
CITY OF MULDRAUGH, KENTUCKY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2016

CPAs / ADVISORS



CITY OF MULDRAUGH, KENTUCKY

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Blue & Co. LLC / 2650 Eastpoint Parkway, Suite 300 / Louisville, KY 40223
main 502.992.3500 fax 502.992.3509 email blue@blueandco.com
blueandco.com

REPORT OF INDEPENDENT AUDITORS

Mayor and Members of the City Council
City of Muldraugh
Muldraugh, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of June 30, 2016, 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.

Emphasis of a Matter – Prior Year Restatement

The financial statements of the City as of June 30, 2015, were audited by other auditors whose opinion dated November 15, 2015, expressed unmodified opinions on those financial statements. As discussed in Note 9 to the financial statements, the City has restated net position as of July 1, 2015, for the correction of errors in deferred outflows, deferred inflows and net pension liability previously reported as of June 30, 2015. The other auditors reported on the 2015 financial statements before the restatement.

As part of our audit of the 2016 financial statements, we audited the adjustments described in Note 9 that were applied to restate the opening balances of the 2016 financial statements as of July 1, 2015. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 financial statements of the City other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information – general fund, schedule of city's proportionate share of net pension liability in County Employees Retirement Systems ("CERS"), and the schedule of city's contributions to CERS on pages 39 through 43, 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. The 2015 information presented on pages 42 through 43 was reported on by other auditors, prior to the restatement above, whose report dated November 15, 2015, indicated they

applied certain limited procedures to the information and, accordingly did not express an opinion or provide any assurance on the information because the limited procedures did not provide them with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

Report on Supplementary 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 supplementary information presented on pages 44 through 51 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 materially respects in relation to the financial statements as a whole. The supplementary information on page 52 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on that information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Blue & Co., LLC

November 13, 2017
Louisville, Kentucky

CITY OF MULDRAUGH, KENTUCKY

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
Assets			
Current assets:			
Cash	\$ 19,069	\$ 11,993	\$ 31,062
Restricted cash	48,573	80,442	129,015
Receivables:			
Occupational taxes	17,823	-0-	17,823
Property taxes	688	-0-	688
KLEFPF	661	-0-	661
Insurance premium tax	26,622	-0-	26,622
Water	-0-	22,063	22,063
Garbage	-0-	18,492	18,492
Sewer	-0-	37,604	37,604
Surcharge	-0-	5,520	5,520
Reserve deposit	7,650	-0-	7,650
Internal balances	10,717	(10,717)	-0-
Noncurrent assets:			
Capital assets			
Depreciable buildings, property, and equipment (net)	1,556,774	3,035,364	4,592,138
Total assets	1,688,577	3,200,761	4,889,338
Deferred outflows of resources	74,338	45,472	119,810
Total assets and deferred outflows	\$ 1,762,915	\$ 3,246,233	\$ 5,009,148

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
Liabilities			
Current liabilities:			
Accounts payable	\$ 5,802	\$ 19,890	\$ 25,692
Accrued expenses	6,802	1,308	8,110
Accrued wages	5,145	2,071	7,216
Deposits	-0-	32,150	32,150
Compensated absences	1,049	5,253	6,302
Notes payable	22,239	26,214	48,453
Bonds payable	10,000	8,000	18,000
Total current liabilities	51,037	94,886	145,923
Noncurrent Liabilities			
Compensated absences	-0-	2,722	2,722
Notes payable	154,768	57,637	212,405
Bonds payable	225,783	53,273	279,056
Net pension liability	385,316	234,732	620,048
Total noncurrent liabilities	765,867	348,364	1,114,231
Total liabilities	816,904	443,250	1,260,154
Deferred inflows of resources	-0-	-0-	-0-
Total liabilities and deferred inflows	816,904	443,250	1,260,154
Net position (deficit)			
Invested in capital assets, net of related debt	1,143,984	2,890,240	4,034,224
Restricted for specific purpose	56,223	48,292	104,515
Unrestricted	(254,196)	(135,549)	(389,745)
Total net position (deficit)	946,011	2,802,983	3,748,994
Total liabilities, deferred inflows and net position	\$ 1,762,915	\$ 3,246,233	\$ 5,009,148

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
General government	\$ 427,995	\$ 6,348	\$ 16,774	\$ -0-	\$ (404,873)	\$ -0-	\$ (404,873)
Police	56,951	20,719	11,135	-0-	(25,097)	-0-	(25,097)
Parks and recreation	7,390	-0-	-0-	-0-	(7,390)	-0-	(7,390)
Streets and roads	15,374	-0-	-0-	18,852	3,478	-0-	3,478
Fire department	24,795	3,833	8,000	-0-	(12,962)	-0-	(12,962)
Interest on long-term debt	16,379	-0-	-0-	-0-	(16,379)	-0-	(16,379)
Total Government Activities	548,884	30,900	35,909	18,852	(463,223)	-0-	(463,223)
Business-type activities:							
Operations and maintenance fund	690,203	-0-	-0-	-0-	-0-	(690,203)	(690,203)
Revenue fund	693	577,364	-0-	-0-	-0-	576,671	576,671
Nonmajor funds	28	6,089	-0-	-0-	-0-	6,061	6,061
Total Business-Type Activities	690,924	583,453	-0-	-0-	-0-	(107,471)	(107,471)
Total Primary Government	1,239,808	614,353	35,909	18,852	(463,223)	(107,471)	(570,694)
			General Revenues				
			Taxes:				
			Property	45,301	-0-	45,301	
			Gross receipts license fee	23,841	-0-	23,841	
			Insurance tax	115,820	-0-	115,820	
			Licenses	97,022	-0-	97,022	
			Interest	49	53	102	
			Franchise fees	34,019	-0-	34,019	
			Lease income	26,126	-0-	26,126	
			Sanitation	39,666	-0-	39,666	
			Donations	11,822	-0-	11,822	
			Gain on disposal of equipment	35,050	-0-	35,050	
			Miscellaneous	17,570	-0-	17,570	
			Transfers	6,752	(6,752)	-0-	
			Total general revenues and transfers	453,038	(6,699)	446,339	
			Change in net position	(10,185)	(114,170)	(124,355)	
			Net position - beginning previously stated	814,276	3,075,627	3,889,903	
			Prior period adjustment (Note 9)	141,920	(158,474)	(16,554)	
			Net position - beginning, as restated	956,196	2,917,153	3,873,349	
			Net position - ending	\$ 946,011	\$ 2,802,983	\$ 3,748,994	

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Governmental Funds		
	General Fund	Nonmajor Governmental Funds	Totals
Assets			
Cash	\$ 8,126	\$ 10,943	\$ 19,069
Restricted Cash	-0-	48,573	48,573
Receivables:			
Occupational taxes	17,823	-0-	17,823
Property taxes	688	-0-	688
KLEFPF	661	-0-	661
Insurance premium tax	26,622	-0-	26,622
Reserve deposit	-0-	7,650	7,650
Due from other funds	10,717	-0-	10,717
Total assets	\$ 64,637	\$ 67,166	\$ 131,803
Liabilities and fund balance			
Liabilities:			
Accounts payable	\$ 5,802	\$ -0-	\$ 5,802
Accrued expenses	6,802	-0-	6,802
Accrued wages	5,145	-0-	5,145
Compensated absences	1,049	-0-	1,049
Total Liabilities	18,798	-0-	18,798
Fund balance:			
Restricted for specific purpose	-0-	56,223	56,223
Unassigned	45,839	10,943	56,782
Total fund balance	45,839	67,166	113,005
Total liabilities and fund balance	\$ 64,637	\$ 67,166	\$ 131,803

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2016

Fund balance - total governmental funds	\$	113,005
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets		1,556,774
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Deferred outflows of resources are expensed in the current period, and therefore are not reported in the governmental funds.

		74,338
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Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	235,783	
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Notes payable	177,007	
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Net pension liability	385,316	
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		(798,106)
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Net position of governmental activities	\$	946,011
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See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Governmental Funds		
	General Fund	Nonmajor Governmental Funds	Totals
Revenues:			
Property taxes	\$ 45,301	\$ -0-	\$ 45,301
Business licenses	24,900	-0-	24,900
Unloading licenses	1,000	-0-	1,000
Interest income	22	27	49
Occupational licenses	71,122	-0-	71,122
Police department revenue	20,719	-0-	20,719
Fire department revenue	3,833	-0-	3,833
Lease income	25,576	550	26,126
Franchise fees - utilities	29,216	-0-	29,216
Franchise fees - telecommunications	4,803	-0-	4,803
Sanitation	39,666	-0-	39,666
Permits	120	-0-	120
Insurance tax	115,820	-0-	115,820
Auto licenses	6,228	-0-	6,228
Gross receipts license fee	23,841	-0-	23,841
Donations	3,821	8,001	11,822
Miscellaneous	16,070	1,500	17,570
Intergovernmental revenues:			
Coal and mineral grants	10,368	-0-	10,368
Municipal road aid grants	-0-	18,852	18,852
Police grants	1,888	-0-	1,888
House Bill 413	6,406	-0-	6,406
State police grants - KLEFPF	9,247	-0-	9,247
Fire grants	8,000	-0-	8,000
Total revenues	467,967	28,930	496,897

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

* Expenditures:			
General Government			
Salaries	207,017	-0-	207,017
Payroll taxes	15,053	-0-	15,053
Retirement	33,083	-0-	33,083
Utilities	36,430	-0-	36,430
Insurance	48,922	1,896	50,818
Telephone	4,621	-0-	4,621
Office expense	-0-	186	186
Professional fees	3,941	1,500	5,441
Advertising and legal	1,637	-0-	1,637
Repairs and maintenance	-0-	5,947	5,947
Fuel	74	1,198	1,272
Festival expense	2,816	7,390	10,206
Supplies	5,881	-0-	5,881
Towing expense	7,715	-0-	7,715
Miscellaneous	-0-	13,068	13,068
Bank fees	515	-0-	515
Conferences	244	-0-	244
Public Safety			
Police department	34,379	-0-	34,379
Fire department	22,506	-0-	22,506
Total Current Expenditures	<u>424,834</u>	<u>31,185</u>	<u>456,019</u>
Capital Outlay	<u>14,166</u>	<u>10,000</u>	<u>24,166</u>
Total Expenditures	<u>439,000</u>	<u>41,185</u>	<u>480,185</u>
Excess of Revenues Over (Under) Expenditures	28,967	(12,255)	16,712
Other Financing Sources (Uses):			
Proceeds from sale of equipment	35,050	-0-	35,050
Proceeds from loan	14,166	-0-	14,166
Debt Service			
Principal	(58,721)	(10,000)	(68,721)
Interest	(7,935)	(8,444)	(16,379)
Operating transfers in	11,002	25,852	36,854
Operating transfers out	<u>(24,102)</u>	<u>(6,000)</u>	<u>(30,102)</u>
Total Other Financing Sources (Uses)	<u>(30,540)</u>	<u>1,408</u>	<u>(29,132)</u>
Net Change In Fund Balances	(1,573)	(10,847)	(12,420)
Beginning Fund Balance	<u>47,412</u>	<u>78,013</u>	<u>125,425</u>
Ending Fund Balance	<u>\$ 45,839</u>	<u>\$ 67,166</u>	<u>\$ 113,005</u>

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$ (12,420)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	24,166	
Depreciation expense	(76,442)	
Difference		(52,276)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Principal payments is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Loan proceeds	(14,166)	
Principal payments	68,721	
		54,555

Pension income (expense) related to long-term net pension liabilities that is not included in the governmental funds.		(44)

Change in net position of governmental activities		<u>\$ (10,185)</u>
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See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

STATEMENT OF NET POSITION –
 PROPRIETARY FUNDS (BUSINESS-TYPE ACTIVITIES)
 JUNE 30, 2016

	<u>Business-Type Activities</u>			<u>Totals</u>
	<u>Operations and Maintenance Fund</u>	<u>Revenue Fund</u>	<u>Nonmajor Funds</u>	
Assets:				
Current assets:				
Cash	\$ 5,788	\$ 1,412	\$ 4,793	\$ 11,993
Restricted cash	-0-	-0-	80,442	80,442
Receivable:				
Water	-0-	22,063	-0-	22,063
Garbage	-0-	18,492	-0-	18,492
Sewer	-0-	37,604	-0-	37,604
Surcharge	-0-	5,520	-0-	5,520
Total current assets	5,788	85,091	85,235	176,114
Noncurrent assets:				
Trucks	42,567	-0-	-0-	42,567
Improvements other than buildings	4,219,668	-0-	-0-	4,219,668
Machinery and equipment	190,080	-0-	-0-	190,080
Accumulated depreciation	(1,416,951)	-0-	-0-	(1,416,951)
Total noncurrent assets	3,035,364	-0-	-0-	3,035,364
Total assets	3,041,152	85,091	85,235	3,211,478
Deferred outflows of resources	45,472	-0-	-0-	45,472
Total assets and deferred outflows	\$ 3,086,624	\$ 85,091	\$ 85,235	\$ 3,256,950

See accompanying notes to financial statements.

CITY OF MULDRAGH, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PRORIETARY FUNDS (BUSINESS-TYPE ACTIVITIES)
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities			Totals
	Operations and Maintenance Fund	Revenue Fund	Nonmajor Funds	
Liabilities				
Current liabilities:				
Accounts payable	\$ 19,890	\$ -0-	\$ -0-	\$ 19,890
Accrued expenses	1,308	-0-	-0-	1,308
Deferred revenue	-0-	-0-	-0-	-0-
Accrued wages	2,071	-0-	-0-	2,071
Compensated absences	5,253	-0-	-0-	5,253
Deposits	-0-	-0-	32,150	32,150
Due to other funds	10,717	-0-	-0-	10,717
Notes payable	26,214	-0-	-0-	26,214
Bonds payable	8,000	-0-	-0-	8,000
Total current liabilities	73,453	-0-	32,150	105,603
Noncurrent liabilities:				
Compensated absences	2,722	-0-	-0-	2,722
Notes payable	57,637	-0-	-0-	57,637
Bonds payable	53,273	-0-	-0-	53,273
Net pension liability	234,732	-0-	-0-	234,732
Total noncurrent liabilities	348,364	-0-	-0-	348,364
Total liabilities	421,817	-0-	32,150	453,967
Deferred inflows of resources	-0-	-0-	-0-	-0-
Total liabilities and deferred inflows	421,817	-0-	32,150	453,967
Net position				
Invested in capital assets, net of related debt	2,890,240	-0-	-0-	2,890,240
Restricted	-0-	-0-	48,292	48,292
Unrestricted	(225,433)	85,091	4,793	(135,549)
Total net position	2,664,807	85,091	53,085	2,802,983
Total liabilities, deferred inflows, and net position	\$ 3,086,624	\$ 85,091	\$ 85,235	\$ 3,256,950

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
 PROPRIETARY FUNDS (BUSINESS-TYPE ACTIVITIES)
 FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities			
	Operations and Maintenance Fund	Revenue Fund	Nonmajor Funds	Totals
Operating revenues:				
Water service	\$ -0-	\$ 165,419	\$ -0-	\$ 165,419
Sewer service	-0-	204,541	-0-	204,541
Garbage service	-0-	133,174	-0-	133,174
Sewer surcharge	-0-	30,805	-0-	30,805
Infiltration income	-0-	25,599	-0-	25,599
Miscellaneous	-0-	17,826	6,089	23,915
Total operating revenues	-0-	577,364	6,089	583,453
Operating expenses:				
Salaries	122,763	-0-	-0-	122,763
FICA taxes	8,284	-0-	-0-	8,284
Group insurance	6,017	-0-	-0-	6,017
Retirement	50,940	-0-	-0-	50,940
Advertising	1,312	-0-	-0-	1,312
Water maintenance	24,447	-0-	-0-	24,447
Sewer maintenance	34,201	-0-	-0-	34,201
Office expense	1,635	-0-	28	1,663
Utilities	19,439	-0-	-0-	19,439
Insurance	27,245	-0-	-0-	27,245
Telephone/pager	2,778	-0-	-0-	2,778
Utility tax	14,586	-0-	-0-	14,586
Uniforms	-0-	-0-	-0-	-0-
Repairs and replacement	10,261	-0-	-0-	10,261
Professional fees	3,375	-0-	-0-	3,375
Depreciation	121,956	-0-	-0-	121,956
Miscellaneous	8,803	693	-0-	9,496
Gas and fuel expense	9,012	-0-	-0-	9,012
Sanitation	120,361	-0-	-0-	120,361
Water purchased	95,436	-0-	-0-	95,436
Total operating expenses	682,851	693	28	683,572
Operating income (loss)	(682,851)	576,671	6,061	(100,119)

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
PRORIETARY FUNDS (BUSINESS-TYPE ACTIVITIES)
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities			Totals
	Operations and Maintenance Fund	Revenue Fund	Nonmajor Funds	
Non-operating revenues (expenses):				
Grants	-0-	-0-	-0-	-0-
Interest income	8	6	39	53
Interest expense	(7,352)	-0-	-0-	(7,352)
Operating transfers in	576,401	22,525	77,885	676,811
Operating transfers out	(10,752)	(590,911)	(81,900)	(683,563)
Total non-operating revenue (expenses)	558,305	(568,380)	(3,976)	(14,051)
Change in net position	(124,546)	8,291	2,085	(114,170)
Total net position - beginning, as previously stated	2,947,827	76,800	51,000	3,075,627
Prior period adjustment (see note 9)	(158,474)	-0-	-0-	(158,474)
Total net position - beginning, as restated	2,789,353	76,800	51,000	2,917,153
Total net position - ending	\$ 2,664,807	\$ 85,091	\$ 53,085	\$ 2,802,983

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

**STATEMENT OF CASH FLOWS –
PRORIETARY FUNDS (BUSINESS-TYPE ACTIVITIES)
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities			Totals
	Operations and Maintenance Fund	Revenue Fund	Nonmajor Funds	
Cash flows from operating activities				
Cash received from customers	\$ -0-	\$ 569,159	\$ 390	\$ 569,549
Cash payments to suppliers for goods and services	(400,684)	(693)	(28)	(401,405)
Cash payments to employees for services	(121,510)	-0-	-0-	(121,510)
Net cash flows from operating activities	(522,194)	568,466	362	46,634
Cash flows from non-capital financing activities:				
Operating transfers - in from other funds	576,401	22,525	77,885	676,811
Operating transfers - out to other funds	(10,752)	(590,911)	(81,900)	(683,563)
Net cash flows from non-capital financing activities	565,649	(568,386)	(4,015)	(6,752)
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(36,667)	-0-	-0-	(36,667)
Loan proceeds	33,567	-0-	-0-	33,567
Principal paid on notes	(29,155)	-0-	-0-	(29,155)
Interest paid on notes	(7,352)	-0-	-0-	(7,352)
Net cash flows from capital and related financing activities	(39,607)	-0-	-0-	(39,607)
Cash flows from investing activities				
Interest income	8	6	39	53
Net cash flows from investing activities	8	6	39	53
Net increase (decrease) in cash equivalents	3,856	86	(3,614)	328
Cash and cash equivalents at beginning of year	1,932	1,326	88,849	92,107
Cash and cash equivalents at end of year	\$ 5,788	\$ 1,412	\$ 85,235	\$ 92,435
Shown in the financial statements as:				
Cash	5,788	1,412	4,793	11,993
Restricted cash	-0-	-0-	80,442	80,442
	\$ 5,788	\$ 1,412	\$ 85,235	\$ 92,435

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

**STATEMENT OF CASH FLOWS –
PRORITARY FUNDS (BUSINESS-TYPE ACTIVITIES)
FOR THE YEAR ENDED JUNE 30, 2016**

Reconciliation of net operating income (loss) to net cash flows from operating activities								
Net operating income (loss)	\$	(682,851)	\$	576,671	\$	6,061	\$	(100,119)
Adjustments								
Depreciation expense		121,956		-0-		-0-		121,956
Net changes in assets/liabilities:								
Accounts receivable		-0-		(4,302)		-0-		(4,302)
Due from other funds		5,750		-0-		-0-		5,750
Accounts payable		(3,605)		-0-		-0-		(3,605)
Unearned revenue		-0-		(3,903)		-0-		(3,903)
Accrued expenses		595		-0-		-0-		595
Compensated absences		1,253		-0-		-0-		1,253
Due to other funds		3,921		-0-		-0-		3,921
Deposits		-0-		-0-		(5,699)		(5,699)
Deferred outflows and net pension liability		30,787		-0-		-0-		30,787
Net cash flows from operating activities	\$	<u>(522,194)</u>	\$	<u>568,466</u>	\$	<u>362</u>	\$	<u>46,634</u>

See accompanying notes to financial statements.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The City of Muldraugh, Kentucky (the "City") is a fifth class city located in Meade County, Kentucky. It operates under a councilmanic form of government and derives significantly all of its revenue from water and sewer receipts, property taxes, business license and franchise taxes, garbage collections and insurance taxes.

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The City's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

Reporting Entity

The City's financial statements include the operations of all organizations for which the City Council exercises oversight. Responsibility is demonstrated by financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Basic Financial Statements

Basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

The government-wide financial statements consist of the statement of net position and the statement of activities and report information of all the nonfiduciary activities of the City and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the statement of net position have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities for the City include the general fund, municipal road aid fund, land development fund, police special account fund, storm water management fund, festival fund and safe room. The business-type activities of the City include the operations and maintenance fund, revenue fund, meter deposit fund, depreciation fund, surcharge fund, water/sewer construction fund, bond & interest sinking fund and sewer infiltration fund.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The statement of activities demonstrates the degree to which expenses of a given function are offset by program revenues. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and 2) grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City allocates certain indirect costs to be included in the program expense reported for individual functions and activities in the government-wide statement of activities.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and the fiduciary funds financial statements. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City in general considers revenues available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatched interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, sales tax, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing activities. The principal operating revenues of the City's utilities are charges to the customers for services. Operating expenses for proprietary funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental fund:

- *General Fund* – Used as the City's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other funds.

The City reports the following major proprietary fund:

- *Operations and Maintenance Fund* – Used to account for the activities of providing water, sewer and garbage service to customers.
- *Revenue Fund* – Used to account for all revenue received by the City that is transferred to the appropriate fund.

Reconciliation of Government-Wide and Fund Financial Statements

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

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual basis of accounting for governmental fund financial statements to the accrual basis of accounting for the government-wide statements. Capital outlay is replaced with depreciation expense.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense/expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivables

Accounts receivable are reported at the amount management expects to collect from outstanding balances. Management considers all accounts receivable as collectible at year-end. Taxes receivable are the amount the City expects to collect within 60 days of year-end per the City's policy.

Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets (e.g., roads, sidewalks, traffic lights and signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the City are depreciated using a straight-line method over their estimated useful lives.

As a result of the implementation of GASB 34, the City is accounting for infrastructure assets on its financial statements. The government-wide financial statements include those infrastructure assets that were either completed during the current fiscal year or considered construction in progress at current fiscal year-end. However, the government-wide financial statements do not reflect those infrastructure assets completed prior to July 1, 2001.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Interfund Transactions

During the course of operations, transactions may occur between funds within the City that may result in transfers being recorded. Interfund receivables and payables and interfund transfers are eliminated in the statement of net position.

Compensated Absences

The City allows all employees occupying permanent positions annual vacation and sick leave at their current salary rate. Accrued vacation and sick leave is limited to 120 hours and 480 hours, respectively, at any time. Any employee who terminates employment with the City shall have used all accrued vacation leave time prior to the date of official termination. However, employees who terminate employment with the City shall not be compensated for unused sick leave credit. Vacation leave is accrued at the rate of 1/12th of the annual rate per month of employment. The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by City employees.

The City has not accrued a liability for sick leave which has been earned but not taken by City employees that did not meet the above criteria.

Equity Classifications

Government-Wide Financial Statements:

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted balances, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
 - b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
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CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

- c. Unrestricted – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund classifications can be used.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the City Council (the “Council”). Assigned fund balances is a limitation imposed by a designee of the Council members. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one on the above four categories. Negative unassigned fund balance in governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

The City generally segregates restricted, committed, and assigned resources by account. When resources meeting more than one of those spendable classifications are commingled in an account in the City’s accounting system, the assumed order of spending is restricted first, committed second, and finally assigned. Once restricted resources have been exhausted, unrestricted resources will then be spent on the specific purpose.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property taxes unpaid at May 1 of the following year are subject to a lien filed against their property.

Expenses/Expenditures

Expenses are classified by function/program in the government-wide financial statements. Expenditures are classified by function in the governmental fund financial statements. Indirect expenses are not allocated to functions in the statement of activities.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pension expense, information about the fiduciary net position of County Employees' Retirement Systems ("CERS") and addition to/deduction from CERS's fiduciary net position have been determined on the same basis as they were reported by CERS.

2. CASH AND EQUIVALENTS AND COMPONENTS OF RESTRICTED CASH

The City of Muldraugh maintains numerous accounts at various depository banks. All of the bank balances were covered by the \$250,000 federal depository insurance or pledged U.S. government securities for those accounts with balances over \$250,000. The City of Muldraugh considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Effective January 1, 1996, the General Assembly enacted Kentucky Revised Statutes 66.480 which limits investments of public funds generally to obligations of the U.S. and certain of its agency and instrumentality, certificates of deposits or other interest-bearing accounts of the Federal Deposit Insurance Corporation (FDIC) insured banks or savings and loan institutions.

Custodial Credit Risk

Custodial credit risk for cash is the risk that, in the event of failure by a financial institution, the City may not be able to recover the value of its deposits or collateral securities that are in the possession of the financial institution. The City's policy dictates that all cash maintained in any financial institution be collateralized and the collateral held in the name of the City. The City was fully collateralized and all cash equivalents were held in the City's name as of June 30, 2016. The bank balances were secured by the \$250,000 federal depository insurance and pledged securities as collateral, but held in Meade County Bank's name. All cash accounts were secured for fiscal year June 30, 2016. Cash not needed for current expenditures are invested in interest bearing accounts.

CITY OF MULDRAUGH, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Restricted Cash

Restricted cash at June 30, 2016, consists of the following:

<u>Governmental activities</u>	
Land development	\$ 28,059
Municipal road aid	18,596
Safe room	<u>1,918</u>
	48,573
<u>Business-type activities</u>	
Depreciation	\$ 7,007
Water and sewer construction	1,000
Bond and interest sinking fund	28,171
Meter deposit	<u>44,264</u>
	<u>80,442</u>
Total restricted cash	<u>\$ 129,015</u>

- a. Land development – This fund accounts for construction and related appraisal costs associated with real estate acquisition and development.
- b. Municipal road aid – This fund accounts for the allocation of municipal road aid funds which are for design, right-of-way acquisitions, construction and other municipal road expenditures.
- c. Safe room – This fund was pledged for the payment of all principal and interest due on the safe room lease associated with the acquisition and construction of the community center safe room.
- d. Depreciation – This fund can be used for the purpose of paying the cost of maintenance, repairs, renewals and for costs associated with the water and sewer system.
- e. Water and sewer construction – This fund was established for water and sewer construction projects related to construction projects within the City.
- f. Bond and interest sinking fund – This fund was pledged for payment of the City's revenue bonds on a bi-annual basis.
- g. Meter deposit – This fund is to be used to maintain meter deposits paid by citizens of the City for water, sewer and garbage service and is held by the City and will be applied to a customers final bill when service is inactivated or when the customer leaves the City and requests reimbursement for their deposit.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

3. CAPITAL ASSETS AND DEPRECIATION

The City uses the straight-line method for property, plant and equipment based on the following estimated useful life by major class of depreciable assets:

Assets	Years
Buildings	10 to 40
Improvements other than buildings	10 to 40
Infrastructure	15 to 40
Utility systems	20 to 40
Machinery and equipment	5 to 15

A summary of changes in general fixed assets follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Primary Government				
Governmental activities:				
Nondepreciable assets:				
Land	\$ 76,164	\$ -0-	\$ -0-	\$ 76,164
Total nondepreciable assets	76,164	-0-	-0-	76,164
Depreciable assets:				
Park Equipment	33,260	-0-	(7,275)	40,535
Buildings	1,405,632	-0-	-0-	1,405,632
City Hall	114,231	-0-	-0-	114,231
Trucks	37,017	10,000	(2,500)	49,517
Police Cars and Fire Trucks	305,421	-0-	(9,495)	314,916
Fire Station	40,400	-0-	-0-	40,400
Police and Fire Department Equipment	94,962	-0-	(16,499)	111,461
Maintenance Equipment	95,069	14,166	(43,398)	152,633
Office Equipment	23,343	-0-	-0-	23,343
Total depreciable assets	2,149,335	24,166	(79,167)	2,252,668
Total capital assets	2,225,499	24,166	(79,167)	2,328,832
Accumulated Depreciation:				
Park Equipment	(25,537)	(1,160)	7,275	(33,972)
Buildings	(54,736)	(36,044)	-0-	(90,780)
City Hall	(51,423)	(6,240)	-0-	(57,663)
Trucks	(35,035)	(1,973)	2,500	(39,508)
Police Cars and Fire Trucks	(220,708)	(21,791)	9,495	(251,994)
Fire Station	(31,078)	(1,035)	-0-	(32,113)
Police and Fire Department Equipment	(88,038)	(2,012)	16,499	(106,549)
Maintenance Equipment	(88,888)	(4,580)	43,398	(136,866)
Office Equipment	(21,006)	(1,607)	-0-	(22,613)
Total accumulated depreciation	(616,449)	(76,442)	79,167	(772,058)
Total depreciable assets, net	1,532,886	(52,276)	-0-	1,480,610
Governmental activities capital assets, net	\$ 1,609,050	\$ (52,276)	\$ -0-	\$ 1,556,774

CITY OF MULDRAGH, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Primary Government	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Business-type activities:				
Depreciable assets:				
Water Lines	\$ 971,386	\$ -0-	\$ -0-	\$ 971,386
Sewer Lines	3,248,281	-0-	-0-	3,248,281
Machinery and Equipment	130,729	-0-	-0-	130,729
Office Equipment	56,250	3,100	-0-	59,350
Trucks	9,000	33,567	-0-	42,567
Total depreciable assets	4,415,646	36,667	-0-	4,452,313
Accumulated Depreciation:				
Water Lines	(511,790)	(49,092)	-0-	(560,882)
Sewer Lines	(595,700)	(64,546)	-0-	(660,246)
Machinery and Equipment	(126,245)	(2,721)	-0-	(128,966)
Office Equipment	(52,258)	(3,079)	-0-	(55,337)
Trucks	(9,000)	(2,518)	-0-	(11,518)
Total accumulated depreciation	(1,294,993)	(121,956)	-0-	(1,416,949)
Business-type activities capital assets, net	\$ 3,120,653	\$ (85,289)	\$ -0-	\$ 3,035,364

Depreciation expense is charged to functions as follows:

Governmental Activities		Business-type Activities	
General government	\$ 51,601	Water and sewer	\$ 121,956
Police	22,552		\$ 121,956
Fire department	2,289		
	<u>\$ 76,442</u>		

4. COMPENSATED ABSENCES

Accrued compensated absences for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Earned	Used	Balance June 30, 2016	Amounts Due Within One Year
Administration	\$ 1,181	\$ 3,262	\$ 4,423	\$ 20	\$ 20
Police	2,127	3,896	4,994	1,029	1,029
Total general fund	\$ 3,308	\$ 7,158	\$ 9,417	\$ 1,049	\$ 1,049
Operations and maintenance	\$ 6,722	8,058	6,805	7,975	5,253
Total compensated absences	\$ 10,030	\$ 15,216	\$ 16,222	\$ 9,024	\$ 6,302

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

5. LONG-TERM DEBT

General Fund

The City has a note payable secured by a vehicle financed in August 2012 from Meade County Bank for the amount of \$28,842, payable in 60 installments at \$539 per month including interest at 4.61%. The balance of the note payable at June 30, 2016 was \$ -0-.

The City has a note payable secured by a building financed in December 2012 from Meade County Bank for the amount of \$165,599, payable in 240 installments at \$1,000 per month including interest at 3.96%. The balance of the note payable at June 30, 2016 was \$145,262.

The City entered into a bond payable in the amount of \$255,000 for the purpose of refinancing a lease agreement dated August 30, 2012 that was used for the acquisition, construction, installation and equipping of a community safe room, payable in 248 installments. The note payments are due monthly in varying amounts from \$1,370 to \$1,782 per month. The balance of the bond payable at June 30, 2016 was \$235,783. The bond is payable from the pledge receipts and is secured to include but not limited to the lease rental payments received.

The City has a note payable secured by two vehicles entered in April 2015 from Meade County Bank for the amount of \$64,208 payable in 60 installments at \$1,150 per month including interest at 2.81%. The balance of the note payable at June 30, 2016 was \$19,289.

The City has an unsecured note payable for a HVAC system entered in October 2015 from Meade County Bank for the amount of \$14,166 payable in 60 installments at \$262 per month including interest at 4.14%. The balance of the note payable at June 30, 2016 was \$12,456.

Operations and Maintenance

The City has an unsecured note payable for the Sunstreet Sewer project water and sewer expansion entered in February 2014 from Meade County Bank for the amount of \$98,000 payable in 60 installments at \$1,828 per month including interest at 4.52%. The balance of the note payable at June 30, 2016 was \$53,041.

The City has a note payable secured by vehicle entered in February 2016 from Meade County Bank for the amount of \$33,567 payable in 60 installments at \$614 per month including interest of 3.2%. The balance of the note payable at June 30, 2016 was \$30,810.

The City has bonds payable for water system revenue bonds entered in June 1987 from the United States Department of Agriculture in the principal amount of \$213,000 payable in semi-annual installments including interest at 5.00%, payable on January 1 and July 1 of each year until 2026. The balance of the bonds payable at June 30, 2016 was \$61,273. The bonds are

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

secured by the pledge of a fixed portion of the income and revenues that are derived from the operations of the City's municipal water system.

Debt maturities for the loans of the City are as follows:

Governmental					
<u>Year Ending.</u>	<u>City Hall</u>	<u>Safe Room Bond Payable</u>	<u>Vehicles</u>	<u>HVAC System</u>	<u>Total</u>
2017	\$ 6,366	\$ 10,000	\$ 13,197	\$ 2,676	\$ 32,239
2018	6,623	10,000	6,092	2,789	25,504
2019	6,890	10,000	-0-	2,907	19,797
2020	7,168	10,000	-0-	3,030	20,198
2021	7,457	10,000	-0-	1,054	18,511
2022-2026	42,044	60,833	-0-	-0-	102,877
2027-2031	51,234	75,000	-0-	-0-	126,234
2032-2035	17,480	49,950	-0-	-0-	67,430
Total	\$ 145,262	\$ 235,783	\$ 19,289	\$ 12,456	\$ 412,790

Business-type				
<u>Year Ending.</u>	<u>Water and sewer expansion</u>	<u>Vehicle</u>	<u>Water system revenue bonds</u>	<u>Total</u>
2017	\$ 19,948	\$ 6,266	\$ 8,000	\$ 34,214
2018	20,868	6,512	8,000	35,380
2019	12,225	6,768	8,000	26,993
2020	-0-	7,034	9,000	16,034
2021	-0-	4,230	9,000	13,230
2022-2023	-0-	-0-	19,273	19,273
Total	\$ 53,041	\$ 30,810	\$ 61,273	\$ 145,124

CITY OF MULDRAGH, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The summary of long-term debt for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Governmental activities:					
Note payable -City hall	\$ 151,544	\$ -0-	\$ 6,282	\$ 145,262	\$ 6,366
Note payable - Vehicle	8,649	-0-	8,649	-0-	-0-
Note payable - Vehicles	61,369	-0-	42,080	19,289	13,197
Note payable - HVAC system	-0-	14,166	1,710	12,456	2,676
	<u>221,562</u>	<u>14,166</u>	<u>58,721</u>	<u>177,007</u>	<u>22,239</u>
Safe room bonds payable	245,783	-0-	10,000	235,783	10,000
Total governmental activities	<u>\$ 467,345</u>	<u>\$ 14,166</u>	<u>\$ 68,721</u>	<u>\$ 412,790</u>	<u>\$ 32,239</u>
Business-type activities:					
Note payable - Sunstreet sewer project	\$ 72,439	\$ -0-	\$ 19,398	\$ 53,041	\$ 19,948
Note payable - Vehicle	-0-	33,567	2,757	30,810	6,266
	<u>72,439</u>	<u>33,567</u>	<u>22,155</u>	<u>83,851</u>	<u>26,214</u>
Water system revenue bonds	68,273	-0-	7,000	61,273	8,000
	<u>\$ 140,712</u>	<u>\$ 33,567</u>	<u>\$ 29,155</u>	<u>\$ 145,124</u>	<u>\$ 34,214</u>

6. RETIREMENT PLAN

General Information about the Pension Plan

Plan description. Employees of the City are provided a defined benefit pension plan through the County Employees Retirement System ("CERS"), a cost sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System ("KRS"). The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

CITY OF MULDRAUGH, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Benefits provided: Nonhazardous

	Tier 1 Nonhazardous Participation beginning prior to 9/1/2008	Tier 2 Nonhazardous Participation beginning 9/1/2008 through 12/31/2013	Tier 3 Nonhazardous Participation beginning on or after 1/1/2014
Covered Employees:	All full-time employees	All full-time employees	All full-time employees
Benefit Formula:	Final compensation x Benefit factor x Years of service	Final compensation x Benefit factor x Years of service	Cash balance plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months and a minimum of 5 fiscal years)	5 complete fiscal years immediately preceeding retirement; Each year must contain 12 months	No final compensation factor
Benefit Factor:	2.00% - If member began participating after 8/1/2004 and before 9/1/2008. 2.20% - If member began participating prior to 8/1/2004	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the KRS Board based on member's accumulated account balance.
Cost of Living Adjustment ("COLA"):	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly	No COLA unless authorized by the Kentucky General Assembly
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 1 month of service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military)	No reduced retirement benefit

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of their salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employers contributed 12.42% as set by KRS of each Nonhazardous employee's creditable compensation. For the year ended June 30, 2016, employer contributions for the City were \$38,757. By law, employer contributions are required to be paid. The KRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability

The City's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for 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 by the KRS Board's actuary when the next experience investigation is conducted.

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013.

- (a) *Discount rate:* The discount rate used to measure the total pension liability was 7.50%
- (b) *Projected cash flows:* The projection of cash flows used to determine the discount rate assumed that local employees would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.
- (c) *Long-term rate of return:* The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumptions are intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.
- (d) *Municipal bond rate:* The discount rate determination does not use a municipal bond rate.
- (e) *Periods of projected benefit payments:* Projected future benefit payments for all current plan members were projected through 2117.
- (f) *Assumed Asset Allocation:* The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Combined Equity	5.40%	44%
Combined Fixed Income	1.50%	19%
Real Return (Diversified Inflation Strategies)	3.50%	10%
Real Estate	4.50%	5%
Absolute Return (Diversified Hedge Funds)	4.25%	10%
Private Equity	8.50%	10%
Cash	-0.25%	2%
		<u>100.00%</u>

(g) *Sensitivity analysis:* The following presents the net pension liability of the City calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net pension liability - nonhazardous	\$ 791,551	\$ 620,048	\$ 473,146
Total	<u>\$ 791,551</u>	<u>\$ 620,048</u>	<u>\$ 473,146</u>

The City's proportionate share of the Plan's net pension liability, as indicated in the prior table, is \$620,048 for nonhazardous. The City's proportioned share of the CERS plan was 0.014421% for nonhazardous.

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. The City's proportionate share of plan pension expense was \$72,874 for nonhazardous service employees.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources.

CITY OF MULDRAUGH, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Nonhazardous		
Difference between expected and actual experience	\$ 5,153	\$ -0-
Change of assumptions	62,526	-0-
Net difference between projected and actual earnings on investments	5,558	-0-
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,816	-0-
Contributions subsequent to the measurement date	38,757	-0-
Total	<u>\$ 119,810</u>	<u>\$ -0-</u>

The \$38,757 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Deferred Outflows of Resources</u>				
<u>Year</u>	<u>Amount</u>	<u>06/30/17</u>	<u>06/30/18</u>	<u>06/30/19</u>
2015	<u>\$ 81,053</u>	<u>\$ 28,832</u>	<u>\$ 28,832</u>	<u>\$ 23,389</u>

In the tables shown above, positive amounts will increase pension expense and negative amounts will decrease pension expense.

7. POST-EMPLOYMENT HEALTH CARE BENEFITS

Retired employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS. Covered employees hired after September 1, 2008, contribute 1.00% of their salaries to the CERS Insurance Fund. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

		<u>Nonhazardous</u>		
	<u>Statutorily Required Contribution Rate (As a Percentage of Covered Payroll)</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>
June 30,				
2016	4.64%	\$ 14,480	\$ 14,480	100%
2015	4.92%	\$ 16,554	\$ 16,554	100%
2014	5.15%	\$ 16,681	\$ 16,681	100%

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

8. RISK MANAGEMENT

The City is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City contracts with the Employers Mutual Casualty Company, a local government risk pool for insurance coverage for these risks. As a member of Employers Mutual Casualty Company, the City is required to make annual contributions sufficient to produce the funds necessary to fund the administrative expenses and the claims and claims expense, and any deficiencies in the cumulative reserves.

9. RESTATEMENT OF BEGINNING NET POSITION RELATED TO FISCAL YEAR ENDING JUNE 30, 2015

Beginning net position for the government-wide statement of activities as of July 1, 2015 has been restated to show deferred outflows contributions subsequent to the measurement date for only the pension portion of the employer contributions to CERS and not the insurance portion.

	<u>Government-Wide Statements</u>		<u>Business-type Activities</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Operations and Maintenance Fund</u>
Net position - July 1, 2015, prior to restatement	\$ 814,276	\$ 3,075,627	\$ 2,947,827
Increase (decrease) in deferred outflows	(31,140)	14,586	14,586
Increase (decrease) in deferred inflows	17,340	(17,340)	(17,340)
Increase (decrease) in net pension liability	155,720	(155,720)	(155,720)
Increase (decrease) in net position	141,920	(158,474)	(158,474)
Net position - July 1, 2015, as restated	\$ 956,196	\$ 2,917,153	\$ 2,789,353

The impact of the above changes on the change in net position previously reported for the year ended June 30, 2015, is as follows:

	<u>Government-Wide Statements</u>		<u>Business-type Activities</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Operations and Maintenance Fund</u>
Change in net position - as previously reported	\$ 6,070	\$ (57,990)	\$ 1,888,834
Change in pension expense			
Increase (decrease) in net position	(10,926)	(5,628)	(5,628)
Change in net position - as corrected	\$ (4,856)	\$ (63,618)	\$ 1,883,206

CITY OF MULDRAUGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

10. INTERFUND ACCOUNTS AND TRANSFERS

Due to and due from account balances used to cover current operating expenses were as follows at June 30, 2016:

	<u>Due from</u>	<u>Due to</u>
General fund	\$ 10,717	\$ -0-
Operations and maintenance	-0-	10,717
	<u>\$ 10,717</u>	<u>\$ 10,717</u>

Interfund transfers during the year ended June 30, 2015, were as follows:

	<u>Transfer in</u>	<u>Transfer out</u>
General fund	\$ 11,002	\$ 24,102
Municipal road aid fund	5,750	6,000
Land development fund	2,000	-0-
Safe room	18,102	-0-
Operations and maintenance	576,401	10,752
Revenue fund	22,525	590,911
Meter deposit fund	2,250	-0-
Depreciation fund	1,560	7,525
Surcharge fund	30,960	36,935
Bond and interest sinking fund	18,000	11,151
Sewer infiltration	25,115	26,289
	<u>\$ 713,665</u>	<u>\$ 713,665</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statements may have on the financial statements:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, issued June 2015, will be effective for periods beginning after June 15, 2017. This Statement addresses accounting and financial reporting for Other Postemployment Benefits (OPEB) that is provided to the employees of state and local governmental employers.

CITY OF MULDRAGH, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB will be enhanced.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective for periods beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for periods beginning after December 15, 2018. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (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 postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 85, *Omnibus 2017*, will be effective for periods beginning after June 15, 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB Statement No. 87, *Leases*, will be effective for periods beginning after December 15, 2019. This Statement 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MULDRAUGH, KENTUCKY

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GENERAL FUND – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 54,000	\$ 51,370	\$ 45,301	\$ (6,069)
Business licenses	35,000	23,800	24,900	1,100
Unloading licenses	1,300	1,000	1,000	-0-
Interest income	20	20	22	2
Occupational licenses	45,000	70,380	71,122	742
Police department revenue	24,500	11,200	20,719	9,519
Fire department revenue	7,000	3,250	3,833	583
Lease income	25,400	25,400	25,576	176
Franchise fees - utilities	31,800	29,200	29,216	16
Franchise fees - telecommunications	4,800	4,800	4,803	3
Sanitation	52,000	48,730	39,666	(9,064)
Permits	200	120	120	-0-
Insurance tax	111,600	110,000	115,820	5,820
Auto licenses	-0-	-0-	6,228	6,228
Gross receipts license fee	-0-	23,000	23,841	841
Donations	3,700	3,820	3,821	1
Miscellaneous	13,530	14,200	16,070	1,870
Intergovernmental revenues				
Coal and mineral grants	11,000	10,360	10,368	8
Police grants	5,500	1,880	1,888	8
House Bill 413	7,500	6,400	6,406	6
State police grants - KLEFPF	10,940	9,400	9,247	(153)
County fire grants	8,000	8,000	-0-	(8,000)
State fire grants	7,750	7,750	8,000	250
Total Revenues	460,540	464,080	467,967	3,887

See report of independent auditors and accompanying note to the budgetary information.

CITY OF MULDRAUGH, KENTUCKY

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GENERAL FUND – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Expenditures				
General government				
Salaries	209,860	228,550	207,017	(21,533)
Payroll taxes	13,730	14,330	15,053	723
Retirement	29,630	35,400	33,083	(2,317)
Utilities	35,000	35,500	36,430	930
Insurance	39,450	29,200	48,922	19,722
Telephone	4,600	4,300	4,621	321
Professional fees	3,500	3,500	3,941	441
Advertising and legal	5,000	4,200	1,637	(2,563)
Fuel	-0-	-0-	74	74
Festival expense	1,000	1,000	2,816	1,816
Supplies	5,950	8,000	5,881	(2,119)
Towing expense	7,000	6,500	7,715	1,215
Mayor and city council expense	1,000	750	-0-	(750)
Parks and recreation	2,000	1,000	-0-	(1,000)
Bank fees	-0-	-0-	515	515
Conferences	-0-	-0-	244	244
Miscellaneous	6,620	10,500	-0-	(10,500)
Public safety				
Police department	38,750	38,300	34,379	(3,921)
Fire department	22,000	24,500	22,506	(1,994)
Capital outlay	-0-	-0-	14,166	14,166
Total expenditures	425,090	445,530	439,000	(6,530)
Excess of revenues over (under) expenditures	35,450	18,550	28,967	10,417
Other Financing Sources (Uses):				
Proceeds from sale of equipment	20,000	41,900	35,050	(6,850)
Proceeds from loan	-0-	-0-	14,166	14,166
Debt service	(50,450)	(80,250)	(66,656)	13,594
Operating transfers in	6,000	6,000	11,002	5,002
Operating transfers out	(12,000)	(2,000)	(24,102)	(22,102)
Total other financing sources (uses)	(36,450)	(34,350)	(30,540)	3,810
Net Change In Fund Balances	(1,000)	(15,800)	(1,573)	14,227
Beginning Fund Balance	47,412	47,412	47,412	-0-
Ending Fund Balance	\$ 46,412	\$ 31,612	\$ 45,839	\$ 14,227

See report of independent auditors and accompanying note to the budgetary information.

CITY OF MULDRAUGH, KENTUCKY

NOTE TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GENERAL FUND – BUDGET AND ACTUAL YEAR ENDED JUNE 30, 2016

The City of Muldraugh, Kentucky (the "City") follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City clerk/administrator is responsible for preparing the proposed operating budgets prior to each fiscal year commencing on July 1. The proposed operating budgets are submitted to the City Council for approval. The budgets are legally enacted through passage of an ordinance.
2. Budgeted amounts are as originally adopted, or as amended by the City Council. The budget for the City of Muldraugh was amended by vote of the City Council.

Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended. The City prepares its budget on a basis of accounting principles generally accepted in the United States of America.

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IN COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
	<u>Nonhazardous</u>	<u>Nonhazardous</u>
City's proportion of the net pension liability	0.014421%	0.014118%
City's proportionate share of the net pension liability	\$ 620,048	\$ 458,000
City's covered employee payroll	\$ 336,469	\$ 320,799
City's proportion of the net position liability as a percentage of its covered employee payroll	184.28%	142.77%
Total Pension Plan's Fiduciary Net Position as a percentage of Total Pension Liability	59.97%	66.80%

Note: This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (measurement date).

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

SCHEDULE OF CITY'S CONTRIBUTIONS TO THE COUNTY EMPLOYEES
RETIREMENT SYSTEM (CERS)
JUNE 30, 2016

	<u>June 30, 2016</u> <u>Nonhazardous</u>	<u>June 30, 2015</u> <u>Nonhazardous</u>
Statutorily required contribution for pension	\$ 38,757	\$ 42,900
City's contributions in relation to the statutorily required contribution	<u>(38,757)</u>	<u>(42,900)</u>
Annual contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
City's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%
City's covered employee payroll	\$ 312,053	\$ 336,469
Contributions as a percentage of its covered employee payroll	12.42%	12.75%

Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above for the fiscal year were determined as of the fiscal year ended above.

See report of independent auditors.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MULDRAUGH, KENTUCKY

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016**

	Municipal Road Aid Fund				Land Development Fund				Police Special Account Fund			
	Budgeted Amounts				Budgeted Amounts				Budgeted Amounts			
	Original	Final	Actual	Variance Over (Under)	Original	Final	Actual	Variance Over (Under)	Original	Final	Actual	Variance Over (Under)
Revenues												
Interest Income	\$ 20	\$ 20	\$ 22	\$ 2	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Donations	-0-	-0-	1,500	1,500	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,000	1,000	-0-	(1,000)
Intergovernmental Revenue:												
Municipal road aid grants	22,000	18,800	18,852	52	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Revenues	22,020	18,820	20,374	1,554	-0-	-0-	-0-	-0-	1,000	1,000	-0-	(1,000)
Expenditures												
Festival expenses	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Repairs and maintenance	27,020	14,508	5,947	(8,561)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Professional Fees	-0-	-0-	-0-	-0-	-0-	-0-	1,500	1,500	-0-	-0-	-0-	-0-
Insurance	6,000	6,000	1,896	(4,104)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Fuel	1,000	1,500	1,198	(302)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Supplies	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	12,000	10,812	6,333	(4,479)	-0-	6,720	6,715	(5)	1,000	1,000	20	(980)
Capital Outlay	-0-	10,000	10,000	-0-	32,464	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Expenditures	46,020	42,820	25,374	(17,446)	32,464	6,720	8,215	1,495	1,000	1,000	20	(980)
Excess of Revenues Over (Under) Expenditures	(24,000)	(24,000)	(5,000)	19,000	(32,464)	(6,720)	(8,215)	(1,495)	-0-	-0-	(20)	(20)
Other Financing Sources (Uses)												
Transfers In	-0-	-0-	5,750	5,750	5,264	2,000	2,000	-0-	-0-	-0-	-0-	-0-
Transfers Out	(6,000)	(6,000)	(6,000)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Note payments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Sale of fixed assets	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Other Financing Sources (Uses)	(6,000)	(6,000)	(250)	5,750	5,264	2,000	2,000	-0-	-0-	-0-	-0-	-0-
Excess of Revenues and Other Sources Over (Under) Expenditures	(30,000)	(30,000)	(5,250)	24,750	(27,200)	(4,720)	(6,215)	(1,495)	-0-	-0-	(20)	(20)
Fund balance, beginning of year	23,846	23,846	23,846	-0-	34,274	34,274	34,274	-0-	2,441	2,441	2,441	-0-
Fund balance, end of year	\$ (6,154)	\$ (6,154)	\$ 18,596	\$ 24,750	\$ 7,074	\$ 29,554	\$ 28,059	\$ (1,495)	\$ 2,441	\$ 2,441	\$ 2,421	\$ (20)

See report of independent auditors and accompanying note to budgetary information.

CITY OF MULDRAUGH, KENTUCKY

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016**

	Storm Water Management Fund				Festival Fund				Safe Room			
	Budgeted Amounts			Variance Over (Under)	Budgeted Amounts			Variance Over (Under)	Budgeted Amounts			Variance Over (Under)
	Original	Final	Actual		Original	Final	Actual		Original	Final	Actual	
Revenues												
Interest Income	\$ 10	\$ 10	\$ 5	\$ (5)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Donations	-0-	-0-	-0-	-0-	4,500	8,001	8,001	-0-	-0-	-0-	-0-	-0-
Miscellaneous	15,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,000	1,000	550	(450)
Intergovernmental Revenue:												
Municipal road aid grants	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Revenues	15,010	10	5	(5)	4,500	8,001	8,001	-0-	1,000	1,000	550	(450)
Expenditures												
Festival expenses	-0-	-0-	-0-	-0-	4,000	7,390	7,390	-0-	-0-	-0-	-0-	-0-
Repairs and maintenance	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	1,300	1,300	-0-	(1,300)
Professional Fees	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Insurance	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Fuel	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Supplies	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	186	186
Miscellaneous	20,010	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital Outlay	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Expenditures	20,010	-0-	-0-	-0-	4,000	7,390	7,390	-0-	1,300	1,300	186	(1,114)
Excess of Revenues Over (Under) Expenditures	(5,000)	10	5	(5)	500	611	611	-0-	(300)	(300)	364	664
Other Financing Sources (Uses)												
Transfers In	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	18,450	18,450	18,102	348
Transfers Out	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Note payments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(18,450)	(18,450)	(18,444)	6
Sale of fixed assets	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Other Financing Sources (Uses)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(342)	354
Excess of Revenues and Other Sources Over (Under) Expenditures	(5,000)	10	5	(5)	500	611	611	-0-	(300)	(300)	22	310
Fund balance, beginning of year	5,235	5,235	5,235	-0-	2,671	2,671	2,671	-0-	9,546	9,546	9,546	-0-
Fund balance, end of year	\$ 235	\$ 5,245	\$ 5,240	\$ (5)	\$ 3,171	\$ 3,282	\$ 3,282	\$ -0-	\$ 9,246	\$ 9,246	\$ 9,568	\$ 310

See report of independent auditors and accompanying note to budgetary information.

CITY OF MULDRAUGH, KENTUCKY

NOTE TO THE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS – BUDGET AND ACTUAL YEAR ENDED JUNE 30, 2016

The City of Muldraugh, Kentucky (the "City") follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City clerk/administrator is responsible for preparing the proposed operating budgets prior to each fiscal year commencing on July 1. The proposed operating budgets are submitted to the City Council for approval. The budgets are legally enacted through passage of an ordinance.
2. Budgeted amounts are as originally adopted, or as amended by the City Council. The budget for the City of Muldraugh was amended by vote of the City Council.

Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended. The City prepares its budget on a basis of accounting principles generally accepted in the United States of America.

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Nonmajor Funds - Governmental						Totals
	Municipal Road Aid Fund	Land Development Fund	Police Special Account Fund	Storm Water Management Fund	Festival Fund	Safe Room	
Assets							
Cash	\$ -0-	\$ -0-	\$ 2,421	\$ 5,240	\$ 3,282	\$ -0-	\$ 10,943
Restricted cash	18,596	28,059	-0-	-0-	-0-	1,918	48,573
Reserve deposit	-0-	-0-	-0-	-0-	-0-	7,650	7,650
Total assets	\$ 18,596	\$ 28,059	\$ 2,421	\$ 5,240	\$ 3,282	\$ 9,568	\$ 67,166
Liabilities and Fund Balances							
Liabilities:							
Due to other funds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Accounts Payable	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total liabilities	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Fund Balance:							
Restricted for land development	-0-	28,059	-0-	-0-	-0-	-0-	28,059
Restricted for safe room	-0-	-0-	-0-	-0-	-0-	9,568	9,568
Restricted for street repairs	18,596	-0-	-0-	-0-	-0-	-0-	18,596
Unassigned	-0-	-0-	2,421	5,240	3,282	-0-	10,943
Total fund balance	18,596	28,059	2,421	5,240	3,282	9,568	67,166
Total Liabilities and Fund Balances	\$ 18,596	\$ 28,059	\$ 2,421	\$ 5,240	\$ 3,282	\$ 9,568	\$ 67,166

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

**COMBINING STATEMENT OF REVENUE EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	Nonmajor Funds - Governmental						Totals
	Municipal Road Aid Fund	Land Development Fund	Police Special Account Fund	Storm Water Management Fund	Festival Fund	Safe Room	
Revenues:							
Interest income	\$ 22	\$ -0-	\$ -0-	\$ 5	\$ -0-	\$ -0-	\$ 27
Donations	-0-	-0-	-0-	-0-	8,001	-0-	8,001
Miscellaneous	1,500	-0-	-0-	-0-	-0-	-0-	1,500
Rents	-0-	-0-	-0-	-0-	-0-	550	550
Intergovernmental Revenue:							
Municipal road aid grants	18,852	-0-	-0-	-0-	-0-	-0-	18,852
Total Revenues	20,374	-0-	-0-	5	8,001	550	28,930
Expenditures:							
Current:							
Festival expense	-0-	-0-	-0-	-0-	7,390	-0-	7,390
Repairs and maintenance	5,947	-0-	-0-	-0-	-0-	-0-	5,947
Insurance	1,896	-0-	-0-	-0-	-0-	-0-	1,896
Office expense	-0-	-0-	-0-	-0-	-0-	186	186
Fuel	1,198	-0-	-0-	-0-	-0-	-0-	1,198
Professional fees	-0-	1,500	-0-	-0-	-0-	-0-	1,500
Miscellaneous	6,333	6,715	20	-0-	-0-	-0-	13,068
Capital outlay	10,000	-0-	-0-	-0-	-0-	-0-	10,000
Total Expenditures	25,374	8,215	20	-0-	7,390	186	41,165
Excess of Revenues Over (Under) Expenditures	(5,000)	(8,215)	(20)	5	611	364	(12,255)
Other Financing Sources (Uses)							
Principal payments	-0-	-0-	-0-	-0-	-0-	(10,000)	(10,000)
Interest expense	-0-	-0-	-0-	-0-	-0-	(8,444)	(8,444)
Operating transfers in	5,750	2,000	-0-	-0-	-0-	18,102	25,852
Operating transfers out	(6,000)	-0-	-0-	-0-	-0-	-0-	(6,000)
Total Other Financing Sources (Uses)	(250)	2,000	-0-	-0-	-0-	(342)	1,408
Excess of Revenues and Other Sources Over (Under) Expenditures	(5,250)	(6,215)	(20)	5	611	22	(10,847)
Beginning fund balance	23,846	34,274	2,441	5,235	2,671	9,546	78,013
Fund balance, end of year	\$ 18,596	\$ 28,059	\$ 2,421	\$ 5,240	\$ 3,282	\$ 9,568	\$ 67,166

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

**COMBINING STATEMENT OF NET POSITION –
NONMAJOR BUSINESS-TYPE ACTIVITIES
JUNE 30, 2016**

	Nonmajor Funds - Business-Type Activities						Totals
	Depreciation Fund	Meter Deposit Fund	Surcharge Fund	Water/Sewer Construction Fund	Bond & Interest Sinking Fund	Sewer Infiltration Fund	
Assets							
Current Assets:							
Cash	\$ -0-	\$ 0	\$ 3,933	\$ -0-	\$ -0-	\$ 860	\$ 4,793
Restricted cash	7,007	44,264	-0-	1,000	28,171	-0-	80,442
Receivable:							
Water	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Garbage	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Sewer	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Surcharge	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Infiltrate	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Due from other funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total current assets	<u>7,007</u>	<u>44,264</u>	<u>3,933</u>	<u>1,000</u>	<u>28,171</u>	<u>860</u>	<u>85,235</u>
Total assets	<u>\$ 7,007</u>	<u>\$ 44,264</u>	<u>\$ 3,933</u>	<u>\$ 1,000</u>	<u>\$ 28,171</u>	<u>\$ 860</u>	<u>\$ 85,235</u>
Liabilities							
Current Liabilities:							
Deposits	\$ -0-	\$ 32,150	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 32,150
Total current liabilities	<u>-0-</u>	<u>32,150</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>32,150</u>
Noncurrent Liabilities:							
Notes payable	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Bonds payable	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total noncurrent liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total liabilities	<u>-0-</u>	<u>32,150</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>32,150</u>
Net position							
Restricted	7,007	12,114	-0-	1,000	28,171	-0-	48,292
Unrestricted	-0-	-0-	3,933	-0-	-0-	860	4,793
Total net position	<u>7,007</u>	<u>12,114</u>	<u>3,933</u>	<u>1,000</u>	<u>28,171</u>	<u>860</u>	<u>53,085</u>
Total liabilities and net position	<u>\$ 7,007</u>	<u>\$ 44,264</u>	<u>\$ 3,933</u>	<u>\$ 1,000</u>	<u>\$ 28,171</u>	<u>\$ 860</u>	<u>\$ 85,235</u>

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION –
NONMAJOR BUSINESS-TYPE ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Nonmajor Funds - Business-Type Activities						Totals
	Depreciation Fund	Meter Deposit Fund	Surcharge Fund	Water/Sewer Construction Fund	Bond & Interest Sinking Fund	Sewer Infiltration Fund	
Operating Revenues:							
Miscellaneous	\$ -0-	\$ 6,089	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 6,089
Total Operating Revenues	-0-	6,089	-0-	-0-	-0-	-0-	6,089
Operating Expenses:							
Office Expense	-0-	-0-	11	-0-	-0-	17	28
Total Operating Expenses	-0-	-0-	11	-0-	-0-	17	28
Operating Income (Loss)	-0-	6,089	(11)	-0-	-0-	(17)	6,061
Non-Operating Revenues (Expenses):							
Interest Income	6		10	-0-	23	-0-	39
Operating Transfers In	1,560	2,250	30,960	-0-	18,000	25,115	77,885
Operating Transfers Out	(7,525)	-0-	(36,935)	-0-	(11,151)	(26,289)	(81,900)
Total Non-operating Revenue (Expenses)	(5,959)	2,250	(5,965)	-0-	6,872	(1,174)	(3,976)
Change In Net Position	(5,959)	8,339	(5,976)	-0-	6,872	(1,191)	2,085
Total Net Position - Beginning	12,966	3,775	9,909	1,000	21,299	2,051	51,000
Total Net Position - Ending	\$ 7,007	\$ 12,114	\$ 3,933	\$ 1,000	\$ 28,171	\$ 860	\$ 53,085

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

**COMBINING STATEMENT OF CASH FLOWS –
NONMAJOR BUSINESS-TYPE ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Nonmajor Funds - Business-Type Activities						Totals
	Depreciation Fund	Meter Deposit Fund	Surcharge Fund	Water/Sewer Construction Fund	Bond & Interest Sinking Fund	Sewer Infiltration Fund	
Cash flows from operating activities							
Cash received from customers	\$ -0-	\$ 390	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 390
Cash payments to suppliers for goods and services	-0-	-0-	(11)	-0-	-0-	(17)	(28)
Cash payments to employees for services	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Net cash flows from operating activities	-0-	390	(11)	-0-	-0-	(17)	362
Cash flows from non-capital financing activities							
Operating transfers - in from other funds	1,560	2,250	30,960	-0-	18,000	25,115	77,885
Operating transfers - out to other funds	(7,525)	-0-	(36,935)	-0-	(11,151)	(26,289)	(81,900)
Net cash flows from non-capital financing activities	(5,965)	2,250	(5,975)	-0-	6,849	(1,174)	(4,015)
Cash flows from investing activities							
Interest income	6	-0-	10	-0-	23	-0-	39
Net cash flows from investing activities	6	-	10	-0-	23	-0-	39
Net increase (decrease) in cash and cash equivalents	(5,959)	2,640	(5,976)	-0-	6,872	(1,191)	(3,614)
Cash and cash equivalents - beginning of year	12,966	41,624	9,909	1,000	21,299	2,051	88,849
Cash and cash equivalents - end of year	\$ 7,007	\$ 44,264	\$ 3,933	\$ 1,000	\$ 28,171	\$ 860	\$ 85,235
Shown in the financial statements as:							
Cash	-0-	-0-	3,933	-0-	-0-	860	4,793
Restricted cash	7,007	44,264	-0-	1,000	28,171	-0-	80,442
	\$ 7,007	\$ 44,264	\$ 3,933	\$ 1,000	\$ 28,171	\$ 860	\$ 85,235
Reconciliation of net operating income to net cash provided by operating activities:							
Operating income (loss)	\$ -0-	\$ 6,089	\$ (11)	\$ -0-	\$ -0-	\$ (17)	\$ 6,061
Adjustments to reconcile net operating income to net cash provided by operating activities:							
Depreciation	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Changes in assets/liabilities	-0-	(5,699)	-0-	-0-	-0-	-0-	(5,699)
Net cash flows from operating activities	\$ -0-	\$ 390	\$ (11)	\$ -0-	\$ -0-	\$ (17)	\$ 362

See report of independent auditors.

CITY OF MULDRAUGH, KENTUCKY

**MAYOR, CITY COUNCIL MEMBERS AND CITY OFFICIALS
JUNE 30, 2016**

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Joseph E. Noon, Sr.	December 31, 2018
City Clerk/ Treasurer	Caroline J. Cline	
Member	Curtis Kelley	December 31, 2018
Member	Sheila Cowins	December 31, 2018
Member	Russel Cowins	December 31, 2018
Member	Corey Dresel	December 31, 2018
Member	Robert Mattingly	December 31, 2018
Member	Donnie Basham	December 31, 2018

See report of independent auditors.



Blue & Co. LLC / 2650 Eastpoint Parkway Suite 300 / Louisville, KY 40223
phone 502 992 3500 fax 502 992 3509 email blue@blueandco.com
blueandco.com

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

To the Mayor and City Council
City of Muldraugh, Kentucky

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 13, 2017.

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 opinion 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control,

described in the accompanying schedule of findings and responses that we consider to be material weaknesses as items 2016-2 through 2016-4.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-1.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Louisville, Kentucky
November 13, 2017

CITY OF MULDRAUGH, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Finding: 2016-1

Condition: The City of Muldraugh, Kentucky (the "City") is required to have an audit completed by February 1 of the year following their year-end.

Criteria: Kentucky Revised Statutes require submission of an audited financial statement for cities for their fiscal year ended by February 1.

Cause: The City engaged an independent accountant in a timely manner to provide an audit of their financial statements. Due to this being a first year engagement, the auditor was unable to complete the audit engagement by the February 1st deadline.

Effect: The City was unable to submit an audited financial statement by the February 1 due date.

Recommendation: The auditor will take necessary steps to complete, review and issue their audited financial statements in a more timely manner to meet the February 1st deadline as required by state statute.

Response: Management recognizes that this was a first year engagement for their new accounting firm and in future years, their independent accountant will meet the required deadline per state statute.

Finding: 2016-2

Condition: During 2015, the amount reported as deferred outflow of resources – contributions subsequent to the measurement date were included in pension expense and included a portion of payments to the pension plan that related to retirement insurance payments.

Criteria: Under accounting principles generally accepted in the United States of America, contributions to the pension plan after the measurement date should offset the pension liability in the following year and should only include the amount contributed to the pension plan related to pension payments.

Cause: The nature and complexity of the transaction involved.

Effect: As a result of the above conditions, deferred outflows was overstated and pension expense was understated during 2015.

CITY OF MULDRAUGH, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Recommendation: We recommend the City review its year-end procedures for recording net pension liability and pension expense.

Response: We accept the auditor's recommendation. Due to the complexity of the new pension calculations and year-end adjustments under the new accounting standards, we consulted with the predecessor auditor during the 2015 audit and the new external auditor during the 2016 audit for assistance with the year-end adjustments. We will work with the auditor in future years to ensure the amount contributed to the retirement system only includes the pension payment and to ensure the payments are offset against the net pension liability in the correct year.

Finding: 2016-3

Condition: During 2015, the amount reported as deferred outflows, deferred inflows and net pension liability were presented only in the governmental funds and not allocated to the water and sewer fund as appropriate.

Criteria: The net pension liability and related deferred inflows and deferred outflows should be reported in the appropriate fund based on where employee compensation expense is charged.

Cause: The nature and complexity of the transaction involved.

Effect: As a result of the above conditions, pension expense and the related deferred inflows and deferred outflows were overstated during 2015 for the governmental funds and understated for the water and sewer fund.

Recommendation: We recommend the City review its year-end procedures for allocating and recording net pension liability, deferred inflows and deferred outflows in the proper fund.

Response: We accept the auditor's recommendation. Due to the complexity of the new pension calculations and year-end adjustments under the new accounting standards, we consulted with the predecessor auditor during the 2015 audit and the new external auditor during the 2016 audit for assistance with the year-end adjustments. We will work with the auditor in future years to ensure the amounts recorded in each fund is appropriate.

CITY OF MULDRAUGH, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2016

Finding: 2016-4

Condition: We are required to give consideration to the City's ability to prepare financial statements and related note disclosures, as well as the oversight of the financial reporting process by those charged with governance.

Criteria: Such preparation would require the City to maintain appropriate technical knowledge to prepare the financial statements with all related note disclosures.

Cause: The nature and complexity of the transaction involved with preparing financial statements and related note disclosures.

Effect: As a result of the above conditions, the City does not have controls in place that would assure the preparation of the financial statements and related note disclosures in accordance with modified accrual or accrual basis of accounting.

Recommendation: As with many small cities, the City engages the auditor to draft the financial statements and to perform the necessary steps to ensure the disclosures are complete. Once drafted, the financial statements are submitted to the City for approval. While this practice is common and practical, we must inform those charged with governance of this finding.

Response: We accept the auditor's recommendation. Due to the complexity of the financial reporting process and full governmental disclosures, the City will continue to rely on the auditor in future years to ensure the financial statements and related disclosures are appropriate.

CITY OF MULDRAUGH, KENTUCKY

**MANAGEMENT CERTIFICATION OF COMPLIANCE
JUNE 30, 2016**

LOCAL GOVERNMENT ASSISTANCE

CITY OF MULDRAUGH, KENTUCKY

The City of Muldraugh, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

Joseph Noon, Mayor

Caroline Cline, City Clerk/Treasurer

REAL ADVISORS



2650 Eastpoint Parkway, Suite 300
Louisville, KY 40223
502-992-3500
502-992-3509 Fax
www.blueandco.com