

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2021

6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Balance 7/1/2020	Additions	Disposals	Balance 6/30/2021
<u>Governmental Activities:</u>				
Non-depreciable capital				
Land	\$ 503,085	\$ -	\$ -	\$ 503,085
Construction in progress	-	-	-	-
Total non-depreciable capital assets	<u>503,085</u>	<u>-</u>	<u>-</u>	<u>503,085</u>
Depreciable capital assets:				
Buildings and improvements	1,510,769	-	-	1,510,769
Improvements, other than buildings	997,390	9,096	-	1,006,486
Infrastructure	717,755	-	-	717,755
Vehicles	957,525	-	(88,077)	869,448
Equipment	1,231,886	118,992	-	1,350,878
Total depreciable capital assets	<u>5,415,325</u>	<u>128,088</u>	<u>(88,077)</u>	<u>5,455,336</u>
Less accumulated depreciation on:				
Buildings and improvements	(752,043)	(27,261)	-	(779,304)
Improvements, other than buildings	(590,983)	(31,706)	-	(622,689)
Infrastructure	(106,311)	(16,420)	-	(122,731)
Vehicles	(765,161)	(49,639)	88,077	(726,723)
Equipment	(826,614)	(77,233)	1,974	(901,873)
Total accumulated depreciation	<u>(3,041,112)</u>	<u>(202,259)</u>	<u>90,051</u>	<u>(3,153,320)</u>
Governmental activities capital assets, net	<u>\$ 2,877,298</u>	<u>\$ (74,171)</u>	<u>\$ 1,974</u>	<u>\$ 2,805,101</u>
<u>Business-Type Activities:</u>				
Non-depreciable capital assets:				
Land	\$ 42,149	\$ -	\$ -	\$ 42,149
Construction in progress	586,667	-	(492,156)	94,511
Total non-depreciable capital assets	<u>628,816</u>	<u>-</u>	<u>(492,156)</u>	<u>136,660</u>
Depreciable capital assets:				
Plant facilities and improvements	31,198,679	1,829,813	-	33,028,492
Equipment and vehicles	3,204,178	7,252	(118,400)	3,093,030
Total depreciable capital assets	<u>34,402,857</u>	<u>1,837,065</u>	<u>(118,400)</u>	<u>36,121,522</u>
Less accumulated depreciation on:				
Plant facilities and improvements	(12,711,850)	(788,473)	-	(13,500,323)
Equipment and vehicles	(2,160,807)	(154,548)	28,613	(2,286,742)
Total accumulated depreciation	<u>(14,872,657)</u>	<u>(943,021)</u>	<u>28,613</u>	<u>(15,787,065)</u>
Business-type activities capital assets, net	<u>\$ 20,159,016</u>	<u>\$ 894,044</u>	<u>\$ (581,943)</u>	<u>\$ 20,471,117</u>

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2021

6. Capital Assets, Continued

Depreciation expense was charged as a direct expense to the program of the primary government as follows:

Governmental Activities:

General government and administration	\$ 16,106
Public safety:	
Police	49,504
Fire	34,058
Highway and streets	65,275
Parks and recreation	37,316
Total	<u>\$ 202,259</u>

Business-Type Activities:

Gas	\$ 109,185
Water and sewer	833,836
Total	<u>\$ 943,021</u>

Interest incurred and charged to expense during the year on capital projects equaled \$108,253.

7. Long-term Liabilities and Short-term Debt

Long-term liability activity for the fiscal year ended June 30, 2021, was as follows:

	<u>Balance</u> <u>7/1/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/2021</u>	<u>Due within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Equipment note	\$ 50,576	\$ -	\$ (30,472)	\$ 20,104	\$ 17,194
Net pension liability	4,323,614	494,446	-	4,818,060	-
Net OPEB liability	1,056,927	476,485	-	1,533,412	-
Totals	<u>\$ 5,431,117</u>	<u>\$ 970,931</u>	<u>\$ (30,472)</u>	<u>\$ 6,371,576</u>	<u>\$ 17,194</u>
<u>Business-type Activities:</u>					
KIA loan fund A	\$ 2,739,649	\$ -	\$ (135,068)	\$ 2,604,581	\$ 137,442
KIA loan fund B	172,928	-	(41,477)	131,451	42,626
USDA RD loan	2,544,000	-	(46,500)	2,497,500	47,500
Net pension liability - Gas	485,301	58,537	-	543,838	-
Net OPEB liability - Gas	116,033	58,078	-	174,111	-
Net pension liability - W&S	2,120,729	255,805	-	2,376,534	-
Net OPEB liability - W&S	559,329	161,396	-	720,725	-
Totals	<u>\$ 8,737,969</u>	<u>\$ 533,816</u>	<u>\$ (223,045)</u>	<u>\$ 9,048,740</u>	<u>\$ 227,568</u>

The City has a fixed rate line of credit (not to exceed \$1,300,000) with a local financial institution which is utilized for capital expenditures and cash flow purposes. The line of credit is unsecured and bears interest at 2.12%. The short-term debt activity for the year ended June 30, 2021, was as follows:

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2021

7. Long-term Liabilities and Short-term Debt, Continued

	<u>7/1/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2021</u>
<u>Business-type Activities:</u>				
Line of credit	\$ 205,956	\$ -	\$ (205,956)	\$ -

Debt service requirements at June 30, 2021 to retire the City's long-term obligations were as follows:

Year ended June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Bonds</u>	
	<u>Notes from Direct Borrowings</u>		<u>Notes from Direct Borrowings</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 17,194	\$ -	\$ 180,068	\$ 48,304	47,500	\$ 56,194
2023	2,910	-	183,664	44,708	48,500	55,115
2024	-	-	187,335	41,039	50,000	54,018
2025	-	-	144,817	37,606	51,000	52,921
2026	-	-	147,363	35,060	52,000	51,754
Thereafter	-	-	1,892,785	205,087	2,248,500	867,615
Total	<u>\$ 20,104</u>	<u>\$ -</u>	<u>\$ 2,736,032</u>	<u>\$ 411,804</u>	<u>\$ 2,497,500</u>	<u>\$ 1,137,617</u>

Other information on the City's long-term indebtedness is summarized below:

<u>Obligation</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	<u>Security</u>
<u>Governmental Activities:</u>				
Notes payable				
Due annually in the amounts ranging from \$17,194 to \$2,910	0.00%	10/31/22	\$ 20,104	Equipment

Business-type Activities:

Notes payable

(KIA Loan Fund - A) Direct borrowings from Kentucky Infrastructure Authority (KIA), dated 9/1/16, principal and interest at 1.75% per annum to be repaid over a period of 20 years. \$870 monthly reserve required until reserve equals \$104,400.

(KIA Loan Fund - B) Direct Borrowings from Kentucky Infrastructure Authority (KIA), dated 5/1/16, principal and interest at 2.75% per annum to be repaid over a period of 5 years.

(USDA RD Loan) Water Revenue Bond with US Department of Agriculture (USDA), dated 1/29/18, principal and interest at 2.25% per annum to be repaid over a period of 38 years. Secured by and payable from a pledge of a fixed portion of the gross revenues of the system.

8. Pension Plan

Plan Description

The City participates in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems (KRS), an agency of the Commonwealth of Kentucky. CERS covers all full-time employed in nonhazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). KRS issues a publicly available financial report that includes audited financial statements and audited required supplementary information for CERS. The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type/amount of service, participation date, and retirement date; and years of service. The information below summarizes the major retirement benefit provisions of CERS. For retirement and benefit purposes, non-hazardous and hazardous employees are grouped into three tiers. The following summaries are not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Non-hazardous members:

Tier 1:

For members whose participation began before September 1, 2008, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Age 65, with at least 48 months of service credit.
 Age 65, with at least one month of non-hazardous duty service credit.
 Any age with 27 or more years of service credit

Reduced Benefit: Age 55, with at least five (5) years of service credit
 Any age with at least 25 and up to 27 years of service credit

Benefit Amount:

For members whose participation began before August 1, 2004, if a member has at least 48 months of service, the monthly benefit is 2.2% times final average compensation times years of service. For members whose participation began on or after August 1, 2004, the benefit factor is 2.0%. Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

If a member has at least one month but less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

8. Pension Plan, Continued

Non-hazardous members, Continued:

Compensation:

Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used.

Tier 2:

For members whose participation began on or after September 1, 2008, but before January 1, 2014, the following provisions are in force:

Age and service requirement:

- Unreduced Benefit: Age 65, with at least 60 months of service credit.
Age 57, if members age and years of service equal 87 (Rule of 87)
- Reduced Benefit: Age 60, with at least 120 months of service credit

Benefit Amount:

The monthly benefit is the following benefit factor based on service credit at retirement multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
120 months or less	1.10%
121 - 240 months	1.30%
241 - 312 months	1.50%
313 - 360 months	1.75%
Over 360 months	2.00%

Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

Compensation:

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Tier 3:

For members whose participation began on or after January 1, 2014, the following provisions are in force:

Age and service requirement:

- Unreduced Benefit: Age 65, with at least 60 months of service credit.
Age 57, if members age and years of service equal 87 (Rule of 87)
- Reduced Benefit: Not available

8. Pension Plan, Continued

Non-hazardous members, Continued:

Benefit Amount:

Plan members in Tier 3 participate in and 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. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 4.00%, respectively, of creditable compensation into a hypothetical account.

The employer pay credit represents a portion of the employer contribution. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

Hazardous members:

Tier 1:

For members whose participation began before September 1, 2008, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Age 55, with at least 60 months of service credit.
 Age 55, with at least one month of hazardous duty service credit.
 Any age with 20 or more years of service credit

Reduced Benefit: Age 50, with at least 15 years of service credit

Benefit Amount:

For members who have at least 60 months of service, the monthly benefit is 2.5% times final average compensation times years of service. Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

If a member has at least one month but less than 60 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Compensation:

Final compensation is calculated by taking the average of the highest three (3) fiscal years of salary. If the number of months of service credit during the three (3) year period is less than twenty-four (24), one (1) or more additional fiscal years shall be used.

8. Pension Plan, Continued

Hazardous members, Continued:

Tier 2:

For members whose participation began on or after September 1, 2008, but before January 1, 2014, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Any age with at least 25 years of service credit.
Age 60, with at least 60 months of service credit.

Reduced Benefit: Age 50, with at least 180 months of service credit

Benefit Amount:

The monthly benefit is the following benefit factor based on service credit at retirement multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
120 months or less	1.30%
121 - 240 months	1.50%
241 to 299 months	2.25%
Over 300 months	2.50%

Benefits are reduced by varying percentage based on years of age or service from full retirement criteria.

Compensation:

Final compensation is calculated by taking the average of the last (not highest) three (3) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

Tier 3:

For members whose participation began on or after January 1, 2014, the following provisions are in force:

Age and service requirement:

Unreduced Benefit: Any age with at least 25 years of service credit.
Age 60, with at least 60 months of service credit.

Reduced Benefit: Not available

Benefit Amount:

Plan members in Tier 3 participate in and 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. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 8.00% and 7.50%, respectively, of creditable compensation into a hypothetical account. The employer pay credit represents a portion of the employer contribution. The hypothetical account will earn

8. Pension Plan, Continued

Hazardous members, Continued:

interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

For all tiers, cost of living adjustments (COLA) are provided only if authorized by the Legislature and are at the discretion of the General Assembly. Death and disability benefits are available to members based on years of service, compensation, retirement date and other factors. Please refer to the Summary Plan Description, available from KRS, for a complete description of all Plan benefits and provisions.

Contributions

Per Kentucky Revised Statutes Sections 78.545 (33), contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Plan members, are required to contribute a percentage of their annual creditable compensation based on their benefit tier as follows:

	Non-hazardous <u>Required contribution</u>	Hazardous <u>Required contribution</u>
Tier 1	5%	8%
Tier 2	5% + 1% for health insurance fund	8% + 1% for health insurance fund
Tier 3	5% + 1% for health insurance fund	8% + 1% for health insurance fund

The City contributes at an actuarially determined contribution rate determined by KRS Board. The City's required contribution rates for the year ended June 30, 2021, was 24.06% (of which 19.30% was credited to pension liability and 4.76% was credited to insurance liability) for non-hazardous employees and 39.58% (of which 30.06% was credited to pension liability and 9.52% was credited to insurance liability) for hazardous employees. Contributions to CERS by the City were \$425,694 for the year ended June 30, 2021, which consisted of \$372,143 and \$53,551 for non-hazardous and hazardous employees, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the City reported a liability of \$7,738,432 for its proportionate share of the net pension liability (NPL). The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long term share contributions to the pension plan relative to the projected contributions of all participating

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2021

8. Pension Plan, Continued

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions, Continued

entities, actuarially determined. At June 30, 2020, the City's proportion was 0.089451% for non-hazardous and 0.029108% for hazardous, an increase of 0.002400% from its proportion measured as of June 30, 2019 of 0.087051% for non-hazardous and a decrease of 0.000118% for hazardous from its proportion measured as of June 30, 2019 of 0.029226%. The amount recognized by the City as its proportionate share of the net pension liability was as follows:

<u>City Proportionate Share of NPL</u>	
Non-hazardous	\$ 6,860,818
Hazardous	<u>877,614</u>
Total	<u>\$ 7,738,432</u>

The City recognized pension expenses of \$1,207,900 for the year ended June 30, 2021, which consisted of \$1,064,176 and \$143,724 for non-hazardous and hazardous employees, respectively. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Non-hazardous</u>		<u>Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on plan investments	\$ 171,087	\$ 125,710	\$ 27,218	\$ 13,464
Difference between expected and actual experience	297,393	-	33,234	-
Change of assumptions	267,903	-	33,284	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	203,579	-	-	4,631
City contributions subsequent to the measurement date	<u>372,143</u>	<u>-</u>	<u>53,551</u>	<u>-</u>
Total	<u>\$ 1,312,105</u>	<u>\$ 125,710</u>	<u>\$ 147,287</u>	<u>\$ 18,095</u>

The \$425,694 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

8. Pension Plan, Continued

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions, Continued

Year ending June, 30	<u>Non-Hazardous</u>	<u>Hazardous</u>
2021	\$ 394,296	\$ 32,317
2022	260,464	20,519
2023	90,542	13,203
2024	68,951	9,602
2025	-	-
Thereafter	-	-
	<u>\$ 814,253</u>	<u>\$ 75,641</u>

Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation for both non-hazardous and hazardous liabilities were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.30% to 11.55%, varies by service
Investment rate of return	6.25% net of Plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for the 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.

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Discount rate: The discount rate used to measure the total pension liability was 6.25%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

8. Pension Plan, Continued

Actuarial Assumptions, Continued

Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in determining the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10 year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: The discount rate determination does not use a municipal bond rate.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real 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	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100%	

8. Pension Plan, Continued

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

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

	Discount Rate	City's Proportionate Share of Net Pension Liability Non-hazardhous	City's Proportionate Share of Net Pension Liability Hazardhous
1% decrease	5.25%	\$8,460,881	\$1,084,606
Current discount rate	6.25%	\$6,860,818	\$877,614
1% increase	7.25%	\$5,535,904	\$708,654

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined by and actuarial valuation as of June 30, 2020. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary increase	3.30 percent to 11.55 percent, varies by service
Investment rate of return	6.25 percent

Changes in Assumptions and Benefit Terms

There were no changes in assumptions or benefit terms since the prior measurement date.

8. Pension Plan, Continued

Changes since Measurement Date

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

At June 30, 2021, the City reported a payable of \$29,149 and \$4,105 for non-hazardous and hazardous employees, respectively.

9. Other Post-Employment Benefits

In addition to the pension benefits described above, the Kentucky Retirement Systems (KRS) provides post-retirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KRS, including those in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer Defined Benefit OPEB Plan, which the City participates. The Plan's financials are included in the Kentucky Retirement Systems audited financial statements, which may be found at the KRS website at www.kyret.ky.gov. The fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. The allocation of insurance premiums paid by the Fund and amounts withheld from member benefits is based on years of service with the Systems. For member participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

<u>Service Period</u>	<u>% Paid by Insurance Fund</u>
20 or more years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is at the discretion of the Kentucky General Assembly who reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

9. Other Post-Employment Benefits, Continued

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

On August 6, 2012, the Retirement System Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502-564-4646).

Contribution Policy

The City's actuarially determined contribution rate for the year ended June 30, 2021, was 24.06% of annual creditable compensation, of which 19.30% and 4.76% was contributed to the Pension and OPEB funds within CERS for non-hazardous employees and 39.58% of annual creditable compensation, of which 30.06% and 9.52% was contributed to the Pension and OPEB funds within CERS for hazardous employees. Contributions to CERS by the City were \$108,742 for the year ended June 30, 2021, which consisted of \$91,782 and \$16,960 for non-hazardous and hazardous employees, respectively.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the City reported a liability of \$2,428,248 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long term share contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the City's proportion was 0.089425% for non-hazardous and 0.029099% for hazardous, an increase of 0.002394% from its proportion measured as of June 30, 2019 of 0.087031% for non-hazardous and a decrease of 0.000122% for hazardous from its proportion measured as of June 30, 2019 of 0.029221%. The amount recognized by the City as its proportionate share of the net OPEB liability was as follows:

<u>City Proportionate Share of Net OPEB Liability</u>	
Non-hazardous	\$ 2,159,342
Hazardous	268,906
Total	<u>\$ 2,428,248</u>

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2021

9. Other Post-Employment Benefits, Continued

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB, Continued

The City recognized OPEB expenses of \$332,927 for the year ended June 30, 2021, which consisted of \$288,205 and \$44,722 for non-hazardous and hazardous employees, respectively. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-hazardous		Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ 115,833	\$ 44,061	\$ 19,912	\$ 7,975
Difference between expected and actual experience	360,781	361,062	9,228	26,853
Change of assumptions	375,598	2,284	43,869	248
Changes in proportion and differences between employer contributions and proportionate share of contributions	67,784	3,034	-	5,737
City contributions subsequent to the measurement date	91,782	-	16,960	-
Total	<u>\$ 1,011,778</u>	<u>\$ 410,441</u>	<u>\$ 89,969</u>	<u>\$ 40,813</u>

The \$108,742 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	Non-hazardous	Hazardous
Year ending June 30,		
2021	\$ 133,669	\$ 8,169
2022	154,909	2,510
2023	114,187	9,274
2024	109,528	8,629
2025	(2,738)	3,614
Thereafter	-	-
	<u>\$ 509,555</u>	<u>\$ 32,196</u>

9. Other Post-Employment Benefits, Continued

Actuarial Assumptions

The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05% to 18.55%, varies by service
Investment rate of return	6.25% net of Plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for the 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.

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Discount rate: The discount rate used to measure the total OPEB liability was 5.34%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed the local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long term rate of return: The long term rate of return assumption on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in determining the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10 year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: The discount rate determination was 2.45%.

9. Other Post-Employment Benefits, Continued

Actuarial Assumptions, Continued

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2117.

Assumed Asset Allocation: The target asset allocation and best estimates of arithmetic real 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	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100%	

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

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

	Discount Rate Non- hazardous	City's Proportionate Share of Net OPEB Liability Non- hazardous	Discount Rate Hazardous	City's Proportionate Share of Net OPEB Liability Hazardous
1% decrease	4.34%	\$ 2,774,120	4.30%	\$ 365,032
Current discount rate	5.34%	\$ 2,159,342	5.30%	\$ 268,905
1% increase	6.34%	\$ 1,654,404	6.30%	\$ 191,447

9. Other Post-Employment Benefits, Continued

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

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

	City's Proportionate Share of Net OPEB Liability Non- hazardous	City's Proportionate Share of Net OPEB Liability Hazardous
1% decrease	\$1,671,870	\$192,168
Current healthcare cost trend rate	\$2,159,342	\$268,905
1% increase	\$2,750,900	\$363,248

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined by and actuarial valuation as of June 30, 2020. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years, Closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary increase	3.05 percent to 11.55 percent, varies by service
Investment rate of return	6.25 percent
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Health Care Trend Rates (Pre-65)	Initial trend starting at 7.00% and gradually decreasing to a ultimate trend rate of 4.05% over 12 year period.
Health Care Trend Rates (Post-65)	Initial trend starting at 5.00% and gradually decreasing to a ultimate trend rate of 4.05% over 10 year period.

Changes in Assumptions and Benefit Terms

There were no changes in benefit terms since the prior measurement date. The following changes of assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020 as follows:

- The assumed discount rate changed from 5.68% to 5.34%

9. Other Post-Employment Benefits, Continued

Changes Since Measurement Date

There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the OPEB Plan

At June 30, 2021, the City reported a payable of \$7,190 and \$1,300 for non-hazardous and hazardous employees, respectively.

10. Deferred Compensation

The City allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

11. Other Employee Benefits

Vacation leave is credited on each employee's anniversary date and must be taken by the end of the calendar year. Any employee whose employment with the City ends in retirement or with the employee giving proper notice and being in good standing shall be compensated for all unused vacation.

All full-time employees receive eight (8) hours sick leave credit for each month of service up to a maximum of 1,440 hours. Employees who retire from the City service are credited with additional retirement benefits based on unused sick leave, at time of retirement.

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2021

12. Interfund Transfers

Interfund transfers during the year ended June 30, 2021 were as follows:

	Transfers In				Total
	General	Water & Sewer	Gas	LGEA	
Transfers Out					
General		\$ 600,000	\$ -	\$ -	\$ 600,000
Water & Sewer	198,095		(2,141)	-	\$ 195,954
Gas	450,000	200,000		-	\$ 650,000
LGEA	-	-	-		\$ -
Total	<u>\$ 648,095</u>	<u>\$ 800,000</u>	<u>\$ (2,141)</u>	<u>\$ -</u>	<u>\$ 1,445,954</u>

The transfers are primarily used to move funds from the proprietary funds to the General Fund to assist in providing general governmental, public safety, public works, and parks and recreation services.

13. Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes that disallowances, if any, will be immaterial.

The Natural Resource and Environmental Protection Cabinet of the Commonwealth of Kentucky has issued an “agreed order” with the City which relates to various violations of limits imposed under the City’s wastewater permit issued by the Cabinet’s Division of Water. The City has engaged an engineering firm to assist them in developing and implementing a plan to address the corrective measures recommended by the Natural Resources and Environmental Protection Cabinet. Should these items cited for corrective action not be rectified in the near future, the possibility exists that fines could be levied against the City. A reasonable estimate of expected fines cannot be made.

The City completed Phase I construction in the second quarter of 2013 on the initial phase of the project to make improvements to various wastewater, drainage and water lines for approximately \$4.2 million. Grant proceeds of approximately \$2,925,000 approved by the Kentucky Infrastructure Authority and the Governor’s Office for Local Development to complete the initial phase of the project were utilized. The City was approved in November 2014 for a Kentucky Infrastructure Authority (KIA) Federally Assisted Wastewater Revolving Loan Fund in the amount of \$2,642,200 to assist in funding Phase II of the Combined Sewer Separation Project. The City was awarded a Community Development Block Grant in the amount of \$1,000,000 in July 2015 to assist in Phase II of the project. Phase II construction was completed in the second quarter of 2017 for approximately \$4,093,527. These improvements are part of a corrective plan with the National Resource and Environmental Protection Cabinet of the Commonwealth of Kentucky relating to various violations of the City’s wastewater permit. The remaining estimated cost for Phase III of these improvements is approximately \$3,240,000. Phase III Design and Engineering are underway with an estimated start date for work to begin in summer of 2020. The City was scheduled to complete all phases of the project by December 2018 based on an agreement with the Kentucky Environmental Protection Cabinet. On behalf of the City, Smith Management Group sent a letter dated December 10, 2018 to the Kentucky Environmental Protection Cabinet requesting an extension for completion date of the final Phase

13. Contingencies, Continued

(Phase III) of the Long-Term Control Plan (LTCP). The City received a letter dated December 21, 2018 from the Kentucky Environmental Protection Cabinet requesting a meeting in Frankfort to discuss the Department has regarding the request for extension. The meeting was held on January 23, 2019. On behalf of the City, Smith Management Group sent a letter dated December 6, 2019 to the Kentucky Environmental Protection Cabinet requesting an extension for completion date of the final Phase (Phase III) of the Long-Term Control Plan until December 31, 2021. The reason for this request is due to the inability to begin construction because funding has not been secured for Phase III of the LTCP sewer separation project. On behalf of the City, Smith Management Group again sent a letter dated September 22, 2020 to the Kentucky Environmental Protection Cabinet requesting an additional six (6) month extension for completion of the final Phase (Phase III) of the Long-Term Control Plan until July 1, 2022. The reason for this request is due to the inability to begin construction because funding has not been secured for LTCP (Phase III).

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 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 Slip lining or replacing the sewer lines and replacing 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, 2018, approximately \$213,287 was spent out of this loan. Because the Fund “B” loan was not rolled into a construction project, the City has been required to make annual payments of approximately \$46,000 until loan is paid off in June 2024. Union County has assisted Morganfield to secure Delta Regional Authority funding of \$779,646 to replace sewers in 7,360 linear feet of 8-inch sewer in the Martin View Estates area. This will help reduce the budgeted construction cost the City has to fund. However, with inflation and current market conditions, the projected cost of this project is still about \$1,099,000. Strand Associates, Inc. engineers managed the 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. The City continues to have open conversation with county, state and federal representatives with help from GRADD and Strand Associates, Inc., about the need for federal infrastructure funding for this and other future projects. In addition, most of the equipment and structures at Morganfield’s Wastewater Treatment Plant has reached their useful life and needs replacement to enable the plant to stay in compliance with KPDES permit requirements. Morganfield has hired Strand Associates, Inc. to design the new upgrades to the plant but have not authorized Strand to start design. Strand is assisting GRADD and Morganfield to secure funding for the project. The total projected cost (engineering and construction) of the Treatment Plant project is \$14,500,000. Morganfield has been exploring the option of combining all three projects into one project in phases and securing funding for all three projects as one big project. Discussions with funding agencies are still on-going. The City is prioritizing securing as much grants as possible to fund these projects as the City does not have the financial capability to currently fund the entire cost of these projects even under favorable loan terms.

14. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omission; and natural disasters. The City contracts with Zurich American Insurance Company for insurance coverage for these risks. The city pays a guaranteed fixed premium that transfers these risks to a third party and is not subject to any additional premiums for this policy year.

Coverage consists of \$1,000,000 per occurrence with a \$1,000,000 umbrella with no deductible on the general liability and auto liability, and a \$2,500 deductible on the Public Officials Liability, Employment Practice Liability and Law Enforcement Liability. Coverage for property risk is \$27,275,350 with a deductible of \$1,000 per occurrence with the exception of earthquake claims with a limit of \$2,000,000 and a deductible of 2% not to exceed \$25,000 per occurrence and flood with a limit of \$1,000,000 and a deductible of \$25,000 per occurrence.

15. Related Organizations

The City of Morganfield participates with the County to provide a variety of services with joint funding from both organizations. All entities operate independently with separate management personnel. The following table outlines these organizations and the City's contribution during the fiscal year ending June 30, 2021.

<u>Organization</u>	<u>Contribution</u>
Union County Planning Commission	\$ 39,804

16. Concentrations of Sales

Natural Gas

For the year ended June 30, 2021, three industrial customers accounted for approximately \$1,309,468 in sales and surcharges for a total of 44% of the City's total gas operating revenues.

Water and Sewer

For the year ended June 30, 2021, three industrial customers accounted for approximately \$1,396,188 in sales and surcharges for a total of 46% of the City's total water and sewer operating revenues.

17. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through February 14, 2022, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF MORGANFIELD, KENTUCKY
Statement of Revenues,
Expenditures, and Changes in Fund Balance -
Budget and Actual - Budgetary Basis -
General Fund
For the fiscal year ended June 30, 2021

	General Fund			
	Budgeted Amounts			Favorable
	Original	Final	Actual	(Unfavorable) Variance with Final Budget
Revenues:				
Taxes and related revenues	\$ 1,355,058	\$ 1,187,833	\$ 1,434,217	\$ 246,384
Service charges and fees	522,760	517,885	505,223	(12,662)
Licenses	6,300	7,025	7,075	50
Franchise fees	227,900	199,110	229,832	30,722
Intergovernmental	346,795	403,200	683,292	280,092
Miscellaneous	174,607	165,287	162,723	(2,564)
Investment income	900	66	60	(6)
Total revenues	<u>2,634,320</u>	<u>2,480,406</u>	<u>3,022,422</u>	<u>542,016</u>
Expenditures:				
Current:				
General and administrative	484,625	485,816	516,541	(30,725)
Public safety:				
Police and dispatch	768,275	629,784	666,971	(37,187)
Fire	674,162	666,295	651,907	14,388
Highways and streets	862,353	765,671	781,996	(16,325)
Public works	412,150	487,063	450,058	37,005
Parks and recreation	26,489	6,808	7,325	(517)
Debt Service:				
Principal	-	24,522	30,472	(5,950)
Capital outlay	34,000	25,056	25,113	(57)
Total expenditures	<u>3,262,054</u>	<u>3,091,015</u>	<u>3,130,384</u>	<u>(33,419)</u>
Deficiency of revenues over expenditures	<u>(627,734)</u>	<u>(610,609)</u>	<u>(107,962)</u>	<u>508,597</u>
Other financing sources (uses):				
Note proceeds	-	-	-	-
Sale of municipal property	10,000	15,000	4,510	(10,490)
Operating transfers in	617,734	595,609	648,095	52,486
Operating transfers out	-	-	(600,000)	(600,000)
Total other financing sources	<u>627,734</u>	<u>610,609</u>	<u>52,605</u>	<u>(558,004)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	(55,357)	(49,407)
Fund balance, beginning of year	<u>415,000</u>	<u>415,000</u>	<u>238,076</u>	<u>(176,925)</u>
Fund balance, end of year	<u>\$ 415,000</u>	<u>\$ 415,000</u>	<u>\$ 182,719</u>	<u>\$ (226,332)</u>

CITY OF MORGANFIELD, KENTUCKY
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - Budgetary Basis-
Local Government Economic Assistance
For the fiscal year ended June 30, 2021

	Local Government Economic Assistance			
	Budgeted Amounts			Favorable (Unfavorable) Variance with Final Budget
	Original	Final	Actual	
Revenues:				
Taxes and related revenues	\$ -	\$ -	\$ -	\$ -
Service charges and fees	-	-	-	-
Licenses	-	-	-	-
Franchises	-	-	-	-
Intergovernmental	265,880	257,063	169,517	(87,546)
Miscellaneous revenue	-	-	-	-
Investment income	900	958	1,109	151
Total revenues	<u>266,780</u>	<u>258,021</u>	<u>170,626</u>	<u>(87,395)</u>
Expenditures:				
Current:				
General and administrative	3,000	-	-	-
Public safety:				
Police	-	-	-	-
Fire	-	-	-	-
Highways and streets	-	-	-	-
Public works	-	-	-	-
Recreation	-	-	-	-
Capital outlay	260,000	130,000	-	130,000
Total expenditures	<u>263,000</u>	<u>130,000</u>	<u>-</u>	<u>130,000</u>
Excess (deficiency) of revenues over expenditures	<u>3,780</u>	<u>128,021</u>	<u>170,626</u>	<u>42,605</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	3,780	128,021	170,626	42,605
Fund balance, beginning of year	<u>694,839</u>	<u>890,318</u>	<u>368,766</u>	<u>(521,552)</u>
Fund balance, end of year	<u>\$ 698,619</u>	<u>\$ 1,018,339</u>	<u>\$ 539,392</u>	<u>\$ (478,947)</u>

CITY OF MORGANFIELD, KENTUCKY
Schedule of Proportionate Share of the Net Pension Liability
County Employees Retirement System

Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015
Non-hazardous							
City's proportion of the net pension liability	0.08945%	0.08705%	0.08341%	0.08316%	0.08288%	0.07960%	0.07406%
City's proportionate share of the net pension liability	\$ 6,860,818	\$ 6,122,336	\$ 5,079,801	\$ 4,867,318	\$ 4,080,449	\$ 3,446,838	\$ 2,402,752
City's covered-employee payroll	\$ 2,298,987	\$ 2,248,944	\$ 2,119,082	\$ 2,071,030	\$ 2,023,802	\$ 1,918,891	\$ 1,754,447
City's proportionate share of the net pension liability as a percentage of it covered employee payroll	298.43%	272.23%	239.72%	235.02%	201.62%	179.63%	136.95%
Plan fiduciary net position as a percentage of the total pension liability.	47.81%	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%
Hazardous							
City's proportion of the net pension liability	0.02911%	0.02923%	0.02934%	0.03098%	0.04107%	0.04754%	0.05259%
City's proportionate share of the net pension liability	\$ 877,614	\$ 807,308	\$ 709,503	\$ 693,198	\$ 704,771	\$ 729,792	\$ 632,004
City's covered-employee payroll	\$ 170,060	\$ 166,450	\$ 163,266	\$ 170,247	\$ 213,532	\$ 243,174	\$ 266,353
City's proportionate share of the net pension liability as a percentage of it covered employee payroll	516.06%	485.02%	434.57%	407.17%	330.05%	300.11%	237.28%
Plan fiduciary net position as a percentage of the total pension liability.	44.11%	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%

* The amounts presented for each fiscal year were determined as of one-year prior to the fiscal year end. Fiscal year 2015 was the first year of implementation.

* The schedule is intended to show information for 10 years. Additional years of supplementary information will be provided as this information becomes available.

CITY OF MORGANFIELD, KENTUCKY
 Schedule of Contributions
 County Employees Retirement System - Pension

Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Non-hazardous								
Contractually required contributions	\$ 372,161	\$ 445,115	\$ 364,770	\$ 306,843	\$ 288,909	\$ 251,357	\$ 339,068	\$ 331,415
Contributions in relation to the contractually required contributions	(372,161)	(445,115)	(364,770)	(306,843)	(288,909)	(251,357)	(339,068)	(331,415)
Contribution (excess) deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,928,204	\$ 2,298,987	\$ 2,248,944	\$ 2,119,082	\$ 2,071,030	\$ 2,023,808	\$ 1,918,891	\$ 1,754,447
Contributions as a percentage of covered-employee payroll	19.30%	19.36%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
Hazardous								
Contractually required contributions	\$ 53,553	\$ 51,120	\$ 41,396	\$ 36,245	\$ 36,961	\$ 43,223	\$ 83,433	\$ 95,088
Contributions in relation to the contractually required contributions	(53,553)	(51,120)	(41,396)	(36,245)	(36,961)	(43,223)	(83,433)	(95,088)
Contribution (excess) deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 178,147	\$ 170,060	\$ 166,450	\$ 163,266	\$ 170,247	\$ 213,342	\$ 243,174	\$ 266,353
Contributions as a percentage of covered-employee payroll	30.06%	30.06%	24.87%	22.20%	21.71%	20.26%	20.73%	21.77%

* The amounts presented for each fiscal year were determined as of one-year prior to the fiscal year end.
 Fiscal year 2015 was the first year of implementation.

* The schedule is intended to show information for 10 years. Additional years of supplementary information will be provided as this information becomes available.

CITY OF MORGANFIELD, KENTUCKY
Notes to Required Supplementary Information - Pension
June 30, 2021

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2014:

- A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

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 1.00% to 0.75%.
- 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 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.
- The assumed rates of retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation decreased by 0.95%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

CITY OF MORGANFIELD, KENTUCKY
Schedule of Proportionate Share of the Net OPEB Liability
County Employees Retirement System

Last 10 Fiscal Years *

Non-hazardous	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.08943%	0.08703%	0.08341%	0.08316%
City's proportionate share of the net OPEB liability	\$ 2,159,342	\$ 1,463,822	\$ 1,480,839	\$ 1,671,700
City's covered-employee payroll	\$ 2,298,987	\$ 2,248,944	\$ 2,119,082	\$ 2,071,030
City's proportionate share of the net OPEB liability as a percentage of it covered employee payroll	93.93%	65.09%	69.88%	80.72%
Plan fiduciary net position as a percentage of the total OPEB liability.	51.67%	60.44%	57.62%	52.40%
Hazardous	2021	2020	2019	2018
City's proportion of the net OPEB liability	0.02910%	0.02922%	0.02934%	0.03098%
City's proportionate share of the net OPEB liability	\$ 268,905	\$ 216,194	\$ 209,182	\$ 256,136
City's covered-employee payroll	\$ 170,060	\$ 166,450	\$ 163,266	\$ 170,247
City's proportionate share of the net OPEB liability as a percentage of it covered employee payroll	158.12%	129.89%	128.12%	150.45%
Plan fiduciary net position as a percentage of the total OPEB liability.	58.84%	64.44%	64.24%	59.00%

* The amounts presented for each fiscal year were determined as of one-year prior to the fiscal year end.
 Fiscal year 2018 was the first year of implementation.

* The schedule is intended to show information for 10 years. Additional years of supplementary information will
 be provided as this information becomes available.

CITY OF MORGANFIELD, KENTUCKY
 Schedule of Contributions
 County Employees Retirement System - OPEB

Last 10 Fiscal Years *

<u>Non-hazardous</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 91,764	\$ 109,780	\$ 118,292	\$ 99,597
Contributions in relation to the contractually required contributions	(91,764)	(109,780)	(118,292)	(99,597)
Contribution (excess) deficiency	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 1,928,204	\$ 2,298,987	\$ 2,248,944	\$ 2,119,082
Contributions as a percentage of covered-employee payroll	4.76%	4.78%	5.26%	4.70%
<u>Hazardous</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 16,958	\$ 16,190	\$ 17,427	\$ 15,265
Contributions in relation to the contractually required contributions	(16,958)	(16,190)	(17,427)	(15,265)
Contribution (excess) deficiency	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 178,147	\$ 170,060	\$ 166,450	\$ 163,266
Contributions as a percentage of covered-employee payroll	9.52%	9.52%	10.47%	9.35%

* The amounts presented for each fiscal year were determined as of one-year prior to the fiscal year end.
 Fiscal year 2018 was the first year of implementation.

* The schedule is intended to show information for 10 years. Additional years of supplementary information will be provided as this information becomes available.

Changes of benefit terms:

None

Changes of assumptions: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2017:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation decreased by 0.95%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The single discount rate changed from 6.85% to 5.85%

2019:

- The single discount rate changed from 5.85% to 5.68%.

2020:

- The single discount rate changed from 5.68% to 5.34%.

CITY OF MORGANFIELD, KENTUCKY
Schedule of Expenditures of Federal Awards
June 30, 2021

Federal Grantor / Pass-through Grantor Program title:	Federal CFDA Number	Pass-Through Grantor's Number	Pass-Through to Subrecipients	Amount Expended
<u>Department of Homeland Security</u>				
Pass-through programs from: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	N/A	\$ <u>29,400</u>
<u>Department of the Treasury</u>				
Pass-through programs from: Kentucky Department for Local Government: Coronavirus Relief Fund	21.019	CO89 & C2-070	N/A	\$ <u>320,338</u>
<u>Delta Area Economic Development</u>				
Delta Regional Authority (M)	90.201	54059	N/A	\$ <u>779,646</u>
Total expenditures of federal awards				\$ <u>1,129,384</u>

(M) - Major program

CITY OF MORGANFIELD, KENTUCKY
Notes to Schedule of Expenditures of Federal Awards
June 30, 2021

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Morganfield under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of the City of Morganfield it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Morganfield, Kentucky.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in The Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The City of Morganfield has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - SUBRECEPIENTS

The City of Morganfield did not pass-through grant money to any subrecipients during the year ended June 30, 2021.

NOTE 5 - FEDERAL EXPENDITURES RECONCILIATION

The following is a reconciliation of grant funds recorded as revenue to grant funds expended per the Schedule for the year ended June 30, 2021:

Total federal awards	\$ 1,335,340
Less amounts received in current year for prior year expenditures	<u>(205,956)</u>
Total expended federal awards	<u><u>\$ 1,129,384</u></u>

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*

To the Mayor and City Council
City of Morganfield, 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 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 of Morganfield's basic financial statements and have issued our report thereon dated February 14, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Morganfield'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 Morganfield's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Morganfield'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. [2021-001 and 2021-002]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morganfield's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Morganfield's Response to Findings

City of Morganfield's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Morganfield's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Morganfield, Kentucky
February 14, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

To the Mayor and City Council
City of Morganfield, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Morganfield's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Morganfield's major federal programs for the year ended June 30, 2021. City of Morganfield's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Morganfield's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Morganfield's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Morganfield's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Morganfield complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of City of Morganfield is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Morganfield's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Morganfield's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Morganfield, Kentucky
February 14, 2022

CITY OF MORGANFIELD, KENTUCKY
Schedule of Findings and Questioned Costs
June 30, 2021

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Morganfield, Kentucky.
2. Two material weaknesses were disclosed during the audit of the financial statements as reported in the "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*".
3. No instances of noncompliance material to the financial statements of the City which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. There were no significant deficiencies reported that were not considered to be material weaknesses in the "Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance".
5. The auditor's report on compliance for the major federal award programs for the City expresses an unmodified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for the City are reported in this schedule.
7. The programs tested as a major programs include:
 - A. Delta Area Economic Development – CFDA 90.201
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The City of Morganfield, Kentucky did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2021-001 Lack of segregation of duties

Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust in employees is necessitated. Ideally, each key step of an accounting system should be segregated among employees. However, this is not always feasible due to the cost versus benefit relationship inherent in providing internal control. In the process of segregating functions among employees, management must continually make decisions relating to the applicable costs in comparison to the expected benefits to be achieved.

CITY OF MORGANFIELD, KENTUCKY
Schedule of Findings and Questioned Costs
June 30, 2021

Deficiency: The City has a lack of segregation of duties between employees involving key steps in the accounting system.

Criteria: Internal controls should be in place that provides reasonable assurance that accounting transactions (billings, adjustments, cash receipts and disbursements) are properly recorded and authorized.

Effect: Because of a lack of segregation of duties involving key steps in the accounting system transactions may occur that are not properly recorded or authorized.

Recommendation: We recommend the segregation of duties between accounting employees to the extent possible based on limited personnel.

Management Response: While the City agrees with the finding, it is not feasible from an economic perspective to add additional personnel. Management and those charged with governance will continue to provide strong oversight to the City's operations.

2021-002 Inability to draft financial statements and footnotes

City management and personnel responsible for the accounting and reporting function lack the qualifications and training to prepare financial statements in accordance with generally accepted accounting principles.

Deficiency: The City does not have any individual staff with the necessary knowledge and expertise to properly draft the financial statements or notes to the financial statements.

Criteria: The City should have at least one staff member with the training and expertise to properly prepare the financial statements and notes to the financial statements.

Effect: The City cannot prepare the financial statements or notes to the financial statements.

Recommendation: The City should provide the necessary training to personnel or contract with an independent contractor with the knowledge to properly prepare the financial statements and notes to the financial statements.

Management Response: The City has no plans of changing its current arrangement for the preparation of its financial statements.

C. FINDINGS & QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None