

CITY OF MOREHEAD, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2019

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	PAGE 2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5-14
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements -	
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Position - Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds	23
Notes to Financial Statements	24-47
REQUIRED SUPPLEMENTAL INFORMATION:	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	48-50
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Morehead Recreation, Tourism, and Convention Commission - Morehead Tourism Commission (MTC)	51-52
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Morehead Recreation, Tourism, and Convention Commission - Morehead Convention Commission (MCC)	53
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Morehead Recreation, Tourism, and Convention Commission - Rowan County Arts Center (RCAC)	54
Schedule of City's Proportionate Share of the Net Pension and OPEB Liability	55
Schedule of Pension and OPEB Contributions	56
Notes to Required Supplementary Information	57-59
SUPPLEMENTAL INFORMATION - COMBINING, INDIVIDUAL AND OTHER STATEMENTS AND SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	60
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	61
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 <i>GOVERNMENT AUDITING STANDARDS</i>	
	62-63



**Kelley Galloway
Smith Goolsby, PSC**

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web www.kgsgcpa.com Member of **Alinnal** GLOBAL.

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of City Council
City of Morehead
Morehead, Kentucky 40351

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morehead, Kentucky (the "City") as of and for the year ended June 30, 2019, 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 did not audit the financial statements of the Morehead Recreation, Tourism and Convention Commission (MRTCC), which represents 11.5%, 3.8% and 7.3%, respectively, of the assets and deferred outflows, net position, and revenues of the City. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MRTCC, is based solely upon the report of the other auditors. 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, based on our audit and the report of other auditors, 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 and the aggregate remaining fund information of the City as of June 30, 2019, 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, the budgetary comparison information, and the Schedule of City's Proportionate Share of the Net Pension and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages -14, pages 48-54, and on pages 55-59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental information contained on pages 60 and 61 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Dalloway Smith Goolsby, PSC

Ashland, Kentucky
January 17, 2020

City of Morehead, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. Please read in conjunction with the independent auditors' report on page 2- and the accompanying basic financial statements, which begin to appear on page 15. To comply with certain accounting standards, certain prior year amounts have been restated to make this presentation of prior year's information consistent with the current year.

FINANCIAL HIGHLIGHTS

- The City's net position increased by \$1.03 million (3.4%). There was a decrease in its governmental activities (5.6%) and an increase in business type activities (5.2%) representing a \$283,000 decrease and a \$1.31 million increase, respectively.
- The City's combined revenues increased 11.4% (\$2.4 million), while combined expenses increased 5.4% (\$1.2 million). For the governmental activities, the decrease in revenues included a decrease in Operating and Capital grant revenue of \$575,000 while Taxes and Licenses increased \$411,000, resulting in the overall decrease in governmental activities revenues.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditor's report, the basic financial statements of the City, required supplemental information, and the independent auditor's report on internal control and compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Two entities over which the City exercises significant oversight responsibility are the Morehead Utility Plant Board and the Morehead Recreation, Tourism & Convention Commission. Their financial information has been included in this report under the appropriate activities. Complete financial statements and additional information regarding these two entities can be obtained from their respective administrative offices.

In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis. This approach has been modified; the City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole, using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is whether the City as a whole is "better or worse" as a result of this year's activities. The Statement of Net Position and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are reflected regardless of when cash is received or paid.

These two statements report the net position of the City and the changes in them. The difference between and changes in assets and liabilities is an important way to measure financial health or financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health or position is improving or deteriorating. However, in evaluating the overall position of the City, there are other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation that may have a material impact on the City's position and need to be considered.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities—Most of the City's basic services are reported here, including general government, police, fire, public works-streets, recreation, Community Center, Community Development, and tourism. Property taxes, licenses and permits (including occupational licenses fees, franchise and other fees), and grants finance most of these activities, with the exception of tourism which is funded predominantly by restaurant and hotel taxes.

Business-type activities—Gas, water and sewer revenues are collected from utility customers by the Morehead Utility Plant Board to cover the costs of the utility services provided by the Morehead Utility Plant Board.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

Governmental Fund—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the

governmental funds statement that explains the relationship (or differences) between them.

Proprietary Fund—This fund reflects the utility service charges and costs of providing those services. Since the proprietary fund is reported on the accrual basis and is the only fund reported in the business-type activities in the government-wide statements, the amounts reflected in these fund statements will be the same as the business-type activities in the government-wide statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

NET POSITION

Our analysis begins with a summary of the City's Statement of Net Position, which is presented on Table A-1 followed by an explanation of the results. Changes in net position are presented in Table A-2, also followed by an explanation of the results. These amounts reflect the City as a whole.

Table A-1

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>
Current and Other Assets	\$ 5,098,008	\$ 5,950,744	\$ 6,623,896	\$ 6,132,964	\$ 11,721,904	\$ 12,083,708
Capital Assets	17,351,139	16,622,395	38,091,913	37,050,749	55,443,052	53,673,144
Deferred Outflows	2,975,232	3,617,834	1,573,474	1,907,611	4,548,706	5,525,445
Total Assets & Def Outflows	25,424,379	26,190,973	46,289,283	45,091,324	71,713,662	71,282,297
Long-Term Debt Outstanding	7,846,229	8,272,729	11,731,529	11,521,292	19,577,758	19,794,021
Net Pension Liability	8,413,872	7,553,092	4,448,602	3,148,675	12,862,474	10,701,767
Net OPEB Liability	2,466,971	2,691,850	1,296,828	1,382,693	3,763,799	4,074,543
Current and Other Liabilities	1,216,173	1,792,539	2,163,206	1,723,678	3,379,379	3,516,217
Deferred Inflows	702,672	819,389	364,510	443,633	1,067,182	1,263,022
Total Liabilities & Def Inflows	20,645,917	21,129,599	20,004,675	18,219,971	40,650,592	39,349,570
Net Position:						
Invested in Capital Assets,						
net of debt	8,855,753	7,750,667	25,310,097	23,926,120	34,165,850	31,676,787
Restricted	23,204	23,203	1,705,869	1,864,071	1,729,073	1,887,274
Unrestricted	(4,100,495)	(2,712,496)	(731,358)	(816,463)	(4,831,853)	(3,528,959)
Total Net Position	\$ 4,778,462	\$ 5,061,374	\$ 26,284,608	\$ 24,973,728	\$ 31,063,070	\$ 30,035,102

The City's net position in the governmental activities decreased by \$283,000 (5.6%) compared to an increase of 9.4% in the prior year. The business-type net position increased by \$1.311 million (5.2%), compared to a 2.6% decrease in the prior year. Governmental activities included an increase (\$411,000) in taxes and license fees, however a significant decrease in capital and operating grants from \$1.3 million to \$743,000 in the current year resulted in the overall decrease in total governmental revenue. The net position from one activity generally cannot be used to make up for any deficits in the other activities.

NET POSITION, continued

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>
Revenues						
<u>Program Revenues</u>						
Charges for Services	\$ 535,070	\$ 567,873	\$13,312,938	\$11,271,041	\$13,848,008	\$11,838,914
Operating Grants & Contributions	742,684	1,068,144	-	-	742,684	1,068,144
Capital Grants & Contributions	-	250,000	358,138	(101,784)	358,138	148,216
<u>General Revenue</u>						
Taxes	3,406,166	3,282,241	-	-	3,406,166	3,282,241
License Fees	5,238,270	4,951,258	-	-	5,238,270	4,951,258
Building Inspection fees	16,652	20,943	-	-	16,652	20,943
Investment Earnings	30,907	30,065	122,015	5,412	152,922	35,477
Other Revenues	76,817	59,066	-	-	76,817	59,066
Total Revenue	<u>10,046,566</u>	<u>10,229,590</u>	<u>13,793,091</u>	<u>11,174,669</u>	<u>23,839,657</u>	<u>21,404,259</u>
Program Expenses						
General Government	2,922,387	2,767,394	-	-	2,922,387	2,767,394
Public safety-Police	2,653,223	2,473,083	-	-	2,653,223	2,473,083
Public safety-Fire	436,958	461,506	-	-	436,958	461,506
Public works-Streets	1,562,938	1,199,689	-	-	1,562,938	1,199,689
Recreation	720,429	642,475	-	-	720,429	642,475
Community Center	83,389	81,274	-	-	83,389	81,274
Community Development	262,900	350,770	-	-	262,900	350,770
Tourism	1,337,723	1,468,960	-	-	1,337,723	1,468,960
Interest on long-term debt	349,531	349,914	259,880	259,980	609,411	609,894
Gas, Water and Sewer	-	-	12,222,331	11,578,065	12,222,331	11,578,065
Total Program Expenses	<u>10,329,478</u>	<u>9,795,065</u>	<u>12,482,211</u>	<u>11,838,045</u>	<u>22,811,689</u>	<u>21,633,110</u>
Net Change In Net Position	<u>\$ (282,912)</u>	<u>\$ 434,525</u>	<u>\$ 1,310,880</u>	<u>\$ (663,376)</u>	<u>\$ 1,027,968</u>	<u>\$ (228,851)</u>

- In the City's governmental activities, revenue from license fees and taxes increased and comprise 86% of the total revenue (81% in the prior year.) This percentage increased due to higher tax and license revenue and lower operating grants received this year. General Government increased expenses by about 5.6% (\$155,000), the Police department increased 7.3% (\$180,000), and Community Development experienced an \$87,000 decrease (25%). Tourism decreased 8.9% (\$131,000) while recreation had an increase and interest expenses remained about the same as the prior year. Overall the core expenses of the city's governmental activities increased about 9.4% (\$754,000) before factoring in tourism and Community Development decreased spending.
- In the City's business-type activities, revenues increased by 23.4 percent (\$2.6 million) and the operating expenses increased 5.4% (\$644,000). The increase in gas revenues and corresponding cost of gas purchased was attributable mostly to the price per unit of gas and resulted in about the same amount of margin as the prior year. Water and sewer rate increases were the main factors reflecting an increase of \$315,000 and \$1.48 million respectively in those departments. The water and sewer departments experienced a combined increase of about \$216,000 from the prior year expenses and the overall increase was largely affected by the changes in the accounting standards for accrual of pension post-retirement benefits.

The City's change in Net position above appears to be the same as the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities under GASB 34, these numbers include dollars of "paper" depreciation expenses that represent the use or deterioration of the capital assets, but have no relationship to the amounts spent in the current year for capital outlay. Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the principal portions of debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities. The business-type activities have always been on the full accrual basis and accordingly, have always included depreciation in the expenses.

GOVERNMENTAL ACTIVITIES – FUND FINANCIAL STATEMENTS

Next, the City analyzes the governmental activities and the changes in those activities, which is presented in Table A-3.

Table A-3

Condensed Governmental Activities - Revenues & Expenditures by Funds

	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>Change</u>
Taxes	\$ 3,406,166	\$ 3,282,241	\$ 123,925
Licenses and Permits	5,254,922	4,972,201	282,721
Charges for Services	535,070	567,873	(32,803)
Intergovernmental	742,684	1,068,144	(325,460)
Interest Income	30,907	30,065	842
Other Revenues	<u>76,817</u>	<u>59,066</u>	<u>17,751</u>
Total Revenues	<u>10,046,566</u>	<u>9,979,590</u>	<u>66,976</u>
General administration	\$ 2,628,721	\$ 2,462,559	\$ 166,162
Public safety-Police	2,052,031	1,956,643	95,388
Public safety-Fire	321,061	320,621	440
Public works-Streets	1,209,585	900,117	309,468
Recreation	551,679	501,013	50,666
Community Center	44,304	47,403	(3,099)
Community Development	262,900	350,770	(87,870)
Tourism	1,165,079	1,167,341	(2,262)
Debt Service	989,475	882,543	106,932
Capital Outlay	<u>1,309,834</u>	<u>3,344,849</u>	<u>(2,035,015)</u>
Total Expenditures	<u>10,534,669</u>	<u>11,933,859</u>	<u>(1,399,190)</u>
Excess Revenues over Expenditures			
before other financing sources(uses)	<u>\$ (488,103)</u>	<u>\$ (1,954,269)</u>	<u>\$ 1,466,166</u>

When comparing the City's governmental activities by funds, revenues reflect a 0.6% increase, highlighted by the \$325,000 decrease from Intergovernmental revenues. Expenditures reflect a decrease of 11.7% from last year (\$1.4 million), with that overall net decrease being attributable to the \$1.3 million from Capital Outlay (\$2.035 million less than the prior year.), along with increases in most other core governmental activity expense categories.

The bottom number of Table A-3 above should not be confused with the end-of-year "Fund Balance" figure shown in the City's General Fund Budget, because the above does not reflect the General Fund's beginning-of-year balance and any debt proceeds received during the fiscal year.

BUDGET HIGHLIGHTS

The City amended the General Fund budget due to unexpected circumstances or unusual events that occurred during the year. The total budgeted revenues were decreased by \$3.99 million (predominantly revisions in capital financing) while expenditures budgeted were decreased by \$3.8 million, most of which related to capital outlay related to the revenue revisions. Actual revenues for the year reflected a positive variance of \$582,000 compared to the revised budget amounts. Occupational and net profits license fees yielded \$593,000 more revenue than budget. The final total revenue variance is about 8.0% higher than budget.

The favorable variance in total actual expenditures (\$2,054,058) is highlighted by most categories in each department having a positive budget to actual variance. The most significant favorable variance can be attributed to the General Government expenses in the amount of \$1,507,352. Overall personnel services were under budget in all departments combined by \$240,000 (8.3% of total personnel budget.). The budget contains proposed expenditures and expected revenues based on the modified accrual basis of accounting as further explained in the Notes to the Financial Statements with the exception that capital lease proceeds and related capital outlay were not budgeted. Accordingly, this table reflects expenditures for capital outlay and debt service, but does not reflect depreciation as an expense. A comparison of the final amended budget to actual amounts for governmental activities is presented in the table below only for the General Fund (Tables A-4 & 5).

Table A-4**Condensed General Fund - Revenues**

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 1,598,000	\$ 1,805,558	\$ 207,558
Licenses and permits	4,248,000	5,254,922	1,006,922
Intergovernmental	1,018,301	311,686	(706,615)
Charges for Services	352,000	388,877	36,877
Other Revenues	29,155	66,755	37,600
Capital Financing	-	-	-
Total Revenues	<u>\$ 7,245,456</u>	<u>\$ 7,827,798</u>	<u>\$ 582,342</u>

Table A-5**Condensed General Fund - Expenditures**

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 4,381,506	\$ 2,874,154	\$(1,507,352)
Public safety-Police	2,445,009	2,161,193	(283,816)
Public safety-Fire	561,552	491,226	(70,326)
Public works-Streets	1,262,343	1,161,528	(100,815)
Recreation	1,255,767	1,197,743	(58,024)
Community Center	80,442	46,717	(33,725)
Total Expenditures	<u>\$ 9,986,619</u>	<u>\$ 7,932,561</u>	<u>\$(2,054,058)</u>

CAPITAL ASSETS

Table A-6 shows summary totals for a broad range of capital assets, including land and depreciated value of land improvements, buildings, equipment and utility plant. This table reflects the breakdown of capital assets before depreciation for both governmental and business-type activities. Governmental activities added about \$1.35 million of capital assets for the year, while disposing of about \$75,000 of assets. Land and improvements including construction in progress accounted for the majority of the acquisition costs for the year. Business-type activities added about \$5.14 million of capital assets with the majority of those dollars (69%) spent on continued improvement of the water and wastewater utility distribution systems. Additional information regarding future commitments for capital asset acquisition and related debt can be found in the notes to the financial statements.

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>
Land & Improvements	\$ 8,182,571	\$ 8,086,812	\$ 736,691	\$ 184,404	\$ 8,919,262	\$ 8,271,216
Infrastructure	2,005,331	1,761,406	-	-	2,005,331	1,761,406
Bldgs & Improvements	9,782,038	9,649,228	1,005,789	974,720	10,787,827	10,623,948
Vehicles & Equipment	7,451,009	7,137,576	3,175,742	2,953,011	10,626,751	10,090,587
Construction in progress	1,118,748	626,217	1,181,389	1,945,429	2,300,137	2,571,646
Water, Gas & Sewer System	-	-	88,539,091	84,976,200	88,539,091	84,976,200
Total Capital Assets	<u>\$28,539,697</u>	<u>\$27,261,239</u>	<u>\$94,638,702</u>	<u>\$91,033,764</u>	<u>\$123,178,399</u>	<u>\$118,295,003</u>

DEBT

Table A-7 provides a summary of all of the City's outstanding indebtedness. In addition to the amounts listed below, liabilities for unpaid compensated absences in the amounts of \$120,837 are outstanding at June 30, 2019. There was an additional \$264,000 in debt issued for the year through the governmental activities. Debt reduction of \$640,000 for the governmental activities represents normal scheduled debt retirement. The business-type activities, through normal debt retirement reduced debt by \$1.01 while drawing an additional \$668,000 of new debt related to system improvements. Combining all activities, the City's average debt reduction for the next 5 years will be \$1.768 million per year.

Table A-7**Debt Outstanding at Year End**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>	<u>FYE 2019</u>	<u>FYE 2018</u>
Capital Leases	\$ 8,495,386	\$ 8,871,728	\$ -	\$ -	\$ 8,495,386	\$ 8,871,728
Bonds & Notes Payable	-	-	12,781,816	13,124,629	12,781,816	13,124,629
Total Year End Debt	<u>\$ 8,495,386</u>	<u>\$ 8,871,728</u>	<u>\$ 12,781,816</u>	<u>\$ 13,124,629</u>	<u>\$ 21,277,202</u>	<u>\$ 21,996,357</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council consider many factors when setting the annual budget. The 2018-19 fiscal year budget reflects anticipated changes in the local economy, expected grant money, and anticipated tax revenue. Occupational License revenue is projected at nearly the same level as last fiscal year's revenue.

Major projects continuing or with plans to start during the fiscal year are as follows:

- Public Safety Building to house the Police and 911 Center including property purchase
- Purchase new police cruisers
- Morehead Inspiration Center CDBG Project
- Purchase of a garbage truck for the Public Works Department

With the myriad of unknowns that come with health insurance and pension reform with the possible Federal Congressional and State Legislative revisions that may occur going forward, employee benefit costs remain a large question mark for several years into the future.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Crissy Cunningham or Laura Brown at 314 Bridge Street, Morehead, Kentucky 40351.

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,091,406	\$ 734,597	\$ 4,826,003
Accounts receivable:			
Taxes & licenses	971,806	-	971,806
Intergovernmental	-	-	-
Customers, net	-	1,933,678	1,933,678
Prepaid expenses	11,592	71,338	82,930
Restricted assets -			
Cash and cash equivalents	23,204	253,584	276,788
Investments	-	2,820,274	2,820,274
Other receivables	-	-	-
Accrued interest receivable	-	28,526	28,526
Inventory	-	781,899	781,899
Nondepreciable capital assets	7,833,766	1,918,080	9,751,846
Depreciable capital assets	20,705,931	92,720,622	113,426,553
Accumulated depreciation	(11,188,558)	(56,546,789)	(67,735,347)
Total assets	<u>22,449,147</u>	<u>44,715,809</u>	<u>67,164,956</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension related	2,082,340	1,153,137	3,235,477
Deferred OPEB related	892,892	420,337	1,313,229
Total deferred outflows of resources	<u>2,975,232</u>	<u>1,573,474</u>	<u>4,548,706</u>
LIABILITIES			
Accounts payable	383,563	370,468	754,031
Accrued payroll liabilities	-	387,179	387,179
Other accrued liabilities	42,183	9,044	51,227
Accrued interest payable	20,433	20,738	41,171
Customer deposits	-	325,490	325,490
Accrued compensated absences, current	108,770	-	108,770
Current portion of long-term debt	661,224	1,050,287	1,711,511
Accrued compensated absences, non-current	12,067	-	12,067
Bonds and notes payable, non-current	-	11,731,529	11,731,529
Capital lease obligations, non-current	7,834,162	-	7,834,162
Net pension liability	8,413,872	4,448,602	12,862,474
Net OPEB liability	2,466,971	1,296,828	3,763,799
Total liabilities	<u>19,943,245</u>	<u>19,640,165</u>	<u>39,583,410</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension related	209,197	118,460	327,657
Deferred OPEB related	493,475	246,050	739,525
Total deferred outflows of resources	<u>702,672</u>	<u>364,510</u>	<u>1,067,182</u>
NET POSITION			
Net investment in capital assets	8,855,753	25,310,097	34,165,850
Restricted	23,204	1,705,869	1,729,073
Unrestricted	(4,100,495)	(731,358)	(4,831,853)
Total net position	<u>\$ 4,778,462</u>	<u>\$ 26,284,608</u>	<u>\$ 31,063,070</u>

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

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 2,922,387	\$ 241,872	\$ 26,140	\$ -	\$ (2,654,375)	\$ -	\$ (2,654,375)
Public safety:							
Police	2,653,223	14,872	220,415	-	(2,417,936)	-	(2,417,936)
Fire	436,958	-	60,981	-	(375,977)	-	(375,977)
Public works:							
Streets and roads	1,562,938	-	135,762	-	(1,427,176)	-	(1,427,176)
Recreation	720,429	101,698	10,000	-	(608,731)	-	(608,731)
Community Center	83,389	30,435	-	-	(52,954)	-	(52,954)
Community development	262,900	-	262,327	-	(573)	-	(573)
Tourism	1,337,723	146,193	27,059	-	(1,164,471)	-	(1,164,471)
Interest on long-term debt	349,531	-	-	-	(349,531)	-	(349,531)
Total governmental activities	10,329,478	535,070	742,684	-	(9,051,724)	-	(9,051,724)
Business-Type Activities:							
Gas	3,782,400	3,747,532	-	-	-	(34,868)	(34,868)
Water	3,527,077	4,120,244	-	-	-	593,167	593,167
Sewer	4,912,854	5,445,162	-	358,138	-	890,446	890,446
Interest on long-term debt	259,880	-	-	-	-	(259,880)	(259,880)
Total business-type activities	12,482,211	13,312,938	-	358,138	-	1,188,865	1,188,865
Total primary government	\$ 22,811,689	\$ 13,848,008	\$ 742,684	\$ 358,138	\$ (9,051,724)	\$ 1,188,865	\$ (7,862,859)
General Revenues:							
Taxes -							
Property taxes, levied for general purposes					\$ 1,395,417	\$ -	\$ 1,395,417
Alcohol revenue tax					336,373	-	336,373
Transient room tax					163,070	-	163,070
Restaurant tax					1,437,538	-	1,437,538
Telecommunications tax					73,768	-	73,768
License fees -							
Franchise					314,392	-	314,392
Insurance premiums					713,043	-	713,043
Occupational					4,192,633	-	4,192,633
Alcohol beverage fees					18,202	-	18,202
Building inspection fees					16,652	-	16,652
Investment income (loss)					30,907	122,015	152,922
Other revenues					76,817	-	76,817
Total general revenues					8,768,812	122,015	8,890,827
Change in net position					(282,912)	1,310,880	1,027,968
Net position, June 30, 2018					5,061,374	24,973,728	30,035,102
Net position, June 30, 2019					\$ 4,778,462	\$ 26,284,608	\$ 31,063,070

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

CITY OF MOREHEAD, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Tourism Operations	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,535,603	\$ 140,562	\$ 415,241	\$ 4,091,406
Restricted cash	23,204	-	-	23,204
Receivables:				
Taxes & licenses	837,589	134,217	-	971,806
Grants	-	-	-	-
Prepaid expense	11,592	-	-	11,592
Due from other funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 4,407,988</u>	<u>\$ 274,779</u>	<u>\$ 415,241</u>	<u>\$ 5,098,008</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 336,865	\$ 29,497	\$ 17,201	\$ 383,563
Accrued leave payable	103,598	5,172	-	108,770
Accrued liabilities	33,255	8,928	-	42,183
Accrued interest payable	-	20,433	-	20,433
Due to other funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>473,718</u>	<u>64,030</u>	<u>17,201</u>	<u>554,949</u>
Fund Balances:				
Nonspendable	11,592	-	-	11,592
Restricted	23,204	-	-	23,204
Assigned	-	-	398,040	398,040
Unassigned	3,899,474	210,749	-	4,110,223
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,934,270</u>	<u>210,749</u>	<u>398,040</u>	<u>4,543,059</u>
Total liabilities and fund balances	<u>\$ 4,407,988</u>	<u>\$ 274,779</u>	<u>\$ 415,241</u>	<u>\$ 5,098,008</u>

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

CITY OF MOREHEAD, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2019

Total fund balance - total governmental funds	\$ 4,543,059
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$28,539,697 net of accumulated depreciation of \$11,188,558 used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	17,351,139
Deferred outflows and inflows of resources related to pensions and OPEB plans are applicable to future periods and, therefore, are not reported in the governmental funds.	2,272,560
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Net pension liabilities	(8,413,872)
Net OPEB liabilities	(2,466,971)
Compensated absences	(12,067)
Notes and capital leases payable	<u>(8,495,386)</u>
Net position, end of year - Governmental Activities	<u>\$ 4,778,462</u>

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

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General	Tourism Operations	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,805,558	\$ 1,600,608	\$ -	\$ 3,406,166
Licenses and permits	5,254,922	-	-	5,254,922
Charges for services	388,877	146,193	-	535,070
Intergovernmental	311,686	27,059	403,939	742,684
Interest income	27,496	4	3,407	30,907
Other revenues	39,259	37,558	-	76,817
Total revenues	7,827,798	1,811,422	407,346	10,046,566
Expenditures				
General administration	2,628,721	-	-	2,628,721
Public safety - police	2,040,530	-	11,501	2,052,031
Public works	928,296	-	281,289	1,209,585
Tourism	-	1,165,079	-	1,165,079
Recreation	551,679	-	-	551,679
Public safety - fire	321,061	-	-	321,061
Community Center	44,304	-	-	44,304
Community development	-	-	262,900	262,900
Capital outlay	1,214,775	95,059	-	1,309,834
Debt service	363,095	626,380	-	989,475
Total expenditures	8,092,461	1,886,518	555,690	10,534,669
Excess of Revenues Over (Under) Expenditures	(264,663)	(75,096)	(148,344)	(488,103)
Other Financing Sources (Uses)				
Capital contribution	-	-	-	-
Capital lease proceeds	159,900	98,000	-	257,900
Total other financing sources (uses)	159,900	98,000	-	257,900
Net change in fund balances	(104,763)	22,904	(148,344)	(230,203)
Fund balances beginning of year	4,039,033	187,845	546,384	4,773,262
Fund balances end of year	\$ 3,934,270	\$ 210,749	\$ 398,040	\$ 4,543,059

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

CITY OF MOREHEAD, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds	\$ (230,203)
--	--------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.

Adjustment to gain	-
Capital asset purchases capitalized	1,353,045
Depreciation expense	(624,301)

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

Pension expense	(978,156)
CERS OPEB expense	(183,629)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	376,341
---	---------

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for accrued compensated absences.	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; text-align: right;">3,991</div>
---	--

Change in net position of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; text-align: right;">\$ (282,912)</div>
---	---

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

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	Business-Type Activities
ASSETS	
Current assets:	
Cash and investments	\$ 734,597
Accounts receivable, net	1,933,678
Inventory	781,899
Prepaid expenses	71,338
Total current assets	<u>3,521,512</u>
Non-current assets:	
Restricted cash and cash equivalents	253,584
Restricted investments	2,820,274
Restricted interest receivable	28,526
Restricted other receivables	-
Capital assets:	
Nondepreciable capital assets	1,918,080
Depreciable capital assets	92,720,622
Accumulated depreciation	<u>(56,546,789)</u>
Total non-current assets	<u>41,194,297</u>
Total assets	<u>44,715,809</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - Pensions	1,153,137
Deferred outflows - OPEB	<u>420,337</u>
Total deferred outflows of resources	<u>1,573,474</u>
LIABILITIES	
Current liabilities:	
Accounts payable	370,468
Accrued payroll and vacation	387,179
Other accrued liabilities	9,044
Accrued interest on bonds	20,738
Customer deposits	325,490
Notes payable	<u>1,050,287</u>
Total current liabilities	<u>2,163,206</u>
Non-current liabilities:	
Notes payable	11,731,529
Net pension liability	4,448,602
Net OPEB liability	<u>1,296,828</u>
Total non-current liabilities	<u>17,476,959</u>
Total liabilities	<u>19,640,165</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - Pension	118,460
Deferred inflows - OPEB	<u>246,050</u>
	<u>364,510</u>
NET POSITION	
Net investment in capital assets	25,310,097
Restricted	1,705,869
Unrestricted	<u>(731,358)</u>
Total net position	<u>\$ 26,284,608</u>

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

**CITY OF MOREHEAD, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	Business-Type Activities
OPERATING REVENUES	
Gas revenue	\$ 3,699,350
Water revenue	4,067,270
Sewer revenue	5,375,154
Penalties	77,380
Other income	93,784
Total operating revenues	<u>13,312,938</u>
OPERATING EXPENSES	
Gas	3,342,314
Water	3,116,698
Sewer	4,341,239
Administrative	1,461,864
Total operating expenses	<u>12,262,115</u>
OPERATING INCOME (LOSS)	<u>1,050,823</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment income (loss)	122,015
Grant income	132,616
Other income (expenses)	39,784
Interest expense	(259,880)
Total non-operating revenues (expenses)	<u>34,535</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	1,085,358
CAPITAL CONTRIBUTIONS	<u>225,522</u>
CHANGE IN NET POSITION	1,310,880
NET POSITION, JUNE 30, 2018	<u>24,973,728</u>
NET POSITION, JUNE 30, 2019	<u><u>\$ 26,284,608</u></u>

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

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Business Type Activities
Cash Flows from Operating Activities	
Cash received from customers	\$ 12,807,028
Other cash receipts	171,164
Cash payments for gas supply	(2,894,717)
Cash payments for water supply	(1,460,302)
Cash payments for sewer supply	(1,782,828)
Cash payments to employees for services	(2,106,757)
Cash payments for administrative costs	(1,037,750)
Net cash provided by operating activities	<u>3,695,838</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(3,604,938)
Interest paid on revenue bonds	(264,303)
Principal paid on long-term debt	(1,011,141)
Increase in customer deposits	10,450
Other expenses	39,784
Proceeds from debt	668,328
Capital grants received	358,138
Net cash used for capital and related financing activities	<u>(3,803,682)</u>
Cash Flows from Investing Activities	
Call of investments	734,136
Purchase of investments	(1,885,000)
Interest income from investments	58,853
Net cash used by investing activities	<u>(1,092,011)</u>
Net decrease in cash and cash equivalents	<u>(1,199,855)</u>
Cash and cash equivalents, June 30, 2018	<u>2,188,036</u>
Cash and cash equivalents, June 30, 2019	<u>\$ 988,181</u>
Cash and Cash Equivalents Reported As:	
Unrestricted	\$ 734,597
Restricted	253,584
	<u>\$ 988,181</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ 1,050,823
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	2,563,774
Net pension expense	538,330
Net OPEB expense	53,575
Changes in assets and liabilities:	
Increase in accounts receivable	(334,746)
Increase in inventories	(318,651)
Decrease in prepaids	176,636
Decrease in accounts payable and accrued expenses	(33,903)
Total adjustments	<u>2,645,015</u>
Net cash provided by operating activities	<u>\$ 3,695,838</u>
Non-cash investing activities - Change in fair value of investments	<u>\$ 45,288</u>

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

CITY OF MOREHEAD, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Morehead, Kentucky (the “City”) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body of governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced. The City of Morehead, Kentucky provides the following services as authorized by its charter: public safety, public works, recreation and community development. The following is a summary of the more significant accounting policies.

a. Reporting Entity

The City operates under a City Council government comprised of the Mayor and six council members. The financial statements of the City include the funds, agencies, boards and entities for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards*, as amended by GASB Statement No. 14, was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

Based on these criteria, the Morehead Utility Plant Board (MUPB) and the Morehead Recreation, Tourism & Convention Commission (MRTCC) have been included within the reporting entity. These organizations' activities have been blended with the City's financial statements. Complete financial statements of the Morehead Utility Plant Board and the Morehead Recreation, Tourism & Convention Commission can be obtained from their respective administrative offices.

b. Basis of Presentation, Fund Accounting

Government-Wide Financial Statements. The statement of net position and statement of activities display information about the City as a whole. These statements include all funds of the City. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements. The financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund balance, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10% of the corresponding total for all funds of that category or type, and

2. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund or proprietary fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The following fund types are used by the City:

Governmental Funds

General Fund. The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities, except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for a certain purpose. The City has the following Special Revenue Funds:

1. The **Municipal Road Aid Fund** accounts for the allocation from the Commonwealth of Kentucky as provided by KRS 174 for design, right-of-way acquisitions, utilities, construction, and other municipal road expenditures.
2. The **CDBG Inspiration Center** accounts for a grant received from the Commonwealth of Kentucky under the Community Development Block Grant Program to implement the Inspiration Center.
3. The **CDBG West Morehead Project Fund** accounts for a grant received from the Commonwealth of Kentucky under the Community Development Block Grant Program for the West Morehead Project.
4. The **Federal Forfeiture Fund** accounts for forfeitures under Federal laws that are restricted to expenditures for public safety.
5. The **State Forfeiture Fund** accounts for forfeitures under state laws that are restricted to expenditures for public safety.
6. The **Morehead Recreation, Tourism and Convention Commission (MRTCC)** is used for the purpose of promoting recreational, tourist, and convention activities in Morehead and Rowan County. The Commission's primary source of revenue is from a restaurant tax and a hotel and motel room tax, which are both collected by the City of Morehead.

Proprietary Fund

Proprietary Fund. Proprietary Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The City has the following Proprietary Funds:

The **Morehead Utility Plant Board (MUPB)** is used to account for the gas, water, and sewer services provided to residents of the City and areas surrounding the City, the operations of which are financed primarily through user charges.

Major and Non Major Funds. The funds are further classified as major or non major as follows:

<u>Fund</u>	<u>Fund Type</u>	<u>Major/Non-Major</u>
General Fund	Governmental	Major
Municipal Road Aid Fund	Special Revenue	Non-Major
CDBG Inspiration Center	Special Revenue	Non-Major
CDBG West Morehead Project Fund	Special Revenue	Non-Major
Federal Forfeiture Fund	Special Revenue	Non-Major
State Forfeiture Fund	Special Revenue	Non-Major
Morehead Recreation, Tourism and Convention Commission (Tourism Operations)	Special Revenue	Major

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus. In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item 2 below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

1. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of change in net position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting. In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, government funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period (generally 60 days) or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the liability is incurred or economic asset used.

Estimates and Assumptions. The preparation of basic 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 and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Assets, Liabilities, and Net PositionAssets

Cash and Investments. The City adopted written policies and procedures for cash and investment management that designate the Mayor and City Clerk be responsible for these duties. The primary objective of the investment policy is to maintain the safety of the investment

and to maintain funds in accounts, which will enable the City to meet all reasonably anticipated operating requirements.

For the purpose of the proprietary fund Statement of Net Position, "cash and investments" includes all demand and savings accounts of the City. For the purposes of the proprietary fund, Statement of Cash Flows, "cash and cash equivalents" include all demand, savings accounts, and certificate of deposits with an original maturity of three months or less.

To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding fair value measurement of investments is disclosed in Note (11). The majority of the investments are restricted as to use. Funds are required to be invested in accordance with the investment policy as adopted by MUPB's Board. The investment policy allows MUPB to invest in those investments authorized by KRS 66.480. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Internal Balances. During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Accounts Receivable. In the fund financial statements, material receivables in governmental funds include revenue accruals, such as grants, licenses, fees and permits, interest earnings, and similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions earned, but not collected within 60 days of the end of the fiscal year, are not included in the fund financial statements in accordance with the modified accrual basis of accounting. Receivables related to interest and other investment earnings are recorded using the modified accrual basis of accounting, in the same manner as non-exchange transactions. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to customer accounts receivable. The allowances for uncollectible accounts receivable as of June 30, 2019 was \$373,503 (consisting of \$153,415 - City and \$220,088- MUPB).

Inventories. Purchases of supplies in the General Fund are recorded as expenditures at the time they are purchased and are not inventoried. Purchases of supplies in the Proprietary Fund are stated at the lower of cost or market on the basis of "first-in, first out" (FIFO) inventory method.

Capital Assets. The accounting treatment for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated property, which is recorded at the estimated fair value at the date of donation. Expenditures for items having a useful life greater than one year and having a cost greater than \$5,000 are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation of all exhaustible property is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the asset's estimated useful lives, using the straight-line method of depreciation.

In the proprietary fund type, expenditures for items having a useful life greater than one year and having a cost greater than \$5,000 are capitalized. Capital assets are stated at cost. Depreciation is provided over the estimated useful lives using the straight-line method.

In the fund financial statements, property used in governmental fund operations is accounted for as capital outlay expenditures of the governmental fund upon acquisition. Property used in proprietary fund operations is accounted for the same as in the government-wide statements.

The estimated useful lives are as follows:

Buildings and improvements	25-40 years
Infrastructure	20-40 years
Land improvements	10-20 years
Water plant	40 years
Water and gas distribution systems	33 1/3 years
Sewer system	33 1/3-40 years
Vehicles, furniture and equipment	5-10 years

Construction in progress represents construction projects for fixed assets that have not yet been placed in service. Interest expense related to these projects has not been capitalized; however, this is not considered a material departure from generally accepted accounting principles.

In accordance with GASB Statement No. 34, the City has elected to not report major infrastructure assets retroactively.

Restricted Net Position. Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, as required by bond indentures, are classified as restricted on the Statement of Net Position. Some expenditures of the City may be paid with restricted and non-restricted resources, and the City has determined that when both resources are available, they will use the restricted resources first.

Bond Issuance Cost. Debt issuance costs are expensed in the period they are incurred.

Long-Term Liabilities. The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists of revenue bonds, notes, and capital lease obligations, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are recorded as revenue and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Equity Classifications. Government-wide financial statements classify equity as net position and are displayed in three components:

1. *Net investment in capital assets* consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. *Restricted net position* consists of net position with constraints placed on the use either by:
 - a. External groups such as creditors, grantors, contributors, or laws or regulations of other governments, and

- b. Law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* consists of all other net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The following classifications of governmental fund balances describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance - amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City or by an official or body to which the City delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

Proprietary fund equity is classified the same as in government-wide statements. When restricted, committed, assigned and unassigned resources are available for use, it is the City's policy to use restricted, committed and assigned resources first, then unassigned resources as they are needed.

e. Revenues, Expenditures, and Expenses

Payroll License Fee. The City levies a payroll tax of 1.5% on all individuals, who work within the City limits. This tax is withheld by an employee's employer and remitted to the City monthly or quarterly. The payroll license fee is recorded in the General Fund and is used to pay the general operations of the City.

Insurance License Fee. The City levies an insurance license fee of 5% on certain insurance sold within the City limits. Insurance companies are required to collect this fee from policy holders and to remit this fee quarterly. The insurance license fee is recorded in the General Fund and is used to pay the general operations of the City.

Occupational License Fee. The City levies an occupational license fee of 1.5% on net profits of all companies, who do business within the City. Companies are required to report and remit this fee annually. The occupational license fee is recorded in the General Fund and is used to pay the general operations of the City.

Real and Personal Property Taxes. The City levies a tax on all real and personal property within the City in accordance with State laws. These taxes are collected annually and are recorded in the General Fund and are used to pay the general operations of the City.

Operating Revenues and Expenses. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Water and sewer revenues have been secured by revenue bonds, which have been issued to construct and make improvements to the utility plants in service.

Non-Operating Revenues and Expenses. Governmental funds report all revenues and expenses as operating, except loan proceeds and transfers to other funds. Proprietary funds report all revenue and expenses as operating, except interest income, amortization, and capital contributions.

Expenditures/Expenses. In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. All expenses have been charged as a direct cost to the program in which it benefits.

In the fund financial statements, expenditures in the Governmental Funds are reported by character and in the Proprietary Funds as operating and non-operating.

In the fund financial statements, Governmental Funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers. Permanent re-allocation of resources between funds of the City is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual Governmental Funds have been eliminated.

f. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

g. Pension and OPEB

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources, and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the pension and OPEB plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

h. Budgeting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that capital lease proceeds and the related capital outlay are not budgeted.

Budgeted amounts in the financial statements are as adopted by ordinance of the City and have been revised for amendments authorized during the year.

i. Recent Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84

describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the City beginning with its year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases* (“GASB 87”), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (“GASB 88”), which seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, while providing financial statement users with additional essential information concerning debt. In particular, GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date that the contractual obligation is established, and it clarifies which liabilities governments should include when disclosing information related to debt. Furthermore, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including (1) unused lines of credit; (2) assets pledged as collateral for the debt; and (3) terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GASB 88 will be effective for the City beginning with its year ending June 30, 2019. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (“GASB 89”), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and, thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the City beginning with its year ending June 30, 2021.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations* (“GASB 91”), which aims to provide a single method of reporting conduit debt obligations by issuers and to eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. GASB 91 achieves those

objectives by (1) clarifying the existing definition of a conduit debt obligation; (2) establishing that a conduit debt obligation is not a liability of the issuer; (3) establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and (4) improving required note disclosures. This Statement addresses arrangements (i.e., often characterized as leases) that are associated with conduit debt obligations. In such arrangements, (1) capital assets are constructed or acquired from the proceeds of a conduit debt obligation and are used by third-party obligors in the course of their activities; (2) payments from third-party obligors are intended to cover and coincide with debt service payments; (3) issuers retain the titles to the capital assets, which may or may not pass to the obligors at the end of the arrangements, depending upon the circumstances; and (4) issuers should neither report those arrangements as leases, nor recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. Additionally, this Statement requires issuers to disclose general information concerning their conduit debt obligations, organized by type of commitment(s). Issuers that recognize liabilities related to conduit debt obligations also should disclose information concerning the amount recognized and the manner in which the liabilities changed during the reporting period. GASB 91 is effective for reporting periods beginning after December 15, 2020, with earlier application encouraged. Management is currently evaluating the impact of this Statement on its financial statements.

(2) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City.

Assessed values are established by State Law at 100% of fair value.

Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

The 2018 assessed value for real property was \$334,863,186. Assessed value of tangible property was \$47,352,077. The tax rate on real property adopted was \$.297 per \$100 valuation. The tax rate on tangible property adopted was \$.4692 per \$100 valuation.

Property taxes for fiscal year 2019 were levied on November 1, 2018 on the assessed valuation of property, located in the City as of the preceding January 1, the lien date. The due date and collection periods for all taxes, exclusive of vehicle taxes and local deposit franchise taxes, are as follows:

<u>Due date for payment of taxes</u>	<u>Upon receipt</u>
2% discount period	By November 30, 2018
Face value amount payment dates	To December 31, 2018
Delinquent date, 8% penalty	January 1, 2019

(3) CASH AND INVESTMENTS

Investments are carried at fair market value. The majority of the investments are restricted as to use. Funds of the Morehead Utility Plant Board are required to be invested in accordance with the investment policy adopted by MUPB. The investment policy allows MUPB to invest in those investments authorized by KRS 66.480.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's funds on deposit with the banks may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires bank balances to be

100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance.

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. In addition, trust funds may invest in uninsured corporate securities. At June 30, 2019, the City had \$7,921,814 in financial institutions, of which \$1,341,919 was insured, and \$6,579,895 was collateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 50% of the total investment portfolio shall be invested in a single security type of a single financial institution.

MRTCC periodically transfers money from its operating account into a depreciation reserve account to help pay for major repairs on its capital assets due to normal wear and tear.

At June 30, 2019, MUPB had the following investments and maturities:

Investment Type - U.S. Government Securities	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Long-term CDs	\$ 1,082,435	\$ -	\$ 745,665	\$ 336,770	\$ -
	1,737,839	665,000	1,072,839	-	-

(4) CAPITAL ASSETS

The activity related to capital assets for the fiscal year ended June 30, 2019 was as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 6,715,018	\$ -	\$ -	\$ 6,715,018
Construction in progress	626,217	492,531	-	1,118,748
Capital assets being depreciated:				
Land improvements	1,371,794	95,759	-	1,467,553
Buildings and improvements	9,649,228	132,810	-	9,782,038
Vehicles	4,149,250	265,550	74,587	4,340,213
Equipment	2,988,326	122,470	-	3,110,796
Infrastructure	1,761,406	243,925	-	2,005,331
	27,261,239	1,353,045	74,587	28,539,697
Accumulated depreciation	(10,638,844)	(624,301)	(74,587)	(11,188,558)
	<u>\$ 16,622,395</u>	<u>\$ 728,744</u>	<u>\$ -</u>	<u>\$ 17,351,139</u>

	Balance June 30, 2018	Additions	Reclassifications and Deletions	Balance June 30, 2019
Business-type Activities:				
Land	\$ 184,404	\$ 552,287	\$ -	\$ 736,691
Buildings	974,720	31,069	-	1,005,789
Water, gas, and sewer systems	84,976,200	3,562,891	-	88,539,091
Equipment	2,953,011	222,731	-	3,175,742
Construction in progress	1,945,429	769,154	(1,533,194)	1,181,389
	91,033,764	5,138,132	(1,533,194)	94,638,702
Accumulated depreciation	(53,983,015)	(2,563,774)	-	(56,546,789)
	<u>\$ 37,050,749</u>	<u>\$ 2,574,358</u>	<u>\$ (1,533,194)</u>	<u>\$ 38,091,913</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 104,291
Public Safety:	
Police	60,054
Fire	79,909
Public Works	94,817
Recreation	36,112
Community Center	29,272
Tourism	219,846
	<u>\$ 624,301</u>

(5) LONG-TERM DEBT

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities:

Government Activities. As of June 30, 2019, the governmental activities long-term debt consisted of the following:

Capital Leases-City of Morehead

20-year capital lease for Phase II of the Second Street widening project. The City borrowed \$410,000 from the Kentucky League of Cities at an interest rate of 2.19%. The lease expires in 2023 at which time title to the project will transfer to the City.	\$ 112,763
10-year capital lease for the construction of a city hall. The City borrowed \$630,000 at an interest rate of 2.58% and expires in November 2021, at which time title will transfer to the City.	172,948
5-year capital lease for the acquisition of a regenerative air street sweeper. The City borrowed \$135,000 at an interest rate of 2.65% with annual payments commencing December 2015. The lease expires December 2019 at which time title will transfer to the City.	27,697
7-year capital lease for the acquisition 300 Bridge Street. The City borrowed \$300,000 at an interest rate of 1.84% with annual payments commencing April 2017. The lease expires October 2023 at which time title will transfer to the City.	197,244

15-year capital lease for the acquisition of a Sutphen fire engine. The City borrowed \$1,152,717 at an interest rate of 2.76% with biannual payments commencing April 2018. The lease expires October 2032 at which time title will transfer to the City.	1,057,582
15-year capital lease for the acquisition the Perkins property. The City borrowed \$750,000 at an interest rate of 2.76% with biannual payments commencing May 2018. The lease expires November 2032.	688,101
5-year capital lease for the acquisition the Heil garbage truck. The City borrowed \$159,900 at an interest rate of 4.129% with monthly payments commencing March 2019. The lease expires February 2024.	<u>150,235</u>
Sub-total - City	<u>2,406,570</u>

Capital Leases and Note Payable- Morehead Recreation, Tourism and Convention Commission

28.5-year capital lease for the acquisition, construction, installation and equipping of a convention center to be located in Morehead, Kentucky. The total amount financed was \$4,970,000 with the Kentucky League of Cities at a variable interest rate. The lease expires in 2031.	3,036,564
26.5-year capital lease for the acquisition, construction, installation and equipping of a convention center to be located in Morehead, Kentucky. The total amount financed was \$1,520,000 with the Kentucky League of Cities at a variable interest rate. The lease expires in 2029.	829,425
28.5-year capital lease for the acquisition, construction, installation and equipping of a convention center to be located in Morehead, Kentucky. The total amount financed was \$1,500,000 with the Kentucky League of Cities at a variable interest rate. The lease expires in 2033.	987,624
28.5-year capital lease for the acquisition, construction, installation and equipping of a convention center to be located in Morehead, Kentucky. The total amount financed was \$1,250,000 with the Kentucky League of Cities at a variable interest rate. The lease expires in 2035.	918,698
5-year promissory note for the acquisition of the Perkins property. The total amount financed was \$250,000 with The Citizens Bank at an interest rate of 3.9%. The note matures on December 21, 2022.	230,497
5-year promissory note for improvements to the convention center. The total amount financed was \$98,000 with The Citizens Bank at an interest rate of 4.05%. The note matures on October 5, 2023.	<u>86,008</u>
Sub-total - Tourism	<u>6,088,816</u>
Total governmental activity debt	<u>\$ 8,495,386</u>

The total government-type activities long-term debt is as follows:

Current portion - City of Morehead	\$ 301,535
Current portion - Tourism Commission	<u>359,689</u>
Total current portion	661,224
Long-term portion	<u>7,834,162</u>
Total	<u>\$ 8,495,386</u>

Business-Type Activities. As of June 30, 2019, the proprietary fund long-term debt consisted of the following:

	Original Issue	Interest Rates	Final Maturity	Outstanding Principal
Series of 1966 Issue	\$ 1,715,000	4.375-5.25%	12/1/09	\$ 15,000
Rural Development - Series 2001A	4,500,000	3.25%	6/1/42	3,331,000
KIA Wastewater Treatment Plan	7,189,123	1.00%	6/1/26	2,680,841
RUS Wastewater Treatment Plan	1,500,000	4.13%	6/1/44	1,231,500
KIA Water Plant Expansion	5,500,000	1.80%	12/1/23	1,110,080
KIA Big Woods Project	801,203	1.00%	1/1/30	229,972
KIA Phase IV Project	1,293,013	1.00%	1/1/30	401,444
KIA WWTP	3,000,000	1.00%	1/1/31	1,371,231
KIA 801 & 158	1,800,000	0.75%	TBD	1,722,805
KIA WTP P/D	1,297,200	2.75%	TBD	687,943
				12,781,816
Less current maturities				(1,050,287)
Total long-term debt				<u>\$ 11,731,529</u>

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Amount due Within One Year
Governmental activities:					
Capital leases-City	\$ 2,555,169	\$ 159,900	\$ 308,499	\$ 2,406,570	\$ 301,535
Capital leases-MRTCC	6,072,776	-	300,465	5,772,311	327,875
Note Payable-MRTCC	243,783	98,000	25,278	316,505	31,814
Compensated absences	120,790	5,749	5,702	120,837	108,770
	<u>8,992,518</u>	<u>263,649</u>	<u>639,944</u>	<u>8,616,223</u>	<u>769,994</u>
Business-type activities:					
Bonds payable	15,000	-	-	15,000	15,000
Notes payable	13,109,629	668,329	1,011,142	12,766,816	1,035,287
	<u>13,124,629</u>	<u>668,329</u>	<u>1,011,142</u>	<u>12,781,816</u>	<u>1,050,287</u>
	<u>\$ 22,117,147</u>	<u>\$ 931,978</u>	<u>\$ 1,651,086</u>	<u>\$ 21,398,039</u>	<u>\$ 1,820,281</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for bonds, notes and capital leases as of June 30, 2019 are as follows:

Governmental Activities:

City of Morehead

Fiscal Year	Principal	Interest	Total
2020	\$ 301,535	\$ 64,888	\$ 366,423
2021	281,630	57,145	338,775
2022	253,718	49,171	302,889
2023	224,651	42,353	267,004
2024	171,981	35,529	207,510

2025 - 2029	656,741	122,123	778,864
2030 - 2033	516,314	28,891	545,205
	<u>\$ 2,406,570</u>	<u>\$ 400,100</u>	<u>\$ 2,806,670</u>

Morehead Recreation, Tourism and Convention Commission

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total</u>
2020	\$ 359,689	\$ 286,625	\$ 646,314
2021	363,170	268,702	631,872
2022	380,171	251,637	631,808
2023	572,319	229,843	802,162
2024	386,713	177,957	564,670
2025 - 2029	2,189,618	741,410	2,931,028
2030 - 2034	1,707,594	208,374	1,915,868
2035 - 2036	129,542	7,282	136,824
	<u>\$ 6,088,816</u>	<u>\$ 2,171,830</u>	<u>\$ 8,260,646</u>

Business Activities:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,050,287	\$ 249,522	\$ 1,299,809
2021	1,246,694	241,780	1,488,474
2022	1,259,637	227,095	1,486,732
2023	1,117,868	204,101	1,321,969
2024	868,358	185,665	1,054,023
2025 - 2029	2,803,063	746,849	3,549,912
2030 - 2034	1,960,374	511,924	2,472,298
2035 - 2039	1,529,034	294,516	1,823,550
2040 - 2044	946,501	79,032	1,025,533
	<u>\$ 12,781,816</u>	<u>\$ 2,740,484</u>	<u>\$ 15,522,300</u>

(6) Cost - Sharing, Multiple Employer Plan - County Employees Retirement System

Plan description: Substantially all full-time employees of the City participate in the County Employees Retirement System ("CERS"). This system consists of two plans – *Nonhazardous* and *Hazardous*. Each plan is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous or hazardous positions of each county, city and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5.00% nonhazardous and 8.00% hazardous (6.00% and 9.00% for employees hired after September 1, 2008, respectively) of their salary through payroll deductions. The City's contractually required contribution rate for the year ended June 30, 2019 was 21.48% for nonhazardous (16.22%-pension, 5.26%-insurance) and 35.34%

for hazardous (22.20% pension, 9.35% insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. Contributions to the pension plan from the City were \$848,396 for the year ended June 30, 2019.

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

At June 30, 2019, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30 2018, the City's proportion for nonhazardous and hazardous was .140511% and .178003%, respectively.

For the year ended June 30, 2019, the City recognized pension expense of \$978,156. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Nonhazardous</u>		
Differences between expected and actual experience	\$ 279,124	\$ 125,264
Changes of assumptions	836,322	-
Net difference between projected and actual earnings on investments	-	102,611
Changes in proportion and differences between City contributions and proportionate share of contributions	342,295	34,163
City contributions subsequent to the measurement date	604,355	-
	<u>\$ 2,062,096</u>	<u>\$ 262,038</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Hazardous</u>		
Differences between expected and actual experience	\$ 342,599	\$ -
Changes of assumptions	458,245	-
Net difference between projected and actual earnings on investments	-	48,558
Changes in proportion and differences between City contributions and proportionate share of contributions	128,496	17,061
City contributions subsequent to the measurement date	244,041	-
	<u>\$ 1,173,381</u>	<u>\$ 65,619</u>

At June 30, 2019, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of \$604,355 and \$244,041 for nonhazardous and hazardous, respectively. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
2020	\$ 837,676	\$ 582,510
2021	459,453	298,008
2022	(55,496)	2,643
2023	(45,930)	(19,440)
	<u>\$ 1,195,703</u>	<u>863,721</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years, closed
Asset Valuation Method	5-year smoothed market
Payroll Growth	2.00%
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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 one 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.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, 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	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	6.09%

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of 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>1% Decrease (5.25%)</u>	<u>Current discount rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
City's proportionate share of the net pension liability			
Nonhazardous	\$ 10,773,066	\$ 8,557,548	\$ 6,701,332
Hazardous	\$ 5,393,790	\$ 4,304,926	\$ 3,404,776

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2019, there was a total payable to CERS of \$12,776 for nonhazardous and hazardous, which includes pension and OPEB contributions.

(7) OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLANS

County Employees Retirement System Insurance Fund

Plan description: The County Employees Retirement System (“CERS”) Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. This system consists of two plans – *Nonhazardous* and *Hazardous*. Each Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2019, CERS allocated 5.26% of the 21.48% nonhazardous and 10.47% of the 35.34% hazardous actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2019, the City contributed \$195,987 and \$102,780 to the CERS Nonhazardous and Hazardous Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

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

At June 30, 2019, the City reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. City's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30 2018, the City's proportion for nonhazardous and hazardous was 0.1337% and 0.1780%, respectively.

For the year ended June 30, 2019, the City recognized OPEB expense of \$224,557, including an implicit subsidy of \$35,190. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Nonhazardous</u>		
Differences between expected and actual experience	\$ -	\$ 290,717
Changes of assumptions	498,216	5,763
Net difference between projected and actual earnings on investments	-	171,831
Changes in proportion and differences between City contributions and proportionate share of contributions	85,848	5,056
City contributions subsequent to the measurement date	195,987	-
	<u>\$ 780,051</u>	<u>\$ 473,367</u>
<u>Hazardous</u>		
Differences between expected and actual experience	\$ -	\$ 141,833
Changes of assumptions	389,470	3,472
Net difference between projected and actual earnings on investments	-	120,656
Changes in proportion and differences between City contributions and proportionate share of contributions	40,928	197
City contributions subsequent to the measurement date	102,780	-
	<u>\$ 533,178</u>	<u>\$ 266,158</u>

At June 30, 2019, the City reported deferred outflows of resources related to OPEB for City contributions subsequent to the measurement date of \$195,987 and \$102,780 for nonhazardous and hazardous, respectively. These contributions will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in OPEB expense as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
2020	\$ 23,896	\$ 87,645

2021	23,896	87,645
2022	23,896	17,592
2023	57,268	(28,642)
2024	(6,696)	-
Thereafter	(11,562)	-
	<u>\$ 110,697</u>	<u>\$ 164,240</u>

Actuarial Methods and Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, Closed
Payroll Growth Rate	2.00%
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%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, 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	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	6.09%

Discount rate - The discount rate used to measure the total OPEB liability for nonhazardous and hazardous was 5.85% and 5.97%, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the Nonhazardous CERS Insurance Fund, calculated using the discount rate of 5.85%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	<u>1% Decrease (4.85%)</u>	<u>Current discount rate (5.85%)</u>	<u>1% Increase (6.85%)</u>
City's proportionate share of the net OPEB liability			
Nonhazardous	\$ 3,240,136	\$ 2,494,638	\$ 1,859,611

The following table presents the City's proportionate share of the collective net OPEB liability of the Hazardous CERS Insurance Fund, calculated using the discount rate of 5.9%, as well as what

the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.97%) or 1-percentage-point higher (6.97%) than the current rate:

	1% Decrease (4.97%)	Current discount rate (5.97%)	1% Increase (6.97%)
City's proportionate share of the net OPEB liability			
Hazardous	\$ 1,764,196	\$ 1,269,161	\$ 872,872

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current trend rate	1% Increase
City's proportionate share of the net OPEB liability			
Nonhazardous	\$ 1,857,284	\$ 2,494,638	\$ 3,245,897
Hazardous	\$ 864,360	\$ 1,269,161	\$ 1,770,523

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the OPEB plan: At June 30, 2019, there was a total payable to CERS of \$12,776, which includes pension and OPEB contributions.

(8) COMMITMENTS AND CONTINGENCIES

Purchased Gas Contract

Due to the volatile nature of gas pricing and contracts with gas suppliers, the City has entered into an agreement with a supplier in order to secure and maintain adequate supplies of gas at the lowest possible prices. However, due to government regulation, confusion among the suppliers as to whom actually supplied the gas (since it comes through the same line), and other billing errors, it is not uncommon to be billed or refunded amounts for gas supplied in prior months. These amounts are sometimes significant and the accounting policy is to record these amounts as adjustments to current gas purchases or revenues when billed or received.

In an effort to stabilize availability and cost of purchased natural gas, on September 1, 1993, MUPB entered into a sales agreement with Tennessee Gas Pipeline Company. The contract allows MUPB to purchase a maximum of 2,600 dekatherms (Dth) per day at a rate as stated in the current sellers rate Schedule GS-2, filed with the Federal Energy Regulatory Commission.

Water Purchase Contract

MUPB has entered into an agreement with Rowan Water, Inc. and Bath County Water District to provide potable treated water. The agreement is for a term of 40 years, through November 2048, and provides for Rowan Water, Inc. and Bath County District to receive 33.8% and 25.8% of the capacity of the plant constructed under terms of this agreement.

Other

The City is a defendant in various legal actions arising from normal business operations. The City's legal counsel believes these actions are without merit, adequately covered by insurance, or that the ultimate liability, if any, will not materially affect the City's financial position.

(9) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the City also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) NONMONETARY TRANSACTIONS

Infrastructure assets constructed by outside entities then taken over by MUPB are recorded as other income in accordance with GASB 33, at cost.

(11) FAIR VALUE MEASUREMENTS

The MUPB has determined the fair value of certain assets and liabilities through the application of GASB 72, *Fair Value Measurements and Application*.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value, a reasonable point within the range, is most representative of fair value under current market conditions.

Under GASB 72, the MUPB groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Level 1 Inputs. For these securities, the MUPB obtains fair value measurements from identical instruments traded in active markets.

Level 2 Inputs. For these securities, the MUPB obtains fair value measurements from an

independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Level 3 Inputs. For these securities, the valuation methods used were (1) discounted cash flow model valuation, where the expected cash flows of the securities are discounted using a yield that incorporates compensation for illiquidity and (2) a market comparables method, where the securities are valued based on indications, from the secondary market, of what discounts buyers demand when purchasing similar securities.

The following tables present the MUPB's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

<u>June 30, 2019</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
U.S. Government				
Securities	\$ 1,082,435	\$ -	\$ 1,082,435	\$ -
Long-term CD's	1,737,839	-	1,737,839	-

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes:					
General property taxes	\$ 1,090,000	\$ -	\$ 1,090,000	\$ 1,238,341	\$ 148,341
Motor vehicle taxes	42,000	-	42,000	50,254	8,254
Bank deposit tax	60,000	-	60,000	68,385	8,385
Payments in lieu of tax	36,000	-	36,000	38,437	2,437
Telecommunications tax	70,000	-	70,000	73,768	3,768
Alcohol revenue taxes	300,000	-	300,000	336,373	36,373
	<u>1,598,000</u>	<u>-</u>	<u>1,598,000</u>	<u>1,805,558</u>	<u>207,558</u>
Licenses, fees, and permits:					
Occupational & net profits license fees	3,600,000	-	3,600,000	4,192,633	592,633
Insurance premium fees	320,000	-	320,000	713,043	393,043
Franchise fees	300,000	-	300,000	314,392	14,392
Building inspection fees	10,000	-	10,000	16,652	6,652
Alcohol beverage fees	18,000	-	18,000	18,202	202
	<u>4,248,000</u>	<u>-</u>	<u>4,248,000</u>	<u>5,254,922</u>	<u>1,006,922</u>
Intergovernmental:					
Police incentive	88,000	-	88,000	110,133	22,133
Fire incentive	4,000	-	4,000	5,481	1,481
E-911 reimbursement	70,294	-	70,294	64,484	(5,810)
Recreation income	10,000	-	10,000	10,000	-
County contribution - Fire station	45,000	-	45,000	45,000	-
Law enforcement fees	7,000	-	7,000	10,487	3,487
Reimbursed police program	13,000	-	13,000	15,105	2,105
Fire state aid	10,500	-	10,500	10,500	-
Collection fee from Tourism Commission	12,000	-	12,000	14,356	2,356
Other grants	756,400	2,107	758,507	26,140	(732,367)
	<u>1,016,194</u>	<u>2,107</u>	<u>1,018,301</u>	<u>311,686</u>	<u>(706,615)</u>
Charges for services:					
Refuse collection fees	200,000	-	200,000	201,473	1,473
Police warrant fees	2,000	-	2,000	2,249	249
Recreation	85,000	-	85,000	101,698	16,698
Rental income	18,000	-	18,000	30,435	12,435
Parking fines	10,000	-	10,000	10,293	293
Accident report reimbursement program	1,500	-	1,500	2,330	830
Insurance claims payments	5,000	-	5,000	10,899	5,899
County occupational tax tollection contract	28,000	-	28,000	28,000	-
Other charges	2,500	-	2,500	1,500	(1,000)
	<u>352,000</u>	<u>-</u>	<u>352,000</u>	<u>388,877</u>	<u>36,877</u>
Other Revenue:					
Sale of Property	2,000	-	2,000	12,951	10,951
Interest income	10,000	-	10,000	27,496	17,496
State and Federal forfeitures	-	-	-	-	-
Communications tower leases	6,500	-	6,500	6,500	-
Other income	3,000	7,655	10,655	19,808	9,153
	<u>21,500</u>	<u>7,655</u>	<u>29,155</u>	<u>66,755</u>	<u>37,600</u>
Capital financing	4,000,000	(4,000,000)	-	-	-
Total revenues	<u>11,235,694</u>	<u>(3,990,238)</u>	<u>7,245,456</u>	<u>7,827,798</u>	<u>582,342</u>

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - CONTINUED
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

Expenditures	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
General Government:					
Personnel services	465,566	-	465,566	470,107	(4,541)
Contract services	1,848,156	125,144	1,973,300	1,518,905	454,395
Materials and supplies	13,000	-	13,000	8,403	4,597
Other	1,572,378	500	1,572,878	631,306	941,572
Capital outlay	4,054,000	(3,906,000)	148,000	37,194	110,806
Debt service	451,626	(242,864)	208,762	208,239	523
	<u>8,404,726</u>	<u>(4,023,220)</u>	<u>4,381,506</u>	<u>2,874,154</u>	<u>1,507,352</u>
Public Works:					
Personnel services	702,911	-	702,911	678,811	24,100
Contract services	134,400	1,840	136,240	129,987	6,253
Materials and supplies	127,500	-	127,500	94,941	32,559
Other	42,000	-	42,000	24,557	17,443
Capital outlay	144,871	66,807	211,678	204,801	6,877
Debt service	42,014	-	42,014	28,431	13,583
	<u>1,193,696</u>	<u>68,647</u>	<u>1,262,343</u>	<u>1,161,528</u>	<u>100,815</u>
Police:					
Personnel services	1,672,471	-	1,672,471	1,483,140	189,331
Contract services	88,250	45,750	134,000	85,360	48,640
Materials and supplies	21,500	-	21,500	13,619	7,881
Other	480,966	1,040	482,006	458,411	23,595
Capital outlay	106,366	(7,766)	98,600	120,663	(22,063)
Debt service	36,432	-	36,432	-	36,432
	<u>2,405,985</u>	<u>39,024</u>	<u>2,445,009</u>	<u>2,161,193</u>	<u>283,816</u>
Fire:					
Personnel services	105,095	-	105,095	104,391	704
Contract services	178,800	2,600	181,400	132,388	49,012
Materials and supplies	82,500	-	82,500	76,497	6,003
Other	16,000	-	16,000	7,785	8,215
Capital outlay	40,067	7,150	47,217	43,740	3,477
Debt service	129,340	-	129,340	126,425	2,915
	<u>551,802</u>	<u>9,750</u>	<u>561,552</u>	<u>491,226</u>	<u>70,326</u>
Recreation:					
Personnel services	369,108	-	369,108	349,728	19,380
Contract services	82,000	2,900	84,900	78,439	6,461
Materials and supplies	91,000	-	91,000	85,390	5,610
Other	34,500	12,000	46,500	38,122	8,378
Capital outlay	617,844	46,415	664,259	646,064	18,195
Debt service	-	-	-	-	-
	<u>1,194,452</u>	<u>61,315</u>	<u>1,255,767</u>	<u>1,197,743</u>	<u>58,024</u>
Community Center:					
Personnel services	25,392	-	25,392	19,220	6,172
Contract services	19,200	1,650	20,850	13,292	7,558
Materials and supplies	10,200	-	10,200	8,463	1,737
Other	4,000	-	4,000	3,329	671
Capital outlay	20,000	-	20,000	2,413	17,587
	<u>78,792</u>	<u>1,650</u>	<u>80,442</u>	<u>46,717</u>	<u>33,725</u>

CITY OF MOREHEAD, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - CONCLUDED
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Total expenditures	13,829,453	(3,842,834)	9,986,619	7,932,561	2,054,058
Excess of Revenues Over (Under) Expenditures	(2,593,759)	(147,404)	(2,741,163)	(104,763)	2,636,400
Other Financing Sources (Uses)					
Transfers in (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(2,593,759)	(147,404)	(2,741,163)	(104,763)	2,636,400
Fund balance beginning of year	4,000,000	39,033	4,039,033	4,039,033	-
Fund balance end of year	<u>\$ 1,406,241</u>	<u>\$ (108,371)</u>	<u>\$ 1,297,870</u>	<u>\$ 3,934,270</u>	<u>\$ 2,636,400</u>
Adjustments to Generally Accepted Accounting Principles -					
Capital lease proceeds				159,900	
Public Works (capital outlay)				(159,900)	
Fund balance, end of year (GAAP basis)				<u>\$ 3,934,270</u>	

CITY OF MOREHEAD, KENTUCKY
 MOREHEAD RECREATION, TOURISM, AND CONVENTION COMMISSION -
 MOREHEAD TOURISM COMMISSION (MTC)
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
REVENUES					
<u>Morehead Tourism Commission (MTC)</u>					
Carryover	\$ 26,040	\$ -	\$ 26,040	\$ -	\$ (26,040)
Transient room tax	150,604	-	150,604	163,070	12,466
Morehead restaurant tax - MTC	346,180	-	346,180	377,079	30,899
State matching funds	14,500	-	14,500	12,386	(2,114)
Grant income	19,500	-	19,500	-	(19,500)
Miscellaneous income	15,000	9,485	24,485	20,755	(3,730)
Total MTC revenues	571,824	9,485	581,309	573,290	(8,019)
EXPENDITURES					
<u>Morehead Tourism Commission (MTC)</u>					
Accountant expense	7,200	-	7,200	6,250	950
Administrative services	13,315	-	13,315	14,364	(1,049)
Legal	2,000	1,200	3,200	2,679	521
Executive director	59,244	-	59,244	59,751	(507)
RCAC executive director	50,367	-	50,367	51,527	(1,160)
RCAC building assistant	5,000	-	5,000	3,339	1,661
Marketing - MTC	107,895	2,441	110,336	167,257	(56,921)
Audit	7,500	-	7,500	6,450	1,050
Copier lease	7,200	(1,924)	5,276	4,411	865
Insurance - MTC	12,020	-	12,020	5,550	6,470
Payroll tax expenses - MTC	12,000	-	12,000	13,589	(1,589)
Benefits - MTC	28,000	(2,034)	25,966	35,423	(9,457)
Administrative expense	5,000	(1,200)	3,800	6,212	(2,412)
Postage / meter lease	2,500	-	2,500	2,680	(180)
Grant funding	30,160	(20,160)	10,000	877	9,123
Retirement - MTC	41,539	(9,174)	32,365	37,478	(5,113)
Cell phone expense	2,400	-	2,400	-	2,400
Miscellaneous expense	-	-	-	-	-
Moonlight stage	2,000	(500)	1,500	890	610
Morehead Visitor Center	15,100	(1,000)	14,100	18,156	(4,056)
Visitor center program specialist	38,741	-	38,741	36,594	2,147
1st annual model trian show	-	2,000	2,000	-	2,000
16th region basketball tournament	7,500	-	7,500	7,500	-
19th annual rudy fest bluegrass festival	-	-	-	3,000	(3,000)
Appalachian classic	4,500	-	4,500	4,500	-
Big turtle 50 miler trail race	4,500	-	4,500	4,500	-
Bluegrass kayak anglers	4,000	-	4,000	-	4,000
Cave Run storytelling festival	3,500	-	3,500	3,500	-
Cave Run spring shootout	-	-	-	6,500	(6,500)
Cave Run symphony orchestra	4,000	(2,000)	2,000	2,000	-
Crappie USA tournament trail	4,000	-	4,000	-	4,000
Echoes from the halls	-	4,000	4,000	4,000	-
Friends of Cave Run memorial bass tourney	4,000	-	4,000	4,000	-
Gourd festival and reunion	500	-	500	-	500
Hometown Holiday & CRSO concert	3,000	-	3,000	3,000	-
Morehead arts and eats festival	14,000	(3,000)	11,000	11,000	-
Morehead art guild art show	500	-	500	-	500
Morehead freedom fest	20,000	-	20,000	20,000	-
Morehead Kentucky proud expo	2,500	-	2,500	-	2,500

CITY OF MOREHEAD, KENTUCKY
 MOREHEAD RECREATION, TOURISM, AND CONVENTION COMMISSION -
 MOREHEAD TOURISM COMMISSION (MTC)
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Morehead-Rowan co EDC marketing	5,000	-	5,000	5,000	-
MSU appalachian horse revival	-	-	-	3,000	(3,000)
MSU concert band clinic	1,500	-	1,500	1,500	-
Morehead trail town support	5,000	(499)	4,501	2,091	2,410
National wild turkey federation	500	-	500	500	-
Rowan county arts center marketing	5,000	-	5,000	5,000	-
Rowan county 4-H sharpshooters	-	500	500	500	-
Rowan quilt show	-	-	-	4,000	(4,000)
Viking tennis challenge	-	500	500	500	-
Kentucky folk art center partnership	-	12,500	12,500	12,500	-
Laughlin health building partnership	-	35,000	35,000	-	35,000
Outdoor theatre grant	19,500	(12,765)	6,735	6,735	-
Total MTC expenditures	562,181	3,885	566,066	588,303	(22,237)
Revenue under expenditures	9,643.00	5,600	15,243.00	(15,013)	(30,256)

CITY OF MOREHEAD, KENTUCKY
 MOREHEAD RECREATION, TOURISM, AND CONVENTION COMMISSION -
 MOREHEAD CONVENTION COMMISSION (MCC)
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
REVENUES					
<u>Morehead Conference Center (MCC)</u>					
Carryover	\$ 26,040	\$ -	\$ 26,040	\$ -	\$ (26,040)
Morehead restaurant tax - MCC	985,281	-	985,281	1,060,459	75,178
Interest income	472	-	472	4	(468)
Facility room rental	100,000	-	100,000	74,286	(25,714)
Facility services income	5,000	-	5,000	5,288	288
Loan proceeds	-	98,000	98,000	98,000	-
Catering	64,840	-	64,840	32,399	(32,441)
Total MCC revenues	<u>1,181,633</u>	<u>98,000</u>	<u>1,279,633</u>	<u>1,270,436</u>	<u>(9,197)</u>
EXPENDITURES					
<u>Morehead Conference Center (MCC)</u>					
MCC director	54,290	-	54,290	53,660	630
MCC building operator	-	-	-	522	(522)
MCC facilities operator/staff supervisor	48,900	-	48,900	47,561	1,339
MCC building assistants (part-time)	47,000	(1,218)	45,782	32,873	12,909
Payroll tax expenses - MCC	8,000	-	8,000	10,022	(2,022)
Marketing - MCC	50,000	(9,940)	40,060	37,002	3,058
Building cleaning	25,000	-	25,000	15,581	9,419
Maintenance - MCC	70,000	98,000	168,000	98,256	69,744
Interior improvements loan	-	14,603	14,603	-	14,603
Vehicle maintenance / gas	1,000	-	1,000	1,893	(893)
Benefits - MCC	11,000	2,066	13,066	13,428	(362)
Insurance	16,730	-	16,730	20,405	(3,675)
Retirement - MCC	28,893	(5,511)	23,382	23,382	-
Parking lease	7,200	-	7,200	7,200	-
Event supplies	60,000	-	60,000	48,483	11,517
Utilities - phone & internet	8,000	-	8,000	10,239	(2,239)
Utilities - electric	71,500	-	71,500	73,620	(2,120)
Utilities - gas	7,000	-	7,000	6,535	465
Garbage	720	-	720	644	76
Utilities - water & sewer	3,000	-	3,000	2,112	888
Utilities - electric sign	1,500	-	1,500	1,379	121
Depreciative asset reserve / capital purchases	80,000	-	80,000	95,059	(15,059)
Jeffersontown Pool	99,900	-	99,900	100,231	(331)
Morehead Pool	102,000	-	102,000	97,501	4,499
Newport Pool	295,000	-	295,000	308,431	(13,431)
Richmond Pool	85,000	-	85,000	83,206	1,794
Citizens bank	-	-	-	37,011	(37,011)
Total MCC expenditures	<u>1,181,633</u>	<u>98,000</u>	<u>1,279,633</u>	<u>1,226,236</u>	<u>53,397</u>
Revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,200</u>	<u>44,200</u>

CITY OF MOREHEAD, KENTUCKY
 MOREHEAD RECREATION, TOURISM, AND CONVENTION COMMISSION -
 ROWAN COUNTY ARTS CENTER (RCAC)
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (CONCLUDED)
 FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
REVENUES					
<u>Rowan County Arts Center (RCAC)</u>					
Carryover	\$ 28,562	\$ -	\$ 28,562	\$ -	\$ (28,562)
Art classes	2,500	-	2,500	3,613	1,113
Auditorium rentals	9,500	-	9,500	12,108	2,608
City of Morehead grant	13,000	-	13,000	14,673	1,673
Fundraisers and donations	14,000	2,000	16,000	13,478	(2,522)
Gallery sales	2,000	-	2,000	3,325	1,325
Other rentals	1,500	-	1,500	1,209	(291)
Studio rentals	17,400	-	17,400	17,290	(110)
Reimbursement income	2,000	-	2,000	-	(2,000)
Total MCC revenues	90,462	2,000	92,462	65,696	(26,766)
EXPENDITURES					
<u>Rowan County Arts Center (RCAC)</u>					
Accountant expense - RCAC	1,800	-	1,800	1,650	150
Advertising	18,000	(150)	17,850	15,831	2,019
Art supplies	2,500	-	2,500	2,163	337
Building assistants (part-time)	6,000	-	6,000	5,000	1,000
Depreciative asset reserve / capital purchases	24,950	-	24,950	-	24,950
Exhibit expense	600	-	600	925	(325)
Fundraising expense	5,000	2,000	7,000	2,772	4,228
Gallery sales expense	2,500	-	2,500	2,128	372
Garbage pick up - RCAC	550	-	550	400	150
Insurance - contents	462	-	462	1,025	(563)
Instructor expense	2,000	-	2,000	1,032	968
Maintenance - RCAC	8,000	-	8,000	24,173	(16,173)
Office supplies/postage fees	2,000	-	2,000	1,942	58
Staff travel, dues and expense	1,500	-	1,500	1,472	28
Utilities - outdoor utility box	400	150	550	466	84
Utilities - phone/internet	2,200	-	2,200	-	2,200
Utilities/rent to County	12,000	-	12,000	11,000	1,000
Total MCC expenditures	90,462	2,000	92,462	71,979	20,483
Revenues over (under) expenditures	-	-	-	(6,283)	(6,283)
Total revenues over (under) expenditures	9,643	5,600	15,243	22,904	22,904
Fund balance, beginning of year	-	-	-	187,845	187,845
Fund balance, end of year	\$ 9,643	\$ 5,600	\$ 15,243	\$ 210,749	\$ 195,506

**CITY OF MOREHEAD, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019**

	Reporting Fiscal Year (Measurement Date)									
	2019 (2018)		2018 (2017)		2017 (2016)		2016 (2015)		2015 (2014)	
PENSION	<u>Nonhazardous</u>	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Hazardous</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
City's proportion of the net pension liability	0.14%	0.18%	0.13%	0.17%	0.13%	0.17%	0.13%	0.17%	0.12%	0.17%
City's proportionate share of the net pension liability	\$ 8,557,548	\$ 4,304,926	\$ 7,827,335	\$ 3,751,603	\$ 6,422,997	\$ 2,925,496	\$ 5,499,862	\$ 2,651,429	\$ 4,049,000	\$ 2,024,000
City's covered-employee payroll	\$ 3,487,690	\$ 991,235	\$ 3,256,423	\$ 916,416	\$ 3,111,787	\$ 886,194	\$ 2,982,728	\$ 879,035	\$ 2,865,447	\$ 853,118
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	245.364%	434.299%	240.366%	409.378%	206.409%	330.119%	184.390%	301.629%	141.304%	237.247%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	49.26%	53.30%	49.80%	55.50%	53.95%	59.97%	57.52%	66.80%	63.46%
INSURANCE FUND										
City's proportion of the net OPEB liability	0.13%	0.18%	0.13%	0.17%						
City's proportionate share of the net OPEB liability	\$ 2,494,638	\$ 1,269,161	\$ 2,688,330	\$ 1,386,213						
City's covered-employee payroll	\$ 3,487,690	\$ 991,235	\$ 3,256,423	\$ 916,416						
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	71.527%	128.038%	82.555%	151.265%						
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	64.24%	52.40%	59.00%						

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF MOREHEAD, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019		2018		2017		2016		2015		2014	
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
PENSION												
Contractually required contribution	\$ 604,355	\$ 244,041	\$ 505,018	\$ 220,054	\$ 454,271	\$ 198,954	\$ 386,484	\$ 179,543	\$ 380,298	\$ 182,224	\$ 393,712	\$ 185,724
Contributions in relation to the contractually required contribution	<u>604,355</u>	<u>244,041</u>	<u>505,018</u>	<u>220,054</u>	<u>454,271</u>	<u>198,954</u>	<u>386,484</u>	<u>179,543</u>	<u>380,298</u>	<u>182,224</u>	<u>393,712</u>	<u>185,724</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 3,725,988	\$ 981,663	\$ 3,487,690	\$ 991,235	\$ 3,256,423	\$ 916,416	\$ 3,111,787	\$ 886,194	\$ 2,982,728	\$ 879,035	\$ 2,865,447	\$ 853,118
City's contributions as a percentage of its covered-employee payroll	16.22%	24.86%	14.48%	22.20%	13.95%	21.71%	12.42%	20.26%	12.75%	20.73%	13.74%	21.77%
INSURANCE FUND												
Contractually required contribution	\$ 195,987	\$ 102,780	\$ 163,921	\$ 92,680	\$ 154,029	\$ 85,685						
Contributions in relation to the contractually required contribution	<u>195,987</u>	<u>102,780</u>	<u>163,921</u>	<u>92,680</u>	<u>154,029</u>	<u>85,685</u>						
Contribution deficiency (excess)	-	-	-	-	-	-						
City's covered-employee payroll	\$ 3,725,988	\$ 981,663	\$ 3,487,690	\$ 991,235	\$ 3,256,423	\$ 916,416						
City's contributions as a percentage of its covered-employee payroll	5.26%	10.47%	4.70%	9.35%	4.73%	9.35%						

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF MOREHEAD, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019**

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

- 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.

There were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

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

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

CERS - OPEB

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

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS - PENSION

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal year ended 2016, determined as of July 1, 2015. The amortization period of the unfunded liability

has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	27 years, closed
Payroll Growth	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

CERS - OPEB

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2018:

Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

(3) CHANGES OF BENEFITS

CERS - PENSION

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

CERS - OPEB

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

SUPPLEMENTAL INFORMATION

**CITY OF MOREHEAD, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	Municipal Road Aid Fund	CDBG Inspiration Center	CDBG West Morehead Project	Federal Forfeiture	State Forfeiture	Total Nonmajor Governmental Funds
Assets						
Cash	\$ 402,834	\$ -	\$ 1	\$ 11,334	\$ 1,072	\$ 415,241
Receivables		-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Total assets	<u>\$ 402,834</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 11,334</u>	<u>\$ 1,072</u>	<u>\$ 415,241</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 17,201	\$ -	\$ -	\$ -	\$ -	\$ 17,201
Accrued liabilities	-	-	-	-	-	-
Total liabilities	<u>17,201</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,201</u>
Fund Balances:						
Unassigned	-	-	-	-	-	-
Assigned	<u>385,633</u>	<u>-</u>	<u>1</u>	<u>11,334</u>	<u>1,072</u>	<u>398,040</u>
Total fund balances	<u>385,633</u>	<u>-</u>	<u>1</u>	<u>11,334</u>	<u>1,072</u>	<u>398,040</u>
Total liabilities and fund balances	<u>\$ 402,834</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 11,334</u>	<u>\$ 1,072</u>	<u>\$ 415,241</u>

CITY OF MOREHEAD, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Municipal Road Aid Fund	CDBG Inspiration Center	CDBG West Morehead Project	Federal Forfeiture	State Forfeiture	Total Nonmajor Governmental Funds
Revenues						
Intergovernmental revenues	\$ 135,762	\$ 199,000	\$ 63,327	\$ -	\$ 5,850	\$ 403,939
Interest income	3,377	-	-	-	30	3,407
Total revenues	139,139	199,000	63,327	-	5,880	407,346
Expenditures						
Public safety - police	-	-	-	3,439	8,062	11,501
Public works	281,289	-	-	-	-	281,289
Community development	-	199,000	63,900	-	-	262,900
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Total expenditures	281,289	199,000	63,900	3,439	8,062	555,690
Excess of Revenues Over (Under) Expenditures	(142,150)	-	(573)	(3,439)	(2,182)	(148,344)
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net change in fund balances	(142,150)	-	(573)	(3,439)	(2,182)	(148,344)
Fund balances beginning of year	527,783	-	574	14,773	3,254	546,384
Fund balances end of year	\$ 385,633	\$ -	\$ 1	\$ 11,334	\$ 1,072	\$ 398,040



Kelley Galloway
Smith Goolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P.O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web www.ksgscpa.com Member of  **AICPA** GLOBAL.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and
Members of City Council
City of Morehead
Morehead, Kentucky 40351

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, each major fund, and the aggregate remaining fund information of the City of Morehead, Kentucky (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 17, 2020. Our report includes a reference to other auditors who audited the financial statements of Morehead Recreation, Tourism and Convention Commission, as described in our report on the City's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

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 City'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.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 17, 2020