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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Morganfield, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, of the City of Morganfield, Kentucky, as of and for the year ended June 30, 2020, 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, Kentucky, as of June 30, 2020, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5th, 2021, on our consideration of the City of Morganfield, Kentucky'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 to describe the scope of our testing of internal control over financial reporting, and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 5, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS



CITY OF MORGANFIELD

130 East Main Street
P.O. Box 420
Morganfield, Kentucky 42437-0420

Tel. (270)389-2525
TDD (800)648-6056
Fax (270)389-2157
e-mail cityadm@att.net

Management's Discussion and Analysis June 30, 2020

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, 2020. 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 \$10.9 million (net position). The majority of the City's net position is invested in capital assets of approximately \$17.4 million. \$0.40 million is restricted for specific purposes. The remaining amount of less than \$0.1 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.
- The City's total net position decreased approximately (\$1,124,000) during the most recent fiscal year, approximately (\$744,000) decrease from the City's "governmental activities" and (\$380,000) decrease from the "business-type activities."
- The City's net investment in capital assets increased approximately \$0.2 million during the most recent fiscal year, to approximately \$17.4 million.
- As of June 30, 2020, unassigned fund balance for the General Fund was \$238,075 or 6.15% 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.

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 \$10.9 million as of June 30, 2020.

The largest portion of the City's net position, approximately \$17.4 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 \$0.40 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, 2020 and 2019:

Net Position
(in thousands)

	Governmental Activities		Business-Type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Current Assets	\$ 912	\$ 1,277	\$ 822	\$ 789	\$ 1,734	\$ 2,066
Capital Assets	2,877	2,877	20,159	20,038	23,036	22,915
Total Assets	<u>3,789</u>	<u>4,154</u>	<u>20,981</u>	<u>20,827</u>	<u>24,770</u>	<u>24,981</u>
Deferred outflows of resources	1,470	1,247	887	740	2,357	1,987
Current Liabilities	328	488	1,113	601	1,441	1,089
Non-current Liabilities	5,399	4,639	8,555	8,416	13,954	13,055
Total Liabilities	<u>5,727</u>	<u>5,127</u>	<u>9,668</u>	<u>9,017</u>	<u>15,395</u>	<u>14,144</u>
Deferred inflows of resources	558	555	316	286	874	841
Net Position:						
Net Investment in Capital Assets	2,868	2,860	14,496	14,362	17,364	17,222
Restricted	369	475	40	22	409	497
Unrestricted	<u>(4,262)</u>	<u>(3,616)</u>	<u>(2,653)</u>	<u>(2,120)</u>	<u>(6,915)</u>	<u>(5,736)</u>
Total Net Position	<u>\$ (1,025)</u>	<u>\$ (281)</u>	<u>\$ 11,883</u>	<u>\$ 12,264</u>	<u>\$ 10,858</u>	<u>\$ 11,983</u>

As of June 30, 2020 the City is able to report positive balances 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 decreased to \$10.9 million from \$12. 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, 2020 and 2019:

	Change in Net Position					
	(in thousands)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for services	\$ 506	\$ 518	\$ 5,469	\$ 5,966	\$ 5,975	\$ 6,483
Operating grants and contribs	79	89	-	-	79	89
Capital grants and contribs	-	3	206	391	206	394
General Revenues:						
Taxes and related revenues	1,392	1,342	-	-	1,392	1,342
Intergovernmental	484	416	-	-	484	416
Franchise fees and licenses	237	226	-	-	237	226
Other revenues	252	294	-	-	252	294
Total Revenues	<u>2,950</u>	<u>2,888</u>	<u>5,675</u>	<u>6,357</u>	<u>8,625</u>	<u>9,244</u>
Expenses:						
General and Administrative	578	566	-	-	578	566
Public Safety:						
Police	1,431	1,368	-	-	1,431	1,368
Fire	936	829	-	-	936	829
Highways and streets	1,175	1,124	-	-	1,175	1,124
Public works	449	447	-	-	449	447
Parks and recreation	54	61	-	-	54	61
Interest and long-term debt	-	-	-	-	-	-
Gas	-	-	1,623	2,075	1,623	2,075
Water and sewer	-	-	3,504	3,473	3,504	3,473
Total Expenses	<u>4,623</u>	<u>4,394</u>	<u>5,127</u>	<u>5,548</u>	<u>9,750</u>	<u>9,942</u>
Increase(decrease) in net position before transfers	<u>(1,673)</u>	<u>(1,506)</u>	<u>548</u>	<u>809</u>	<u>(1,125)</u>	<u>(698)</u>
Transfers	928	1,123	(928)	(1,123)	-	(1)
Increase(decrease) in net position	<u>(745)</u>	<u>(384)</u>	<u>(380)</u>	<u>(315)</u>	<u>(1,125)</u>	<u>(698)</u>
Net Position, beginning of year	(281)	103	12,264	12,578	11,982	12,681
Net Position, end of year	<u>\$ (1,026)</u>	<u>\$ (281)</u>	<u>\$ 11,884</u>	<u>\$ 12,264</u>	<u>\$ 10,857</u>	<u>\$ 11,983</u>

Government-wide Financial Analysis, Continued

The City of Morganfield's overall net position decreased approximately \$1,124,000 from the prior fiscal year based on City operations. The reasons for this overall decrease are discussed in the following sections for governmental and business-type activities.

Governmental Activities: Governmental activities decreased the City's net position by approximately \$744,000. Taxes and related revenues, the largest governmental category, were \$1.39 million or 47% of total governmental revenues. Revenues from governmental activities total \$2.95 million, or 34%, of the total City revenue. Taxes and related revenue increased from the previous year by approximately \$50,000 primarily due to increases in assessed values of property.

Certain revenues are generated that are specific to governmental program activity. These totaled approximately \$506,000. The following table shows expenses and program revenues of the governmental activities for the years ended June 30, 2020 and 2019:

Net Cost of Governmental Activities

(in thousands)

	Total cost of services		Net cost of services	
	2020	2019	2020	2019
Expenses:				
General and administrative	\$ 578	\$ 566	\$ 396	\$ 310
Public Safety:				
Police	1,431	1,368	1,394	1,324
Fire	936	829	893	784
Highways and streets	1,175	1,124	1,175	1,124
Public Works	449	447	(53)	(59)
Parks and recreation	54	61	49	46
Total Expenses	<u>\$ 4,621</u>	<u>\$ 4,395</u>	<u>\$ 3,854</u>	<u>\$ 3,530</u>

As previously noted, total expenses from governmental activities were approximately \$4.62 million, an increase of approximately \$226,000 or 4.90% from the previous year. This increase was due primarily to increases in personnel expenses (salaries and benefits) in the highway and streets, and public works departments. However, net costs of these services totaled \$3.85 million. The difference represents direct revenues received from charges for these services of approximately \$506,000 and operating grants and contributions of approximately \$79,000. Taxes and other general revenues of approximately \$3.11 million were collected to cover these net costs.

Business-type Activities: Business-type activities decreased the City's net position by approximately \$380,000. This decrease was primarily due to ongoing capital improvements/repairs and transfers to the General Fund consistent with prior years.

Government-wide Financial Analysis, Continued

Total revenues of the business-type activities decreased approximately \$497,000 or 9%. This decrease was primarily related to decreases in gas revenue. City gas rates are adjusted monthly based on the cost to the City.

Total expenses of the business-type activities decreased approximately \$421,000 or 8.2%. This decrease was primarily related to the reduction 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 \$0.61 million. Approximately 36% 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 \$155,000 and 2) to provide for capital outlay and economic development of approximately \$214,000.

Governmental funds total fund balance decreased approximately \$242,000 compared to a decrease of \$186,000 from the prior year, primarily due to increased expenses in the municipal road aid fund for contract street work.

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 \$.93 million and Water and Sewer of approximately \$11.0 million. The total of this net position of approximately \$11.9 million equals the total net position of business-type activities in the government-wide financial statements. Change in net position for enterprise funds in 2020 were as follows: Gas fund decreased approximately \$253,000; Water and Sewer decreased approximately \$127,000. This total change in net position of approximately \$380,000 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 under budget by approximately \$299,000 and budgeted expenditures were under budget by approximately \$58,000. The LGEA fund revenues were under budget by approximately \$28,000 and budgeted expenses exceeded actual expenditures by approximately \$315,000. 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, 2020 amounted to approximately \$17.4 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 \$0.2 million or 1.8% due to current year additions exceeding disposals for the fiscal year.

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

- City replaced lights on the Pony League baseball field at a cost of \$131,000 of which the Union County Fiscal Court paid \$80,000 of the total cost using HB 200 Coal Severance funds.
- City upgraded piping in the basement of the Wastewater Treatment Plant at a cost of \$128,000 and repaired Clarifier Number 1 at a cost of approximately \$166,000.
- Water Treatment Plant completed repair to the low service pump area for around \$47,000.
- City was awarded Discretionary Road Aide money and repair 5 sections of streets and Park Street for around \$143,000.
- Sewer lift station by the Elementary school was upgrade for \$6,600 and eliminated one to two trips a week that Public Works employees were making to keep station running.
- North Union Avenue Sewer Extension to serve eight future Habitat home was completed at an approximate cost of \$44,000.
- Fire Department living quarters and kitchen upgrade to the original 1970's build was completed for about \$16,000 with help of City of Morganfield Fire Department staff.
- The City was awarded an Delta Regional Authority grant of \$256,500 to help fund the Swimming Pool Main on Main Street replacement project which replaced water lines dating back to the early 1900's. The total cost of the project was around \$446,000.

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.

Capital Assets and Debt Administration, Continued

Additional information on the City's capital assets can be found in Note 6 on pages 40 - 41 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 \$205,956 on the line of credit at United Community Bank as of June 30, 2020. Additional information regarding the City of Morganfield's short-term debt can be found in Note 7 on page 43 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 2022. 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 2021 and construction is scheduled to begin in the fall of 2021 and be completed by July 1, 2022. 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 33% 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 completed 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 Breckinridge (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, 2020, the approximate principle balance owed on this loan is \$152,331. 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

Other Matters, Continued

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 Gary Vetter, 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, 2020

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 650,035	\$ 193,232	\$ 843,267
Accounts receivable, net:			
Utilities	7,037	49,149	56,186
Receivables, net:			
Intergovernmental	3,877	205,956	209,833
Taxes	174,225	-	174,225
Franchise fees	20,550	-	20,550
Other	17,610	3,972	21,582
Other current assets	38,319	329,407	367,726
Restricted assets:			
Cash and cash equivalents	-	40,388	40,388
Capital assets:			
Non-depreciable	503,085	628,816	1,131,901
Depreciable	5,415,325	34,402,857	39,818,182
Less: accumulated depreciation	<u>(3,041,112)</u>	<u>(14,872,657)</u>	<u>(17,913,769)</u>
Total assets	<u>3,788,951</u>	<u>20,981,121</u>	<u>24,770,072</u>
Deferred Outflows of Resources:			
Deferred outflows related to pension/OPEB	<u>1,470,104</u>	<u>886,555</u>	<u>2,356,659</u>
Liabilities:			
Accounts payable	76,183	348,294	424,477
Utility deposits	-	167,392	167,392
Accrued liabilities	130,492	47,623	178,115
Unearned revenue	9,899	-	9,899
Other current liabilities	2,432	-	2,432
Compensated absences	102,263	87,683	189,946
Short-term debt	7,328	429,002	436,330
Liabilities payable from restricted assets:			
Accrued interest	-	33,011	33,011
Non-current liabilities:			
Net Pension Liability	4,323,614	2,606,030	6,929,644
Net OPEB Liability	1,056,927	675,362	1,732,289
Notes payable	2,444	5,233,531	5,235,975
Compensated absences	<u>15,234</u>	<u>40,178</u>	<u>55,412</u>
Total liabilities	<u>5,726,816</u>	<u>9,668,106</u>	<u>15,394,922</u>
Deferred Inflow of Resources:			
Deferred inflows related to pension/OPEB	<u>557,714</u>	<u>316,105</u>	<u>873,819</u>
Net Position:			
Net investment in capital assets	2,867,526	14,496,483	17,364,009
Restricted for:			
Capital projects	-	40,388	40,388
Special projects	368,766	-	368,766
Unrestricted	<u>(4,261,767)</u>	<u>(2,653,407)</u>	<u>(6,915,174)</u>
Total net position	<u>\$ (1,025,475)</u>	<u>\$ 11,883,465</u>	<u>\$ 10,857,990</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, 2020

	General Fund	Local Government Economic Assistance	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 281,269	\$ 368,766	\$ 650,035
Accounts receivable, net:			
Utilities	7,037	-	7,037
Receivables, net:			
Intergovernmental	3,877	-	3,877
Taxes	117,822	-	117,822
Franchise fees	20,550	-	20,550
Other	73	-	73
Other current assets	38,319	-	38,319
	<u>468,946</u>	<u>368,766</u>	<u>837,712</u>
Total assets	<u>\$ 468,946</u>	<u>\$ 368,766</u>	<u>\$ 837,712</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 76,183	\$ -	\$ 76,183
Other current liabilities	2,432	-	2,432
Compensated absences	11,865	-	11,865
Accrued liabilities	130,493	-	130,493
Unearned revenue	9,899	-	9,899
	<u>230,871</u>	<u>-</u>	<u>230,871</u>
Total liabilities	<u>230,871</u>	<u>-</u>	<u>230,871</u>
Fund Balances:			
Restricted for:			
Special projects	-	368,766	368,766
Assigned	20,000	-	20,000
Unassigned	218,075	-	218,075
	<u>238,075</u>	<u>368,766</u>	<u>606,841</u>
Total fund balances	<u>238,075</u>	<u>368,766</u>	<u>606,841</u>
Total liabilities and fund balances	<u>\$ 468,946</u>	<u>\$ 368,766</u>	<u>\$ 837,712</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, 2020

Total governmental fund balance per fund financial statements	\$	606,841
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 \$5,918,410, net of accumulated depreciation of (\$3,041,112).		2,877,298
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Taxes receivable		56,403
Settlement of vendor credit on equipment		17,539
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	(7,328)	
Due in more than one year	(2,444)	
Net Pension Liability	(4,323,614)	
Net OPEB Liability	(1,056,927)	
Compensated absences	(105,632)	
	<u> </u>	(5,495,945)
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.	1,470,104	
Deferred inflows of resources represent difference between projected and actual investment earnings.	(557,714)	
	<u> </u>	912,390
Net position of governmental activities	<u>\$</u>	<u>(1,025,475)</u>

CITY OF MORGANFIELD, KENTUCKY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2020

	<u>General Fund</u>	<u>Local Government Economic Assistance</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes and related revenues:			
Property	\$ 810,534	\$ -	\$ 810,534
Insurance	371,005	-	371,005
Motor vehicle	112,559	-	112,559
Bank Deposit	56,403	-	56,403
Other	40,438	-	40,438
Service charges and fees	513,622	-	513,622
Licenses	5,850	-	5,850
Franchise fees	237,474	-	237,474
Intergovernmental	86,395	476,211	562,606
Miscellaneous	168,850	-	168,850
Investment income	616	1,081	1,697
	<u>2,403,746</u>	<u>477,291</u>	<u>2,881,037</u>
Total revenues			
Expenditures:			
Current:			
General and administrative	512,608	-	512,608
Public safety:			
Police	1,251,690	-	1,251,690
Fire	666,231	-	666,231
Highways and streets	863,753	149,853	1,013,606
Public works	448,513	-	448,513
Parks and recreation	16,208	-	16,208
Debt Service			
Principal	7,328	-	7,328
Capital outlay	104,434	99,580	204,015
	<u>3,870,765</u>	<u>249,433</u>	<u>4,120,198</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(1,467,019)</u>	<u>227,858</u>	<u>(1,239,161)</u>
Other financing sources (uses):			
Note proceeds	67,691	-	67,691
Sale of municipal property	1,120	-	1,120
Transfers in	1,637,106	-	1,637,106
Transfers out	(375,000)	(333,893)	(708,893)
	<u>1,330,917</u>	<u>(333,893)</u>	<u>997,023</u>
Total other financing sources			
Net change in fund balances	(136,103)	(106,035)	(242,138)
Fund balance, beginning of year	374,178	474,801	848,979
Fund balance, end of year	<u>\$ 238,075</u>	<u>\$ 368,766</u>	<u>\$ 606,841</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, 2020

Net change in fund balance per fund financial statements \$ (242,138)

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. 204,015

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. (185,216)

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. 202

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. (1,008)

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. 7,328

In the statement of activities, certain operating expenses, 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. 21,368

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. (548,709)

Change in net position of governmental activities \$ (744,158)

CITY OF MORGANFIELD, KENTUCKY
Statement of Net Position
Proprietary Funds
June 30, 2020

	Business-Type Activities		
	Gas	Water and Sewer	Total
Current assets:			
Cash and cash equivalents	\$ 79,536	\$ 113,695	\$ 193,231
Accounts receivable, net:			
Utilities	7,685	41,464	49,149
Receivables, net:			
Intergovernmental	-	205,956	205,956
Other	557	3,415	3,972
Other current assets	72,564	256,843	329,407
Total current assets	160,343	621,374	781,715
Restricted assets:			
Cash and cash equivalents	-	40,388	40,388
Total restricted assets	-	40,388	40,388
Capital Assets:			
Non-depreciable	32,225	596,591	628,816
Depreciable	5,329,971	29,072,886	34,402,857
Less: accumulated depreciation	(3,922,014)	(10,950,643)	(14,872,657)
Total capital assets	1,440,182	18,718,834	20,159,016
Total assets	1,600,524	19,380,597	20,981,120
Deferred Outflows of Resources:			
Deferred outflows related to pension/OPEB	167,017	719,538	886,555
Liabilities:			
Current liabilities:			
Accounts payable	44,218	304,077	348,294
Utility deposits	94,028	73,364	167,392
Compensated absences	20,949	66,734	87,683
Accrued liabilities	9,539	38,084	47,623
Short-term debt	-	429,002	429,002
Total current liabilities	168,734	911,260	1,079,994
Liabilities payable from restricted assets:			
Accrued interest	-	33,011	33,011
Total liabilities payable from restricted assets	-	33,011	33,011
Non-current liabilities:			
Notes Payable	-	5,233,531	5,233,531
Net Pension Liability	485,301	2,120,729	2,606,030
Net OPEB Liability	116,033	559,329	675,362
Compensated absences	13,322	26,856	40,178
Total non-current liabilities	614,656	7,940,445	8,555,101
Total liabilities	783,390	8,884,716	9,668,106
Deferred Inflow of Resources:			
Deferred inflows related to pension/OPEB	50,945	265,160	316,105
Net Position:			
Net investment in capital assets	1,440,182	13,056,302	14,496,483
Restricted for:			
Capital projects	-	40,388	40,388
Unrestricted	(506,976)	(2,146,431)	(2,653,407)
Total net position	\$ 933,206	\$ 10,950,259	\$ 11,883,465

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, 2020

	Business-Type Activities		
	Gas	Water and Sewer	Total
Operating revenues:			
Charges for services	\$ 2,421,897	\$ 2,986,754	\$ 5,408,651
Service line and meter installation	13,812	37,827	51,639
Miscellaneous	708	7,611	8,319
Total operating revenue	<u>2,436,417</u>	<u>3,032,192</u>	<u>5,468,609</u>
Operating expenses:			
Salaries and labor	189,707	824,238	1,013,945
Telephone	-	12,272	12,272
Office supplies and expense	12,047	22,218	34,265
Natural gas purchased	932,305	-	932,305
Insurance and bonds	14,401	80,294	94,696
Repairs and maintenance	129,690	174,328	304,018
Legal and accounting	2,750	11,100	13,850
Employee benefits and payroll taxes	205,486	818,974	1,024,460
Gas and oil	8,307	12,846	21,153
Electricity	9,766	288,677	298,442
Consultant fees	0	78,279	78,279
Uniform expense	-	18,849	18,849
Depreciation	111,345	834,660	946,005
Chemicals	371	176,231	176,602
Other operating expenses	7,729	25,990	33,719
Bad debt expense	(636)	8,062	7,426
Total operating expenses	<u>1,623,269</u>	<u>3,387,018</u>	<u>5,010,288</u>
Operating income	<u>813,147</u>	<u>(354,826)</u>	<u>458,321</u>
Non-operating revenues (expenses):			
Investment income	21	256	277
Gain (loss) on sale/disposal of assets	-	-	-
Interest expense	-	(116,676)	(116,676)
Total non-operating revenues (expenses)	<u>21</u>	<u>(116,420)</u>	<u>(116,399)</u>
Income (loss) before contributions and transfers	<u>813,168</u>	<u>(471,246)</u>	<u>341,922</u>
Capital Grants	-	205,956	205,956
Transfers in	516	805,887	806,403
Transfers out	(1,066,534)	(668,082)	(1,734,616)
Total contributions and transfers	<u>(1,066,017)</u>	<u>343,762</u>	<u>(722,256)</u>
Change in net position:	<u>(252,849)</u>	<u>(127,484)</u>	<u>(380,334)</u>
Net Position:			
Beginning of year	<u>1,186,055</u>	<u>11,077,744</u>	<u>12,263,799</u>
End of year	<u>\$ 933,206</u>	<u>\$ 10,950,259</u>	<u>\$ 11,883,465</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, 2020

	Business-Type Activities		
	Gas	Water & Sewer	Total
Cash flows from operating activities:			
Receipts from customers	\$ 2,460,915	\$ 3,008,755	\$ 5,469,669
Payments to suppliers	(1,115,923)	(660,178)	(1,776,101)
Payments to employees	(326,876)	(1,413,253)	(1,740,129)
Net cash provided by operating activities	<u>1,018,116</u>	<u>935,323</u>	<u>1,953,439</u>
Cash flows from non-capital financing activities:			
Transfers in	516	805,887	806,403
Transfers out	(1,066,534)	(668,082)	(1,734,616)
Net cash provided (used) by non-capital financing activities	<u>(1,066,017)</u>	<u>137,805</u>	<u>(928,212)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(1,443)	(1,045,100)	(1,046,543)
Principal payments on debt	-	(218,594)	(218,594)
Interest paid on debt	-	(116,676)	(116,676)
Grants and capital contributions	-	-	-
Proceeds from debt	-	205,956	205,956
Net cash used by capital and related financing activities	<u>(1,443)</u>	<u>(1,174,414)</u>	<u>(1,175,857)</u>
Cash flows from investing activities:			
Investment income	<u>21</u>	<u>256</u>	<u>277</u>
Net cash provided by investing activities	<u>21</u>	<u>256</u>	<u>277</u>
Net increase in cash and cash equivalents	(49,324)	(101,029)	(150,353)
Cash and cash equivalents, beginning of year	<u>128,860</u>	<u>255,113</u>	<u>383,972</u>
Cash and cash equivalents, end of year	<u><u>\$ 79,536</u></u>	<u><u>\$ 154,083</u></u>	<u><u>\$ 233,619</u></u>
Reconciliation of total cash and cash equivalents:			
Current assets- cash and cash equivalents	\$ 79,536	\$ 113,695	\$ 193,231
Restricted assets- cash and cash equivalents	<u>-</u>	<u>40,388</u>	<u>40,388</u>
	<u><u>\$ 79,536</u></u>	<u><u>\$ 154,083</u></u>	<u><u>\$ 233,619</u></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, 2020

	Business-Type Activities		
	Gas	Water & Sewer	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 813,147	\$ (354,826)	\$ 458,321
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation	111,345	834,660	946,005
Changes in operating assets and liabilities:			
Decrease (increase) in assets:			
Receivables	(1,517)	(11,572)	(13,089)
Other current assets	26,015	(11,866)	14,149
Deferred outflows	(34,430)	(111,911)	(146,341)
Increase (decrease) in liabilities:			
Accounts payable	(3,492)	247,617	244,126
Net pension/opeb liability	95,426	317,646	413,072
Utility deposits	4,300	2,150	6,450
Deferred inflows	451	29,391	29,842
Compensated absences	6,870	(5,167)	1,703
Accrued liabilities	-	(799)	(799)
Net cash provided by operating activities	<u>\$ 1,018,116</u>	<u>\$ 935,323</u>	<u>\$ 1,953,439</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 \$56,289 for the year ended June 30, 2020 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 2020 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 and internal service 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.

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.

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.

1. Summary of Significant Accounting Policies, Continued

e. 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.

f. 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

g. 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

g. 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.

h. 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, 2020 was as follows:

	<u>Balance</u> <u>7/01/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2020</u>
<u>Governmental Activities:</u>				
Compensated absences	<u>\$ 144,842</u>	<u>\$ 60,199</u>	<u>\$ (87,544)</u>	<u>\$ 117,497</u>
<u>Business-Type Activities:</u>				
Compensated absences	<u>\$ 132,443</u>	<u>\$ 66,572</u>	<u>\$ (71,154)</u>	<u>\$ 127,861</u>

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Current liabilities: compensated absences	<u>\$ 102,263</u>	<u>\$ 87,683</u>
Non-current liabilities: compensated absences	<u>15,234</u>	<u>40,178</u>
	<u>\$ 117,497</u>	<u>\$ 127,861</u>

1. Summary of Significant Accounting Policies, Continued

i. 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.

j. 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

j. Fund Balance, Continued

Restrictions of governmental fund balances as of June 30, 2020 include the following balances:

Street Improvements	\$ 150,141
Capital outlay and economic development as amended per KRS 42.450	<u>218,625</u>
Total	<u><u>\$ 368,766</u></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.

k. 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.

l. 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

m. 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 \$2,356,659 at June 30, 2020, 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 \$873,819 at June 30, 2020, as described in Note 8 & 9 to the financial statements.

n. 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.

o. 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 2019 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.

p. COVID-19 Disclosures

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, 2020, General Fund actual revenues did not exceed budgeted revenues by \$299,374 and actual expenditures exceeded budgeted expenditures by \$58,244. For the LGEA Fund actual revenues did not exceed budgeted revenues by \$27,813 and actual expenditures did not exceed budgeted expenditures by \$315,353. These overages were funded by excess revenues in other funds/departments and available fund balances.

3. Deposits and Investments

Deposits

At June 30, 2020, the City maintained deposits in the amount of \$987,248 with two local financial institutions. Of these bank balances, \$500,000 was insured by federal deposit insurance, and the balance of \$487,248 was fully collateralized by pledged securities, as required by the Kentucky Revised Statutes. The carrying amount of these deposits was \$859,631.

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, 2020.

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 2020 fiscal year was \$.572 per \$100 of assessed valuation for real estate and \$.6109 personal property and \$.602 for motor vehicles and watercraft.

5. Receivables

Receivables as of June 30, 2020 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 & Sewer</u>	<u>Total</u>
Receivables:					
Utilities	\$ 7,284	\$ -	\$ 9,745	\$ 46,277	\$ 63,306
Intergovernmental	3,877	-	-	205,956	209,833
Taxes	176,289	-	-	-	176,289
Franchise Fees	20,550	-	-	-	20,550
Other	186,365	-	2,016	5,840	194,221
Gross Receivables	<u>394,365</u>	<u>-</u>	<u>11,761</u>	<u>258,073</u>	<u>664,199</u>
Less: Allowance for uncollectibles	<u>(171,066)</u>	<u>-</u>	<u>(3,518)</u>	<u>(7,239)</u>	<u>(181,823)</u>
Net Receivables	<u>\$ 223,299</u>	<u>\$ -</u>	<u>\$ 8,243</u>	<u>\$ 250,834</u>	<u>\$ 482,376</u>

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2020

6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	<u>Balance</u> <u>7/1/2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/2020</u>
<u>Governmental Activities:</u>				
Non-depreciable capital				
Land	\$ 503,085	\$ -	\$ -	\$ 503,085
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-depreciable capital assets	<u>503,085</u>	<u>-</u>	<u>-</u>	<u>503,085</u>
Depreciable capital assets:				
Buildings and improvements	1,492,140	18,629	-	1,510,769
Improvements, other than buildings	997,390	-	-	997,390
Infrastructure	717,755	-	-	717,755
Vehicles	806,358	151,167	-	957,525
Equipment	<u>1,232,164</u>	<u>120,285</u>	<u>(120,563)</u>	<u>1,231,886</u>
Total depreciable capital assets	<u>5,245,807</u>	<u>290,081</u>	<u>(120,563)</u>	<u>5,415,325</u>
Less accumulated depreciation on:				
Buildings and improvements	(723,880)	(28,163)	-	(752,043)
Improvements, other than buildings	(559,582)	(31,401)	-	(590,983)
Infrastructure	(89,894)	(16,417)	-	(106,311)
Vehicles	(725,206)	(39,955)	-	(765,161)
Equipment	<u>(773,284)</u>	<u>(69,280)</u>	<u>15,950</u>	<u>(826,614)</u>
Total accumulated depreciation	<u>(2,871,846)</u>	<u>(185,216)</u>	<u>15,950</u>	<u>(3,041,112)</u>
Governmental activities capital assets, net	<u>\$ 2,877,046</u>	<u>\$ 104,865</u>	<u>\$ (104,613)</u>	<u>\$ 2,877,298</u>
<u>Business-Type Activities:</u>				
Non-depreciable capital assets:				
Land	\$ 42,149	\$ -	\$ -	\$ 42,149
Construction in progress	254,743	590,937	(259,013)	586,667
Total non-depreciable capital assets	<u>296,892</u>	<u>590,937</u>	<u>(259,013)</u>	<u>628,816</u>
Depreciable capital assets:				
Plant facilities and improvements	30,811,407	387,272	-	31,198,679
Equipment and vehicles	<u>3,428,340</u>	<u>394,328</u>	<u>(618,490)</u>	<u>3,204,178</u>
Total depreciable capital assets	<u>34,239,747</u>	<u>781,600</u>	<u>(618,490)</u>	<u>34,402,857</u>
Less accumulated depreciation on:				
Plant facilities and improvements	(11,950,712)	(761,138)	-	(12,711,850)
Equipment and vehicles	<u>(2,548,347)</u>	<u>(184,870)</u>	<u>572,410</u>	<u>(2,160,807)</u>
Total accumulated depreciation	<u>(14,499,059)</u>	<u>(946,008)</u>	<u>572,410</u>	<u>(14,872,657)</u>
Business-type activities capital assets, net	<u>\$ 20,037,580</u>	<u>\$ 426,529</u>	<u>\$ (305,093)</u>	<u>\$ 20,159,016</u>

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2020

6. Capital Assets, Continued

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

<u>Governmental Activities:</u>	
General government and administration	\$ 16,104
Public safety:	
Police	45,866
Fire	33,561
Highway and streets	52,372
Parks and recreation	37,313
Total	<u>\$ 185,216</u>
 <u>Business-Type Activities:</u>	
Gas	\$ 111,348
Water and sewer	834,660
Total	<u>\$ 946,008</u>

Interest incurred and charged to expense during the year on capital projects equaled \$116,359.

7. Long-term Liabilities and Short-term Debt

Long-term liability activity for the fiscal year ended June 30, 2020, was as follows:

	Balance 7/1/2019	Additions	Reductions	Balance 06/30/2020	Due within One Year
<u>Governmental Activities:</u>					
Equipment note	\$ 17,100	\$ -	\$ (7,328)	\$ 9,772	\$ 7,328
Net pension liability	3,568,548	755,066	-	4,323,614	-
Net OPEB liability	1,042,637	14,290	-	1,056,927	-
Totals	<u>\$ 4,628,285</u>	<u>\$ 769,356</u>	<u>\$ (7,328)</u>	<u>\$ 5,390,313</u>	<u>\$ 7,328</u>
 <u>Business-type Activities:</u>					
KIA loan fund A	\$ 2,873,109	\$ -	\$ (133,460)	\$ 2,739,649	\$ 135,068
KIA loan fund B	213,287	-	(40,359)	172,928	41,477
USDA RD loan	2,589,500	-	(45,500)	2,544,000	46,500
Net pension liability - Gas	391,717	93,584	-	485,301	-
Net OPEB liability - Gas	114,191	1,842	-	116,033	-
Net pension liability - W&S	1,829,219	291,510	-	2,120,729	-
Net OPEB liability - W&S	533,193	26,136	-	559,329	-
Totals	<u>\$ 8,544,216</u>	<u>\$ 413,072</u>	<u>\$ (219,319)</u>	<u>\$ 8,737,969</u>	<u>\$ 223,045</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 3.50%. The short-term debt activity for the year ended June 30, 2020, was as follows:

CITY OF MORGANFIELD
Notes to Financial Statements
June 30, 2020

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

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020
<u>Business-type Activities:</u>				
Line of credit	\$ -	\$ 205,956	\$ -	\$ 205,956

Debt service requirements at June 30, 2020 to retire the City's long-term obligations were as follows:

Year ended June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>			
	Notes from Direct		Notes from Direct		Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 7,328	\$ -	\$ 176,545	\$ 51,828	\$ 46,500	\$ 57,236
2022	2,444	-	180,068	48,305	47,500	56,187
2023	-	-	183,664	44,709	48,500	55,115
2024	-	-	187,335	41,038	50,000	54,018
2025	-	-	144,817	41,038	51,000	52,987
Thereafter	-	-	2,042,149	236,716	2,300,500	914,035
Total	<u>\$ 9,772</u>	<u>\$ -</u>	<u>\$2,914,578</u>	<u>\$ 463,635</u>	<u>\$ 2,544,000</u>	<u>\$1,189,578</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>
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Governmental Activities:

Notes payable

Due annually in the amounts ranging from \$7,328 to \$2,444 0.00% 11/30/21 \$ 24,428 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:

	<u>Non-hazardous Required contribution</u>	<u>Hazardous 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, 2020, 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 \$496,236 for the year ended June 30, 2020, which consisted of \$445,115 and \$51,120 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, 2020, the City reported a liability of \$6,929,644 for its proportionate share of the net pension liability (NPL). The net pension liability was measured as of June 30, 2019, 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, 2020

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, 2019, the City's proportion was 0.087051% for non-hazardous and 0.029226% for hazardous, an increase of 0.003643% from its proportion measured as of June 30, 2018 of 0.083408% for non-hazardous and a decrease of 0.000111% for hazardous from its proportion measured as of June 30, 2018 of 0.029337%. 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	\$ 6,122,336
Hazardous	<u>807,308</u>
Total	<u>\$ 6,929,644</u>

The City recognized pension expenses of \$1,230,741 for the year ended June 30, 2020, which consisted of \$1,067,389 and \$163,352 for non-hazardous and hazardous employees, respectively. At June 30, 2020, 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	\$ 117,525	\$ 216,219	\$ 12,419	\$ 23,845
Difference between expected and actual experience	156,322	25,868	34,301	-
Change of assumptions	619,650	-	78,365	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	157,876	-	-	32,514
City contributions subsequent to the measurement date	<u>445,115</u>	<u>-</u>	<u>51,120</u>	<u>-</u>
Total	<u>\$ 1,496,488</u>	<u>\$ 242,087</u>	<u>\$ 176,205</u>	<u>\$ 56,359</u>

The \$496,236 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, 2020. 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>
2020	\$ 497,016	\$ 39,990
2021	218,280	19,934
2022	86,987	8,075
2023	7,003	728
2024	-	-
Thereafter	-	-
	<u>\$ 809,286</u>	<u>\$ 68,727</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 11.5%, 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, 2019, 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 26 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%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

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:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability Non-hazardous</u>	<u>City's Proportionate Share of Net Pension Liability Hazardous</u>
1% decrease	5.25%	\$7,657,305	\$1,009,317
Current discount rate	6.25%	\$6,122,336	\$807,308
1% increase	7.25%	\$4,842,953	\$641,691

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, 2019. 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	26 years, closed
Payroll Growth Rate	2.00 percent
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, 2020, the City reported a payable of \$41,933 and \$4,750 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, 2020, 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 \$125,970 for the year ended June 30, 2020, which consisted of \$109,780 and \$16,190 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, 2020, the City reported a liability of \$1,680,017 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019, the City's proportion was 0.087031% for non-hazardous and 0.029221% for hazardous, an increase of 0.003626% from its proportion measured as of June 30, 2018 of 0.083405% for non-hazardous and a decrease of 0.000119% for hazardous from its proportion measured as of June 30, 2018 of 0.029340%. 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	\$ 1,463,822
Hazardous	216,194
Total	<u>\$ 1,680,016</u>

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 \$190,784 for the year ended June 30, 2020, which consisted of \$157,696 and \$33,088 for non-hazardous and hazardous employees, respectively. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB 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	\$ 9,642	\$ 74,659	\$ 1,477	\$ 13,907
Difference between expected and actual experience	-	441,669	-	40,219
Change of assumptions	433,159	2,897	65,333	409
Changes in proportion and differences between employer contributions and proportionate share of contributions	48,384	4,180	-	7,167
City contributions subsequent to the measurement date	109,780	-	16,190	-
Total	<u>\$ 600,965</u>	<u>\$ 523,405</u>	<u>\$ 83,000</u>	<u>\$ 61,702</u>

The \$125,970 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	<u>Non-hazardous</u>	<u>Hazardous</u>
Year ending June 30,		
2020	\$ (2,857)	\$ 11,048
2021	(2,857)	(450)
2022	17,814	(6,138)
2023	(21,803)	649
2024	(19,916)	-
Thereafter	(2,598)	-
	<u>\$ (32,217)</u>	<u>\$ 5,109</u>

9. Other Post-Employment Benefits, Continued

Actuarial Assumptions

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

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, 2019, 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 5.68%.

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 3.13%.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

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 4.68%, 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 (5.68%) or 1-percentage-point higher (6.68%) than the current rate for hazardous and using the discount rate of 5.69%, 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 (4.69%) or 1-percentage-point higher (6.69%) than the current rate for non-hazardous:

	<u>Discount Rate Non-hazardous</u>	<u>City's Proportionate Share of Net OPEB Liability Non-hazardous</u>	<u>Discount Rate Hazardous</u>	<u>City's Proportionate Share of Net OPEB Liability Hazardous</u>
1% decrease	4.68%	\$ 1,960,920	4.69%	\$ 301,635
Current discount rate	5.68%	\$ 1,463,822	5.69%	\$ 216,194
1% increase	6.68%	\$ 1,054,247	6.69%	\$ 146,842

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	\$1,088,652	\$150,431
Current healthcare cost trend rate	\$1,463,822	\$216,194
1% increase	\$1,918,761	\$296,422

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, 2019. 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	26 years, Closed
Payroll growth rate	2.00 percent
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 7.25% and gradually decreasing to a ultimate trend rate of 4.05% over 13 year period.
Health Care Trend Rates (Post-65)	Initial trend starting at 5.10% and gradually decreasing to a ultimate trend rate of 4.05% over 11 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, 2019 as follows:

- The assumed discount rate changed from 5.85% to 5.68%

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, 2020, the City reported a payable of \$11,342 and \$1,504 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, 2020

12. Interfund Transfers

Interfund transfers during the year ended June 30, 2020 were as follows:

	Transfers In				Total
	General	Water & Sewer	Gas	Agency	
Transfers Out					
General		\$ 375,000	\$ -	\$ -	\$ 375,000
Water & Sewer	629,482		516	-	\$ 629,998
Gas	960,000	96,994		-	\$ 1,056,994
LGEA	-	333,893	-		\$ 333,893
Total	<u>\$ 1,589,482</u>	<u>\$ 805,887</u>	<u>\$ 516</u>	<u>\$ -</u>	<u>\$ 2,395,885</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 behave 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, 2020.

<u>Organization</u>	<u>Contribution</u>
Union County Planning Commission	\$ 56,289

16. Concentrations of Sales

Natural Gas

For the year ended June 30, 2020, three industrial customers accounted for approximately \$1,184,708 in sales and surcharges for a total of 49% of the City’s total gas operating revenues.

Water and Sewer

For the year ended June 30, 2020, three industrial customers accounted for approximately \$1,345,793 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 5, 2021, the date the financial statements were available to be issued. Management is currently evaluating the impact of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the City’s financial position and results of operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, 2020

	General Fund			
	Budgeted Amounts			Favorable
	Original	Final	Actual	(Unfavorable) Variance with Final Budget
Revenues:				
Taxes and related revenues	\$ 1,304,700	\$ 1,376,894	\$ 1,390,938	\$ 14,044
Service charges and fees	525,600	531,161	513,622	(17,539)
Licenses	6,100	6,950	5,850	(1,100)
Franchise fees	206,000	257,404	237,474	(19,930)
Intergovernmental	362,554	372,301	86,395	(285,906)
Miscellaneous	185,200	157,602	168,850	11,248
Investment income	375	808	616	(192)
Total revenues	<u>2,590,529</u>	<u>2,703,120</u>	<u>2,403,746</u>	<u>(299,374)</u>
Expenditures:				
Current:				
General and administrative	481,058	498,547	512,608	(14,061)
Public safety:				
Police and dispatch	1,281,666	1,285,702	1,251,690	34,012
Fire	674,914	674,232	666,231	8,001
Highways and streets	848,532	867,551	863,753	3,798
Public works	373,150	448,520	448,513	7
Parks and recreation	52,738	30,641	16,208	14,433
Debt Service:				
Principal	6,000	-	7,328	(7,328)
Capital outlay	60,000	-	104,434	(104,434)
Total expenditures	<u>3,778,058</u>	<u>3,805,193</u>	<u>3,870,765</u>	<u>(58,244)</u>
Deficiency of revenues over expenditures	<u>(1,187,529)</u>	<u>(1,102,073)</u>	<u>(1,467,019)</u>	<u>(357,618)</u>
Other financing sources (uses):				
Note proceeds	-	67,691	67,691	-
Sale of municipal property	2,000	70,719	1,120	(69,599)
Operating transfers in	1,185,529	1,031,354	1,637,106	605,752
Operating transfers out	-	-	(375,000)	(375,000)
Total other financing sources	<u>1,187,529</u>	<u>1,102,073</u>	<u>1,330,917</u>	<u>161,153</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	(136,103)	(196,466)
Fund balance, beginning of year	<u>415,000</u>	<u>415,000</u>	<u>374,178</u>	<u>(40,822)</u>
Fund balance, end of year	<u>\$ 415,000</u>	<u>\$ 415,000</u>	<u>\$ 238,075</u>	<u>\$ (237,288)</u>

The accompanying notes are an integral part of these financial statements

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, 2020

	Local Government Economic Assistance			
	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance with Final Budget
	Original	Final		
Revenues:				
Taxes and related revenues	\$ -	\$ -	\$ -	\$ -
Service charges and fees	-	-	-	-
Licenses	-	-	-	-
Franchises	-	-	-	-
Intergovernmental	150,800	504,023	476,211	(27,812)
Miscellaneous revenue	-	-	-	-
Investment income	1,400	1,081	1,081	(0)
Total revenues	<u>152,200</u>	<u>505,104</u>	<u>477,291</u>	<u>(27,813)</u>
Expenditures:				
Current:				
General and administrative	-	-	-	-
Public safety:				
Police	-	-	-	-
Fire	-	-	-	-
Highways and streets	89,936	149,841	149,853	(12)
Public works	-	-	-	-
Recreation	-	-	-	-
Capital outlay	317,425	414,945	99,580	315,365
Total expenditures	<u>407,361</u>	<u>564,786</u>	<u>249,433</u>	<u>315,353</u>
Excess (deficiency) of revenues over expenditures	<u>(255,161)</u>	<u>(59,682)</u>	<u>227,858</u>	<u>287,540</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(333,893)	(333,893)
Total other financing uses	<u>-</u>	<u>-</u>	<u>(333,893)</u>	<u>(333,893)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(255,161)</u>	<u>(59,682)</u>	<u>(106,035)</u>	<u>(46,353)</u>
Fund balance, beginning of year	<u>950,000</u>	<u>950,000</u>	<u>474,801</u>	<u>(475,199)</u>
Fund balance, end of year	<u>\$ 694,839</u>	<u>\$ 890,318</u>	<u>\$ 368,766</u>	<u>\$ (521,552)</u>

The accompanying notes are an integral part of these financial statements

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

Last 10 Fiscal Years *

<u>Non-hazardous</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.08705%	0.08341%	0.08316%	0.08288%	0.07960%	0.07406%
City's proportionate share of the net pension liability	\$ 6,122,336	\$ 5,079,801	\$ 4,867,318	\$ 4,080,449	\$ 3,446,838	\$ 2,402,752
City's covered-employee payroll	\$ 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	272.23%	239.72%	235.02%	201.62%	179.63%	136.95%
Plan fiduciary net position as a percentage of the total pension liability.	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%
<u>Hazardous</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.02923%	0.02934%	0.03098%	0.04107%	0.04754%	0.05259%
City's proportionate share of the net pension liability	\$ 807,308	\$ 709,503	\$ 693,198	\$ 704,771	\$ 729,792	\$ 632,004
City's covered-employee payroll	\$ 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	485.02%	434.57%	407.17%	330.05%	300.11%	237.28%
Plan fiduciary net position as a percentage of the total pension liability.	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 *

Non-hazardous	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 445,115	\$ 364,770	\$ 306,843	\$ 288,909	\$ 251,357	\$ 339,068	\$ 331,415
Contributions in relation to the contractually required contributions	(445,115)	(364,770)	(306,843)	(288,909)	(251,357)	(339,068)	(331,415)
Contribution (excess) deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 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	19.36%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
Hazardous	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 51,120	\$ 41,396	\$ 36,245	\$ 36,961	\$ 43,223	\$ 83,433	\$ 95,088
Contributions in relation to the contractually required contributions	(51,120)	(41,396)	(36,245)	(36,961)	(43,223)	(83,433)	(95,088)
Contribution (excess) deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 170,060	\$ 166,450	\$ 163,266	\$ 170,247	\$ 213,342	\$ 243,174	\$ 266,353
Contributions as a percentage of covered-employee payroll	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, 2020

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	2020	2019	2018
City's proportion of the net OPEB liability	0.08703%	0.08341%	0.08316%
City's proportionate share of the net OPEB liability	\$ 1,463,822	\$ 1,480,839	\$ 1,671,700
City's covered-employee payroll	\$ 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	65.09%	69.88%	80.72%
Plan fiduciary net position as a percentage of the total OPEB liability.	60.44%	57.62%	52.40%
Hazardous	2020	2019	2018
City's proportion of the net OPEB liability	0.02922%	0.02934%	0.03098%
City's proportionate share of the net OPEB liability	\$ 216,194	\$ 209,182	\$ 256,136
City's covered-employee payroll	\$ 166,450	\$ 163,266	\$ 170,247
City's proportionate share of the net OPEB liability as a percentage of it covered employee payroll	129.89%	128.12%	150.45%
Plan fiduciary net position as a percentage of the total OPEB liability.	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>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 109,780	\$ 118,292	\$ 99,597
Contributions in relation to the contractually required contributions	(109,780)	(118,292)	(99,597)
Contribution (excess) deficiency	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 2,298,987	\$ 2,248,944	\$ 2,119,082
Contributions as a percentage of covered-employee payroll	4.78%	5.26%	4.70%
<u>Hazardous</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 16,190	\$ 17,427	\$ 15,265
Contributions in relation to the contractually required contributions	(16,190)	(17,427)	(15,265)
Contribution (excess) deficiency	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 170,060	\$ 166,450	\$ 163,266
Contributions as a percentage of covered-employee payroll	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%.

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, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Morganfield, Kentucky's basic financial statements and have issued our report thereon dated February 5, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Morganfield, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morganfield, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Morganfield, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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. [2020-001 and 2020-002]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morganfield, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Morganfield, Kentucky's Response to Findings

City of Morganfield, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Morganfield, Kentucky'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 5, 2021