues, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

**d. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City are reported at fair value. Certificates of deposits are reported at cost since the redemption terms do not consider market rates. These investments are required to be fully collateralized in accordance with provisions of KRS 66.480.

State statutes (KRS 66.480) authorize the City to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds that meet the prescribed ratings, repurchase agreements, and the State Treasurer's Investment Pool.

**e. Revenue Recognition – Property Taxes**

Property taxes are assessed January 1, levied August 31, and are due and payable at that time. All unpaid taxes levied August 31 become delinquent January 1 of the following year. The governmental fund financial statements recognize property tax revenues when they become available. Available includes property tax receivables expected to be collected within sixty (60) days after year end.

**1. Summary of Significant Accounting Policies, Continued**

**f. Receivables and Allowance for Uncollectible Accounts**

Major receivable balances for the governmental activities include property taxes, insurance premium taxes, franchise taxes, and various intergovernmental receivables. Business-type activities report utilities accounts receivable as their major receivable class. All receivables, including those for the proprietary funds, are shown net of an allowance for uncollectible accounts. Trade accounts that are classified as inactive have been included in the allowance for uncollectible. Amounts considered to be uncollectible are based on historical trends and the type and age of the related receivables.

**g. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

The City has established a capitalization policy to recognize capital assets as assets with an initial, individual cost of more than \$7,500 and an estimated useful life in excess of one year. Such assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and improvements	40
Improvements, other than buildings	10 - 35
Infrastructure	30 - 50
Vehicles	5 - 7
Equipment and machinery	7 - 15
Computers and related equipment	5

**h. Reconciliation of Government-Wide and Fund Financial Statements**

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net assets reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. In addition, capital assets, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

1. Summary of Significant Accounting Policies, Continued

h. Reconciliation of Government-Wide and Fund Financial Statements, Continued

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense. The principal payments on long-term debt are eliminated from the operating costs.

i. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay and sick pay are accrued when earned in proprietary funds and reported as a fund liability. Employees who retire from the City service who have accumulated sick leave receive a contribution to their pension account based on the lower of the number of hours accumulated or a calculated limit of hours based on job status and length of employment, their job classification, and their age at retirement.

Accumulated vacation leave must be used within one year, so there is no long-term liability for these benefits. The liability for these compensated absences is recorded as current liabilities in the government-wide statements. Liabilities are calculated using the employee's current rate of pay and the total hours of accumulated leave.

Compensated absence activity for the year ended June 30, 2021 was as follows:

	Balance <u>7/1/2020</u>	Additions	Reductions	Balance <u>6/30/2021</u>
<u>Governmental Activities:</u>				
Compensated absences	\$ 117,497	\$ 62,542	\$ (84,063)	\$ 95,976
<u>Business-Type Activities:</u>				
Compensated absences	\$ 127,861	\$ 69,552	\$ (61,146)	\$ 136,267

Presented on the statement of net assets under the following captions:

	Governmental Activities	Business-Type Activities
Current Liabilities: compensated absences	\$ 82,594	\$ 91,605
Non-current Liabilities: compensated absences	13,382	44,662
	<u>\$ 95,976</u>	<u>\$ 136,267</u>



## 1. Summary of Significant Accounting Policies, Continued

### j. Long-Term Liabilities

In the government-wide financial statements, and proprietary funds types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount or gross of bond premium and are reported as deferred charges and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while premiums received and discounts on debt issuances are reported as other financing sources/uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

### k. Fund Balance

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported by fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

- Non-spendable- consists of amounts that cannot be spent because they are either 1) not in spendable form, or 2) legally or contractually required to be maintained intact.

Spendable include the following:

- Restricted- consist of fund balances that are restricted by external parties (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Committed- consists of amounts that can only be used for specific purposes pursuant to constraints established by formal action of the City's highest level of decision making authority, which would be ordinances or resolutions passed by the City Council. Those committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by ordinance or resolution.
- Assigned- consists of amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the City Council, City Administrator, or any other body or official which they have delegated the authority to assign amounts to be used for a specific purpose.
- Unassigned- consists of amounts of spendable fund balance that has not been restricted, committed, or assigned to specific purposes within a fund.

The City has assigned amounts that represent security bonds for various permits the City operates under.



1. Summary of Significant Accounting Policies, Continued

k. Fund Balance, Continued

Restrictions of governmental fund balances as of June 30, 2021 include the following balances:

Street Improvements	\$219,581
Capital outlay and economic development as amended per KRS 42.450	319,811
<b>Total</b>	<u>\$539,392</u>

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

l. Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Government-wide and proprietary fund net position is divided into three components:

- Net investment in capital assets- consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted- consist of net position that is restricted by the City's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted- all other net assets are reported in this category.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

m. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to / deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## 1. Summary of Significant Accounting Policies, Continued

### n. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has two items that qualify for reporting in this category: the pension-related deferred outflows and OPEB-related deferred outflows reported in the government-wide statement of net position totaling \$2,561,139 at June 30, 2021, as described in Note 8 & 9 to the financial statements.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet this criteria: the pension deferred inflows and OPEB deferred inflows reported in the government-wide statement of net position totaling \$595,058 at June 30, 2021, as described in Note 8 & 9 to the financial statements.

### o. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### p. Non-exchange Transactions

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, entitlements, and donations. Property taxes levied to finance fiscal year 2020 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used, or the year when use is first permitted, and matching requirements, in which the City must provide local resources to be used for a specified purpose. On the modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

### q. Impact of Pandemic

On March 11, 2020, the World Health Organization (“WHO”) recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home order. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the industry in which the City operates.

## 2. Stewardship, Compliance and Accountability

Through the budget, the City Council sets the directions of the City, allocates its resources and establishes its priorities. The annual budget ensures the efficient and effective use of the City's economic resources, as well as establishing that the highest priority objectives are accomplished.

### Budgetary Information

Annual budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles. Proprietary fund budgets are adopted on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year-end. The Mayor submits the proposed budget to the Council no later than June 1. Council revises and adopts the budget no later than June 30. The budget ordinance establishes authorized appropriations at the department level of control. Amendments are adopted during the year as necessary to comply with KRS 91A.030.

### Excess Expenditures and Revenues

For the year ended June 30, 2021, General Fund actual revenues exceeded budgeted revenues by \$542,016 and actual expenditures exceeded budgeted expenditures by \$33,419. For the LGEA Fund actual revenues did not exceed budgeted revenues by \$87,395 and actual expenditures did not exceed budgeted expenditures by \$130,000. These overages were funded by excess revenues in other funds/departments and available fund balances.

## 3. Deposits and Investments

### Deposits

At June 30, 2021, the City maintained deposits in the amount of \$1,950,746 with two local financial institutions. Of these bank balances, \$500,000 was insured by federal deposit insurance, and the balance of \$1,450,746 was fully collateralized by pledged securities, as required by the Kentucky Revised Statutes. The carrying amount of these deposits was \$1,864,898.

### Investments

The City's investment policies are to invest public funds in a manner which will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investment of public funds. The City held no investments at June 30, 2021.

### Credit Risk

The City has no policy regarding credit risk. The City is authorized to invest in U.S. Government backed securities, any corporation of the U.S. Government, Certificates of Deposit and Bankers Acceptances issued by highly rated banks, commercial papers in the highest rating category, and securities issued by a state or local government rated in one of the three highest categories by a nationally-recognized rating agency, and any other investment permitted by Kentucky Revised Statute 66.480.

### 3. Deposits and Investments, Continued

#### Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Custodial Credit Risk

For an investment, the custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no policy on custodial credit risk.

#### Concentration of Credit Risk

The City places no limit on the amount that the City may invest in any one issuer.

### 4. Property Tax

Property taxes include amounts levied against all real and public utility property, plus tangible personal property that is located within the city limits. All property taxes are levied as of October 1st based on the assessment values as of January 1st. Property taxes are due by November 30th. After that date, a 10% penalty is imposed. If bills are not paid by December 1st, all delinquent accounts bear interest at 18% per annum until paid. Liens are filed for all delinquent property taxes in May of the following year.

Assessed values are established by the County Property Valuation Administration at 100% of appraised market value. The city's tax rate applicable to the 2021 fiscal year was \$.544 per \$100 of assessed valuation for real estate and \$.6182 personal property and \$.602 for motor vehicles and watercraft.

### 5. Receivables

Receivables as of June 30, 2021 for the City's major funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>LGEA</u>	<u>Gas</u>	<u>Water &amp; Sewer</u>	<u>Total</u>
Receivables:					
Utilites	\$ 8,227	\$ -	\$ 12,118	\$ 48,506	\$ 68,851
Intergovernmental	3,601	-	-	-	\$ 3,601
Taxes	273,543	-	-	-	\$ 273,543
Franchise Fees	20,206	-	-	-	\$ 20,206
Other	163,696	-	11,130	7,908	182,734
Gross Receivables	<u>469,273</u>	-	<u>23,248</u>	<u>56,414</u>	<u>\$ 548,935</u>
Less: Allowance for uncollectibles	<u>(164,874)</u>	-	<u>(6,012)</u>	<u>(14,447)</u>	<u>(185,333)</u>
Net Receivables	<u>\$ 304,399</u>	<u>\$ -</u>	<u>\$ 17,236</u>	<u>\$ 41,967</u>	<u>\$ 363,602</u>