

**CITY OF MULDRAUGH, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

CONTENTS	PAGE
Independent Auditor's Report	1
Basic Financial Statements:	
Government-Wide Financial Statements –	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements –	
Balance Sheet – Governmental Funds	5
Reconciliation of Total Fund Balance – Governmental Funds to	
Net Position of Governmental Activities	6
Statement of Revenues, Expenditures, and Changes in	
Fund Balances – Governmental Funds	7
Reconciliation of the Net Changes in Fund Balances – Total Governmental	
Funds to the Change in Net Position of Governmental Activities	8
Statement of Net Position – Proprietary Fund	9
Statement of Revenues, Expenses, and Changes in	
Net Position – Proprietary Fund	10
Statement of Cash Flows – Proprietary Fund	11
Notes to the Financial Statements	12
Required Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balance –	
Budget to Actual – General Fund	39
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget to Actual – Road Fund	42
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget to Actual – Storm Water Management	43
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget to Actual – Proprietary Fund	44
Notes to the Required Supplementary Information on Budgetary Reporting	47
Schedule of the City's Proportionate Share of the Net Pension	
Liability of the County Employees Retirement System	48
Schedule of the City's Contributions to the County Employees Retirement System	49
Notes to the Required Supplementary Information on Pension Reporting	50
Independent Auditor's Report on Internal Control Over Financial Reporting and on	
Compliance and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with <i>Government Auditing Standards</i>	52
Schedule of Findings and Responses	54

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky, as of and for the year ended June 30, 2017, 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 Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky, as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension schedules on pages 39 through 51 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in 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 operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, on our consideration of the City of Muldraugh, Kentucky'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Muldraugh, Kentucky's internal control over financial reporting on compliance.

Stephens & Lawson, CPAs

Louisville, Kentucky
December 4, 2018

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 109,475	\$ 5,184	\$ 114,659
Cash and Cash Equivalents (restricted)	68,692	82,924	151,616
Receivables	48,472	90,657	139,129
Receivables (restricted)	1,518	-	1,518
Reserve Deposit (restricted)	7,650	-	7,650
Internal Balances	6,358	(6,358)	-
Total Current Assets	<u>242,165</u>	<u>172,407</u>	<u>414,572</u>
Non-current Assets:			
Non-depreciable Fixed Assets	76,164	-	76,164
Depreciable Fixed Assets, Net	1,443,176	2,888,321	4,331,497
Total Non-current Assets	<u>1,519,340</u>	<u>2,888,321</u>	<u>4,407,661</u>
Total Assets	1,761,505	3,060,728	4,822,233
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts Related to Pensions	<u>86,517</u>	<u>55,969</u>	<u>142,486</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,848,022</u>	<u>\$ 3,116,697</u>	<u>\$ 4,964,719</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 2,848	\$ 19,935	\$ 22,783
Payroll Taxes and Withholdings Payable	668	-	668
Customer Deposits	-	29,857	29,857
Accrued Interest	711	1,332	2,043
Bonds Payable Due Within One Year	-	8,000	8,000
Notes Payable Due Within One Year	17,219	20,862	38,081
Capital Lease Obligations Due Within One Year	10,000	18,250	28,250
Total Current Liabilities	<u>31,446</u>	<u>98,236</u>	<u>129,682</u>
Noncurrent Liabilities:			
Bonds Payable	-	45,273	45,273
Notes Payable	171,436	12,378	183,814
Capital Lease Obligations	215,833	6,556	222,389
Accrued Compensated Absences	5,103	6,675	11,778
Pension Obligation	398,291	245,781	644,072
Total Long-Term Liabilities	<u>790,663</u>	<u>316,663</u>	<u>1,107,326</u>
Total Liabilities	822,109	414,899	1,237,008
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts Related to Pensions	21,197	14,712	35,909
NET POSITION			
Net Investment in Capital Assets	1,104,852	2,777,002	3,881,854
Restricted	77,860	82,924	160,784
Unrestricted	(177,996)	(172,840)	(350,836)
Total Net Position	<u>1,004,716</u>	<u>2,687,086</u>	<u>3,691,802</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,848,022</u>	<u>\$ 3,116,697</u>	<u>\$ 4,964,719</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>	
					<u>Governmental Activities</u>	<u>Business-type Activities</u>
Primary Government:						
Governmental Activities:						
General Government	\$ 430,152	\$ 37,469	\$ -	\$ -	\$ (392,683)	\$ -
Police Department	45,047	21,130	14,981	-	(8,936)	-
Fire Department	40,721	2,331	28,250	-	(10,140)	-
Parks and Recreation	10,931	8,644	-	-	(2,287)	-
Public Works	5,248	8,576	-	-	3,328	-
Streets and Roads	16,838	-	19,028	-	2,190	-
Total Governmental Activities	548,937	78,150	62,259	-	(408,528)	-
Business-type Activities:						
Water and Sewer System	629,101	579,778	-	-	-	(49,323)
Total Business-type Activities	629,101	579,778	-	-	-	(49,323)
Total Primary Government	\$ 1,178,038	\$ 657,928	\$ 62,259	\$ -	\$ (408,528)	\$ (49,323)
			General Revenues:			
			Property Tax		\$ 50,176	\$ -
			Automobile Tax		6,557	-
			Insurance Tax		131,269	-
			Occupational Tax		92,922	-
			Bank Deposit Tax		1,001	-
			Franchise Fees		34,376	-
			Business License		31,401	-
			Intergovernmental		7,756	-
			Interest Income		85	59
			Gain (Loss) on Disposal of Assets		44,111	-
			Other Income		2,478	-
			Transfers In/Out		65,101	(65,101)
			Total General Revenues		467,233	(65,042)
			Change in Net Position		58,705	(114,365)
			Net Position - July 1, 2016		946,011	2,802,983
			Prior Period Adjustment		-	(1,532)
			Net Position - June 30, 2017		\$ 1,004,716	\$ 2,687,086

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	GOVERNMENTAL FUND TYPES			Total Governmental Funds
	General Fund	Road Fund	Storm Water Management	
ASSETS				
Cash and Cash Equivalents	\$ 109,475	\$ -	\$ -	\$ 109,475
Cash and Cash Equivalents (restricted)	40,831	19,287	8,574	68,692
Receivables	48,472	-	-	48,472
Receivables (restricted)	-	1,518	-	1,518
Reserve Deposit (restricted)	7,650	-	-	7,650
Due from Other Funds	6,358	-	-	6,358
Total Assets	<u>212,786</u>	<u>20,805</u>	<u>8,574</u>	<u>242,165</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	2,848	-	-	2,848
Payroll Taxes and Withholdings Payable	668	-	-	668
Total Liabilities	<u>3,516</u>	<u>-</u>	<u>-</u>	<u>3,516</u>
Fund Balances:				
Restricted	48,481	20,805	8,574	77,860
Assigned	50,000	-	-	50,000
Unassigned	110,789	-	-	110,789
Total Fund Balances	<u>209,270</u>	<u>20,805</u>	<u>8,574</u>	<u>238,649</u>
Total Liabilities and Fund Balances	<u>\$ 212,786</u>	<u>\$ 20,805</u>	<u>\$ 8,574</u>	<u>\$ 242,165</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MULDRAUGH, KENTUCKY
RECONCILIATION OF TOTAL FUND BALANCE, GOVERNMENTAL FUNDS
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

Reconciliation of Total Fund Balance, Governmental Funds to Net Position of Governmental Activities:

Total Fund Balances, Governmental Funds		\$ 238,649
Amounts reported for governmental activities in the statement of net position are different because of the following:		
Fixed assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation		1,519,340
Interest costs on long-term debt are reported as an expenditure in the fund financial statements at the time the payment is made; however, those costs are accrued at year end in the government-wide financial statements.		(711)
Deferred outflows/inflows of resources related to pensions are not reported in the fund financial statements		
Deferred outflows of resources related to pensions	\$ 86,517	
Deferred inflows of resources related to pensions	<u>(21,197)</u>	65,320
Long-term obligations are not due and payable in the current period and therefore are not reported in the fund financial statements.		<u>(817,882)</u>
Net Position of Governmental Activities		<u><u>\$ 1,004,716</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	GOVERNMENTAL FUND TYPES			Totals Governmental Funds
	General Fund	Road Fund	Storm Water Management	
REVENUE				
Property Tax	\$ 50,176	\$ -	\$ -	\$ 50,176
Motor Vehicle Tax	6,557	-	-	6,557
Insurance Tax	131,269	-	-	131,269
Occupational Tax	92,922	-	-	92,922
Bank Deposit Tax	1,001	-	-	1,001
Franchise Fees	34,376	-	-	34,376
License and Permits	31,806	-	-	31,806
Intergovernmental Revenue	50,986	19,028	-	70,014
Charges for Services	32,618	-	8,576	41,194
Rental Income	36,551	-	-	36,551
Interest Income	61	20	5	86
Other Income	2,476	-	-	2,476
Total Revenue	<u>470,799</u>	<u>19,048</u>	<u>8,581</u>	<u>498,428</u>
EXPENDITURES				
General Government	340,526	-	-	340,526
Police Department	28,143	-	-	28,143
Fire Department	37,720	-	-	37,720
Parks and Recreation	10,102	-	-	10,102
Public Works	-	-	5,247	5,247
Streets and Roads	-	16,839	-	16,839
Capital Outlay	55,669	-	-	55,669
Debt Service	62,997	-	-	62,997
Total Expenditures	<u>535,157</u>	<u>16,839</u>	<u>5,247</u>	<u>557,243</u>
Excess of Revenues over Expenditures	(64,358)	2,209	3,334	(58,815)
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Debt	49,682	-	-	49,682
Sale of Surplus Property	68,627	-	-	68,627
Transfer In	65,101	-	-	65,101
Total Other Financing Sources (Uses)	<u>183,410</u>	<u>-</u>	<u>-</u>	<u>183,410</u>
Net Change in Fund Balances	119,052	2,209	3,334	124,595
Fund Balances Beginning of Year	89,169	18,596	5,240	113,005
Prior Period Adjustment	1,049	-	-	1,049
Fund Balances End of Year	<u>\$ 209,270</u>	<u>\$ 20,805</u>	<u>\$ 8,574</u>	<u>\$ 238,649</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MULDRAGH KENTUCKY
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS TO THE CHANGE IN NET POSITION OF
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Reconciliation of the net changes in fund balances - total governmental funds to the change in net position of governmental activities:

Net Change in Fund Balances - Total Governmental Funds	\$	124,595
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized	\$ 55,668	
Depreciation expense	<u>(68,586)</u>	(12,918)
Debt proceeds are reported as other financing sources in the fund financial statements and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the fund financials, but reduces the liability in the statement of net position.		
Proceeds from the issuance of long-term obligations	(49,682)	
Repayment of principal on long-term obligations	<u>48,034</u>	(1,648)
Interest costs associated with long-term debt obligations are accrued at year end in the government-wide financial statements, whereas that cost is not recognized in the fund financials until the amount comes due and payable.		
Net increase in accrued interest		(711)
Compensated absences are shown as a long-term obligation in the government-wide financial statements, but are not recognized as a liability in the fund financial statements, as such the change in the liability from year to year is recognized only in the statement of activities.		
Net increase in compensated absence balance		(4,054)
Since governmental activities report expenditures for capital assets in the statement of net assets, when the underlying asset is sold, its book value has to be removed and is netted against the proceeds shown in the statement of activities.		
Reduction in proceeds for book value of assets sold		(24,516)
Pension expense in the fund financial statements are based on amounts paid into the retirement plan during the current fiscal year. Pension expense in the government-wide financial statements are based on the measurement date of the net pension liability which was June 30, 2016.		
Net increase in pension expense		<u>(22,043)</u>
Change in Net Position of Governmental Activities	\$	<u><u>58,705</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 5,184	
Cash and Cash Equivalents (restricted)	82,924	
Receivables	90,657	
Total Current Assets		\$ 178,765

Non-current Assets:

Depreciable Fixed Assets, Net	2,888,321	
Total Non-current Assets		2,888,321

Total Assets		3,067,086
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Amounts Related to Pensions		55,969
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Total Assets and Deferred Outflows of Resources		\$3,123,055
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 19,935	
Customer Deposits	29,857	
Accrued Interest	1,332	
Due to Other Funds	6,358	
Bonds Payable Due Within One Year	8,000	
Notes Payable Due Within One Year	20,862	
Capital Lease Obligations Due Within One Year	18,250	
Total Current Liabilities		\$ 104,594

Noncurrent Liabilities:

Bonds Payable	45,273	
Notes Payable	12,378	
Capital Lease Obligations	6,556	
Accrued Compensated Absences	6,675	
Pension Obligation	245,781	
Total Long-Term Liabilities		316,663

Total Liabilities		421,257
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DEFERRED INFLOWS OF RESOURCES

Deferred Amounts Related to Pensions		14,712
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NET POSITION

Net Investment in Capital Assets	2,777,002	
Restricted	82,924	
Unrestricted	(172,840)	
Total Net Position		2,687,086

Total Liabilities, Deferred Inflows of Resources, and Net Position		\$3,123,055
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The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUE		
Garbage Revenue	\$ 135,758	
Sewer Revenue	203,616	
Water Revenue	163,725	
Sewer Surcharge	30,913	
Infiltration Fees	25,891	
Meter Deposit Revenue	3,673	
Miscellaneous Revenue	16,202	
Total Operating Revenues		\$ 579,778
OPERATING EXPENSES		
Employee Insurance	17,169	
Garbage Collection	64,596	
Gas and Oil	7,582	
Insurance	12,995	
Miscellaneous Expense	4,935	
Office Expense	3,784	
Payroll Taxes	8,368	
Professional Fees	4,415	
Repairs and Maintenance	55,480	
Retirement	37,375	
Salaries	116,485	
Sales and Utility Tax	14,411	
Telephone	3,201	
Uniforms	479	
Utilities	21,664	
Water/Sewer Purchase	100,242	
Depreciation Expense	149,557	
Total Operating Expenses		622,738
Operating Income (Loss)		(42,960)
NON-OPERATING REVENUE AND EXPENSES		
Interest Income	59	
Transfer Out	(65,101)	
Interest on Bonds and Leases	(6,363)	
Total Non-Operating Revenue and Expenses		(71,405)
Change in Net Position		(114,365)
Total Net Position - Beginning		2,802,983
Prior Period Adjustment		(1,532)
Total Net Position - Ending		\$ 2,687,086

The accompanying notes are an integral part of these financial statements.

**CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Users	\$ 554,305	
Other Receipts	16,202	
Payments to Suppliers	(357,958)	
Payments to Employees	<u>(104,592)</u>	
Net Cash Provided by Operating Activities		\$ 107,957
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Other Funds	<u>(69,460)</u>	
Net Cash Used by Noncapital Financing Activities		(69,460)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(2,514)	
Principal Paid on Capital Debt	(33,805)	
Interest Paid on Capital Debt	<u>(5,031)</u>	
Net Cash Used by Capital and Related Financing Activities		(41,350)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>59</u>	
Net Cash Provided by Investing Activities		<u>59</u>
Net Decrease in Cash and Cash Equivalents		(2,794)
Cash and Cash Equivalents - beginning of year		92,434
Prior Period Adjustment		<u>(1,532)</u>
Cash and Cash Equivalents - end of year		<u><u>\$ 88,108</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income		\$ (42,960)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense		149,557
Changes in Assets and Liabilities:		
Receivables	(6,978)	
Accounts Payable	(1,262)	
User Deposits and Refunds Payable	(2,293)	
Payroll and Related Withholdings Payable	(3,371)	
Net Pension Liability and Related Deferred Outflows/Inflows	<u>15,264</u>	
		<u>1,360</u>
		<u><u>\$ 107,957</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Muldraugh, Kentucky (the City) is a home rule city with a population of approximately 1,000 located in Meade County, Kentucky. It operates under an elected mayor-council form of government. The City provides the following services authorized by its charter: public safety, public works, recreation, water, sewer, and garbage services. Primary revenue sources are property taxes, municipal road aid, insurance taxes, and water and sewer user fees. Those revenues susceptible to accrual are property taxes, insurance taxes, municipal road aid, and water and sewer user fees.

All significant activities and organizations on which the City of Muldraugh, Kentucky exercises oversight responsibility have been included in the City's financial statements, for the year ended June 30, 2017. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

Financial interdependency - The City is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the City.

Election of the government authority - The locally elected City Council is exclusively responsible for all public decisions and accountable for the decisions it makes.

Ability to significantly influence operations - The City Council has the statutory authority under the provisions of the Revised Statutes to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the City Council.

After consideration of the above criteria, no additional entities are deemed to be component units of the City.

Basic Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police, fire, recreation, street maintenance, and general government activities are classified as governmental activities. The City's water, sewer, and garbage services are classified as business-type activities.

Government-wide Financial Statements:

These financial statements display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds.

In the statement of net position, both the governmental activities and business-type activities columns are presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

CITY OF MULdraUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Basic Financial Statements – Continued

Government-wide Financial Statements – Continued

The statement of activities reports both the gross and net cost of each of the City's functions (general government, public safety, recreation, etc.). The functions are also supported by general government revenues (property taxes, insurance, taxes, bank deposit taxes and certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (general government, public safety, recreation, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net costs, by function or business-type activity, are normally covered by general revenue (property taxes, insurance taxes, bank deposit taxes and certain intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs and all interfund activity is eliminated in the government-wide financial statements.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

Fund Financial Statements:

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds, except that the primary operating fund of the City, the general fund, is always considered major. Those criteria for evaluation of all other funds are as follows:

- a. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

The funds of the financial reporting entity are described below:

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Basic Financial Statements – Continued

Fund Financial Statements – Continued

Governmental Type Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City accounts for both state road funds and storm water management funds in the special revenue funds and considered them both to be a major fund.

The activities reported in these funds are reported as governmental activities in the government-wide financial statements.

Proprietary Type Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds distinguish between operating and nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The City reports the following proprietary fund type:

Enterprise Fund – Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in these funds are presented as business-type activities in the government-wide financial statements. The water/sewer and sanitation fund operates the City's water distribution system and its sewer system as well as providing garbage collection services to City residents. Operating revenues consist of charges to customers while operating expenses consist of the costs of providing these services such as wages, depreciation, and maintenance to the systems.

Measurement Focus and Basis of Accounting

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

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Measurement Focus and Basis of Accounting - Continued

Measurement Focus

On the government-wide statement of net position and the statement of activities, governmental and business-type activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the "current financial resources" measurement focus is used. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

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

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

Property taxes are generally recorded at the full value of the amount levied (accrual basis)/total amount collected by fiscal year end including the first 60 days of the upcoming fiscal year (modified accrual basis) with the balance of the uncollected levy recorded as unavailable revenue. A third party collects and remits these taxes to the City therefore the City is unable to determine, beyond the 60 day period, what amount of taxes are still owed for any given period. As such, property tax revenue in the both the government wide and fund financial statements are recorded at the amount collected during the fiscal year plus amounts collected within the next 60 days. Taxes collected in future fiscal years for noncurrent tax levies are recorded as delinquent taxes in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements.

Encumbrances

The City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Cash and Cash Equivalents

The City considers all cash in bank and highly liquid investments with a maturity of ninety days or less to be cash and cash equivalents.

Inventories

Disbursements for inventory type items are considered expenditures at the time of purchase.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities primarily include property taxes, insurance taxes, and municipal road aid while major receivables for the business-type activities consist primarily of user fees.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, insurance tax, and intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions, collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

The City considers all receivables to be fully collectible; therefore, an allowance for doubtful accounts is not necessary.

Fixed Assets

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost, if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. For financial reporting purposes, the City has decided to only capitalize future individual assets with a value of \$1,000 or greater. Fixed assets are not reported on the fund financial statements.

Prior to June 30, 2003, governmental funds' infrastructure assets were not required to be capitalized by the City nor were these assets capitalized by the City. Starting on July 1, 2004 the City is required to keep a record of all infrastructure assets placed in service from that date forward.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful life using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Buildings and Improvements	10 to 39 years
Vehicles	5 years
Equipment	5 to 7 years
Parks and Recreation Equipment	5 to 25 years
Water and Sewer System Infrastructure	7 to 100 years

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Due to and Due From Other Funds

Interfund receivables and payables are recorded by all funds in the period in which transactions are executed on the fund financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position. Receivables and payables between governmental and proprietary fund types are shown as internal balances on the government wide statement of net position.

Deferred Outflow/Inflow of Resources

Deferred Outflows:

The City reports decreases in net position/fund balances that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position / fund financials balance sheet – governmental funds. Deferred outflows of resources reported in the government-wide financial statements consisted of contributions made to Kentucky Retirement Systems between the measurement date of the net pension liabilities from those plans and the end of the City's fiscal year as well as other amounts related to pensions. No deferred outflows of resources affected the fund financial statements in the current fiscal year.

Deferred Inflows:

The City reports increases in net position/fund balances that related to future periods as deferred inflows of resources in a separate section of its government-wide statement of net position / fund financials balance sheet – governmental funds. Deferred inflows of resources reported in the government-wide financial statements consisted solely of amounts related to pensions. No deferred inflows of resources affected the fund financial statements in the current fiscal year.

Accounts Payable

Accounts payable consist of trade payable to vendors who provide goods and services to the City.

Long-term Debt

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

Long-term debt of governmental funds are not reported as liabilities in the fund financial statements. Debt proceeds are reported as other financing sources and payments on debt are reported as debt service expenditures.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Equity Classifications

Government-wide Financial Statements

The City reports the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as net position. Net position is divided into three categories defined as follows:

- a. Net Investment in Capital Assets – Consists of the historical cost of capital assets including restricted capital assets, less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position – Consist of assets that are restricted by the City’s creditors (for example through debt covenants), by state enabling legislation (through restrictions on shared revenues) by grantors (both federal and state), by other contributors, or by enabling legislation.
- c. Unrestricted net position – Balance of net position not meeting the requirements of the other two categories.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a. Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- c. Committed – Amounts that can be used only for specific purposes determined by a formal action by the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by the City Council.
- d. Assigned – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates authority.
- e. Unassigned – All amounts not included in other spendable classification.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City Council considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided for otherwise.

Property Tax Revenue

The City assesses property taxes at the rate of .184 per \$100 of assessed real property value, .2507 per \$100 of assessed personal property value, and .2507 per \$100 of assessed value on motor vehicles as assessed on January 1st of each calendar year. Property taxes are due and payable by December 31st of the same year. Taxes on real property are mailed and collected by the Meade County Sheriff who charges the City a fee of 4% of the gross amount collected. Personal property taxes (on automobiles) is collected by the Meade County Clerk and remitted to the City on a monthly basis net of collection fees.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED

Local Deposit Tax

The City assess a tax on deposits tax on all financial institutions within the corporate limits of the City.

Business License

The City requires a license to be paid by anyone conducting business within the City. The minimum fee for the license is \$25 and is due and payable by January 15th; additionally, each licensee is required to remit .25% of its gross profit, computed on a quarterly basis, which shall be due and payable on a quarterly basis.

Occupational Privilege Fee

The City requires all employers within the City to withhold an occupational license fee from each employees wages earned within city limits at the rate of 1.75%. Employers are required to remit these taxes quarterly.

Insurance Premium Tax

The City imposes a tax of 5% on certain insurance policies in effect within the boundaries of the City. Such amounts are collected by the insurance company and remitted to the City on a quarterly basis.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function. In the fund financial statements, governmental fund expenditures are classified by character: current, debt service, and capital outlay. The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the classifications and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE B - DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. The City typically invests surplus cash at local banks in the form of certificates of deposit, savings accounts, and money market accounts. This plan subjects the City to the following types of risk:

Custodial Credit Risk – this is the risk that in the event of the failure of a counterparty (e.g., a bank) the City will not be able to recover the full value of its deposits or investments. The City does not have a formal investment policy to deal with this risk, but the City considers this risk to be immaterial. As of June 30, 2017 the City was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 72,226
Uninsured but collateral held by pledging bank	-
Uninsured but collateral held by pledging bank's trust department not in City's name	-
	<u>\$ 72,226</u>

The City had no investments as of June 30, 2017.

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the following:

Receivable Type	Statement of Net Position		Balance Sheet - Governmental Funds	
	Governmental Activities	Business-type Activities	General Fund	Road Fund
Property Tax	\$ 1,069	\$ -	\$ 1,069	\$ -
Occupational Tax	21,691	-	21,691	-
Insurance Tax	25,316	-	25,316	-
KLEFPF (Police Incentive)	396	-	396	-
User Fees - Water	-	22,873	-	-
User Fees - Sewer	-	41,085	-	-
User Fees - Sanitation	-	20,340	-	-
User Fees - Infiltration	-	6,359	-	-
Municipal Road Aid	1,518	-	-	1,518
Total Receivables	<u>\$ 49,990</u>	<u>\$ 90,657</u>	<u>\$ 48,472</u>	<u>\$ 1,518</u>

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE D – FIXED ASSETS

Fixed asset activity for governmental activities for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Non-depreciable Assets:				
Land	\$ 76,164	\$ -	\$ -	\$ 76,164
Total non-depreciable assets	<u>76,164</u>	<u>-</u>	<u>-</u>	<u>76,164</u>
Depreciable Assets:				
Buildings and Improvements	1,560,263	-	-	1,560,263
Vehicles	340,443	32,510	67,935	305,018
Equipment	167,643	23,158	43,669	147,132
Parks and Recreation	25,985	-	5,251	20,734
Total depreciable assets	<u>2,094,334</u>	<u>55,668</u>	<u>116,855</u>	<u>2,033,147</u>
Total fixed assets	<u>2,170,498</u>	<u>55,668</u>	<u>116,855</u>	<u>2,109,311</u>
Accumulated Depreciation:				
Buildings and Improvements	180,556	43,320	-	223,876
Vehicles	267,512	19,224	43,529	243,207
Equipment	146,234	5,213	43,559	107,888
Parks and Recreation	19,422	829	5,251	15,000
Total accumulated depreciation	<u>613,724</u>	<u>68,586</u>	<u>92,339</u>	<u>589,971</u>
Governmental activities fixed assets, net	<u>\$ 1,556,774</u>	<u>\$ (12,918)</u>	<u>\$ 24,516</u>	<u>\$ 1,519,340</u>

Depreciation expense of \$68,586 was allocated to the various functions on the statement of activities as follows:

Governmental Activities	
General Government	\$ 49,244
Police	16,224
Fire	2289
Parks & Recreation	829
Total	<u>\$ 68,586</u>

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE D – FIXED ASSETS - CONTINUED

Fixed asset activity for business-type activities for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type Activities				
Depreciable Assets:				
Machinery and Equipment	130,729	-	15,016	115,713
Office Equipment	59,350	2,514	9,267	52,597
Vehicles	42,567	-	-	42,567
Sewer System	3,248,281	-	-	3,248,281
Water System	971,386	-	-	971,386
Total depreciable assets	<u>4,452,313</u>	<u>2,514</u>	<u>24,283</u>	<u>4,430,544</u>
Total fixed assets	4,452,313	2,514	24,283	4,430,544
Accumulated Depreciation:				
Machinery and Equipment	128,966	981	15,016	114,931
Office Equipment	55,337	1,283	9,267	47,353
Vehicles	11,518	6,713	-	18,231
Sewer System	660,246	91,791	-	752,037
Water System	560,882	48,789	-	609,671
Total accumulated depreciation	<u>1,416,949</u>	<u>149,557</u>	<u>24,283</u>	<u>1,542,223</u>
Business-type activities fixed assets, net	<u>\$ 3,035,364</u>	<u>\$ (147,043)</u>	<u>\$ -</u>	<u>\$ 2,888,321</u>

NOTE E – INTERFUND BALANCES

Interfund balances at June 30, 2017 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>		<u>Purpose</u>
	<u>General Fund</u>	<u>Proprietary Fund</u>	
General Fund	\$ -	\$ 6,358	Funds advanced on behalf of
	<u>\$ -</u>	<u>\$ 6,358</u>	

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE F – LONG-TERM LIABILITIES

A summary of long-term liabilities of governmental activities and the corresponding activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Notes Payable	\$ 177,007	\$ 49,682	\$ 38,034	\$ 188,655	\$ 17,219
Capital Lease Obligations	235,833	-	10,000	225,833	10,000
Compensated Absences	1,049	4,054	-	5,103	-
Total Governmental Activities	\$ 413,889	\$ 53,736	\$ 48,034	\$ 419,591	\$ 27,219

Notes Payable:

The City has a note payable secured by a building financed in December 2012 from Meade County Bank in the amount of \$165,599, payable in 240 monthly installments of \$1,000 including interest of 3.96%. The balance owed on this note at June 30, 2017 was \$138,998.

The City has a note payable secured by two vehicles financed in April 2015 from Meade County Bank in the amount of \$64,208 payable in 60 monthly installments of \$1,150 including interest of 2.81%. The City paid this note off early during this fiscal year.

The City has an unsecured note payable for a HVAC system financed in October 2015 from Meade County Bank in the amount of \$14,166 payable in 60 monthly installments of \$262 including interest of 4.14%. The balance owed on this note at June 30, 2017 was \$2,001.

The City has a note payable secured by a vehicle financed in March 2017 from Meade County Bank in the amount of \$20,410, payable in 48 monthly installments of \$451 including interest of 2.75%. The balance owed on this note at June 30, 2017 was \$18,384.

The City has a note payable secured by fire equipment financed in September 2016 from the Kentucky Community and Technical College System in the amount of \$29,272, payable in 7 annual installments, starting on November 30, 2017, of \$4,730 including interest of 3.00%. The balance owed on this note at June 30, 2017 was \$29,272.

The annual debt service requirements to maturity for these notes payable at June 30th are as follows:

Fiscal Year Ending	Notes Payable	
	Principal	Interest
2018	\$ 17,219	\$ 6,954
2019	15,939	6,202
2020	16,481	5,659
2021	14,759	5,108
2022	12,082	4,652
2023-2027	52,763	16,716
2028-2032	53,267	6,752
2033-2037	6,145	73
Totals	\$ 188,655	\$ 52,116

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE F – LONG-TERM LIABILITIES - CONTINUED

Capital Lease Obligations:

The City entered into a lease agreement in the amount of \$255,000 for the purpose of refinancing an agreement dated August 30, 2012 that was used for the acquisition, construction, equipping and installation of a community safe room. This lease is payable in 248 monthly installments of varying amounts ranging from \$1,370 to \$1,782 per month. Total future minimum payments under this agreement are \$312,601 at June 30, 2017.

The annual debt service requirements to maturity for this lease agreement is as follows:

Fiscal Year Ending	Capital Lease Obligations	
	Principal	Interest
2018	\$ 10,000	\$ 7,994
2019	10,000	7,769
2020	10,000	7,544
2021	10,000	7,277
2022	10,000	6,952
2023-2027	67,083	29,194
2028-2032	75,000	16,875
2033-2037	33,750	3,163
Totals (1)	<u>\$ 225,833</u>	<u>\$ 86,768</u>

(1) For the capital lease shown above, the total of principal and interest components equals the required minimum payments for the periods shown, and total principal equals the net present value of these leases.

A building with a cost of \$1,219,073 and accumulated depreciation of \$109,404 was financed in part with proceeds from this capital lease. This building is shown as a fixed asset in the statement of net position.

Interest expense under both the notes payable and capital lease obligations as shown in the statement of activities for governmental activities was \$7,433 and in the statement of revenues, expenditures, and changes in fund balance – governmental funds for the general fund was \$6,722.

Compensated Absences:

Compensated absences represent the amounts due to employees of the City for unused vacation time. As further discussed in Note A, the City calculates this amount in accordance with current accounting standards. Due to the nature of this obligation and the unpredictability as to when an employee may use this vacation time the City does not record any current obligation for this liability.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE F – LONG-TERM LIABILITIES - CONTINUED

A summary of long-term liabilities of business-type activities and the corresponding activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Bonds Payable	\$ 61,273	\$ -	\$ 8,000	\$ 53,273	\$ 8,000
Notes Payable	53,042	-	19,802	33,240	20,862
Capital Lease Obligations	31,203	-	6,397	24,806	18,250
Compensated Absences	7,975	-	1,300	6,675	-
Total Governmental Activities	<u>\$ 153,493</u>	<u>\$ -</u>	<u>\$ 35,499</u>	<u>\$ 117,994</u>	<u>\$ 47,112</u>

Bonds Payable:

The City entered into a bonded debt agreement with the United States Department of Agriculture in June 1987 to issue \$213,000 in water system revenue bonds. This agreement requires semi-annual payments on January 1st and July 1st of each year, including interest at 5.00%, until 2026. The bonds are secured by a pledge of a fixed portion of the income and revenues that are derived from the operations of the City's municipal water system. The balance owed on these bonds at June 30, 2017 was \$53,273.

The annual debt service requirements to maturity for this bond agreement is as follows:

Fiscal Year Ending	Bond Obligations	
	Principal	Interest
2018	\$ 8,000	\$ 2,664
2019	8,000	2,264
2020	9,000	1,864
2021	9,000	1,414
2022	10,000	964
2023-2027	9,273	464
Totals	<u>\$ 53,273</u>	<u>\$ 9,634</u>

Notes Payable:

The City has an unsecured note payable for the Sunset Street Sewer water and sewer expansion project financed in February 2014 from Meade County Bank in the amount of \$98,000 payable in 60 monthly installments of \$1,828 including interest of 4.52%. The balance owed on this note at June 30, 2017 was \$33,240.

The annual debt service requirements to maturity for this note payable at June 30th is as follows:

Fiscal Year Ending	Notes Payable	
	Principal	Interest
2018	\$ 20,862	\$ 1,020
2019	12,378	185
Totals	<u>\$ 33,240</u>	<u>\$ 1,205</u>

**CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017**

NOTE F – LONG-TERM LIABILITIES - CONTINUED

Capital Lease Obligations:

The City entered into a lease agreement with Meade County Bank in the amount of \$33,567 for the purpose of purchasing a vehicle in February 2016 payable in 60 monthly installments of \$614 including interest of 3.2%. Total future minimum payments under this agreement are \$26,547 at June 30, 2017.

The annual debt service requirements to maturity for this lease agreement is as follows:

Fiscal Year Ending	Capital Lease Obligations	
	Principal	Interest
2018	\$ 6,556	\$ 813
2019	6,804	565
2020	7,062	307
2021	4,384	56
Totals (1)	\$ 24,806	\$ 1,741

(1) For the capital lease shown above, the total of principal and interest components equals the required minimum payments for the periods shown, and total principal equals the net present value of these leases.

A vehicle with a cost of \$33,567 and accumulated depreciation of \$8,672 was financed with proceeds from this capital lease. This vehicle is shown as a fixed asset in the statement of net position.

Interest expense under the bonds payable, notes payable and capital lease obligations as shown in the statement of activities for business type activities and in the statement of revenues, expenses, and changes in net position – proprietary fund was \$6,363.

Compensated Absences:

Compensated absences represent the amounts due to employees of the City for unused vacation time. As further discussed in Note A, the City calculates this amount in accordance with current accounting standards. Due to the nature of this obligation and the unpredictability as to when an employee may use this vacation time the City does not record any current obligation for this liability.

NOTE G – NET POSITION / FUND BALANCES

At June 30, 2017, net position in the government-wide financial statements was composed of the following:

	Governmental Activities	Business-type Activities
Net Investment in Capital Assets:		
Fixed Assets, Net	\$ 1,519,340	\$ 2,888,321
Less:		
Bonds Payable	-	(53,273)
Notes Payable	(188,655)	(33,240)
Capital Lease Obligations	(225,833)	(24,806)
Net Investment in Capital Assets	1,104,852	2,777,002

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE G – NET POSITION / FUND BALANCES - CONTINUED

	Governmental Activities	Business-type Activities
Restricted:		
Festival	2,080	-
Land Development	34,412	-
Police Special Account	2,421	-
Roads	20,805	-
Safe Room	9,568	-
Storm Water Management	8,574	-
System Expansion	-	61,101
Debt Service and Debt Covenants	-	21,823
Restricted Net Position	77,860	82,924
Unrestricted	(177,996)	(172,840)
Total Net Position	\$ 1,004,716	\$ 2,687,086

At June 30, 2017, fund balances, as shown in the fund financial statements, was composed of the following:

Classification	General Fund	Road Fund	Storm Water Management
Restricted:			
By enabling legislation for roads	\$ -	\$ 20,805	\$ -
By agreement with the EPA	-	-	8,574
By agreement for festival activities	2,080	-	-
By agreement for land development	34,412	-	-
By agreement for police	2,421	-	-
By agreement for Safe Room debt service	9,568	-	-
Assigned:			
By passage of next year's budget	50,000	-	-
Unassigned	110,789	-	-
Total Fund Balances	\$ 209,270	\$ 20,805	\$ 8,574

NOTE H - INTERGOVERNMENTAL REVENUE

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for coal and mineral severance and costs associated with road maintenance and repair during the year ended June 30, 2017.

**CITY OF MULDRAUGH, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2017**

NOTE I- OPERATING LEASES

Rental Income

In September 2013 the City entered into an agreement to lease a portion of the land at city hall to a local business for use as parking for a period of five years. The initial term of the lease requires monthly payments of \$500 starting in October 2013 and ending in September 2018. The lessee has the right to renew the lease for five additional five year periods under the same terms as the original lease with the exception of the monthly rent. Rent for the optional renewal periods is as follows:

First term	\$525.00 per month
Second term	\$551.25 per month
Third term	\$578.81 per month
Fourth term	\$607.75 per month

In September 2016 the City entered into an agreement to lease a building to a local business for use as a restaurant. The lease is for a period of 2 years starting on December 1, 2016 with annual rents of \$9,600 payable in monthly installments of \$800. The lessee has the option to renew the lease for an additional 24 month period upon written notice to the City 60 days prior to the expiration of the original lease and agreement of both parties to a monthly payment to be determined at that time.

In October 1998 and November 1999 the City entered into agreements to lease certain parcels of land for placement of cellular transmission towers. Details of each of these agreements are as follows:

The October 1998 agreement is for an initial period of 5 years with the option to renew the lease for an additional 4 periods of 5 years each automatically unless the lessee notifies the lessor within 30 days of the end of the period. Payments under this agreement are due in May of each year. Annual rental payments for the fourth and final renewal period is schedules to be \$11,544 per year.

The November 1999 agreement is for an initial period of 25 years with the option to renew the lease for an additional 5 periods of 5 years each automatically unless the lessee notifies the lessor within six months of the date it intends to terminate the agreement. Payments under this agreement are due monthly and shall increase by 15% every five years starting on the initial payment of rent.

Rental income in the amount of \$36,551 was recognized for the fiscal year ending June 30, 2017. Future payments to be received under these agreements for the years ending June 30th are as follows:

Fiscal Year Ending	Amount
2018	\$ 35,676
2019	15,538
2020	10,665
2021	11,544
2022	11,543
2023-2025	29,821

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE J – INTERFUND TRANSFERS

The following interfund transfers took place during this fiscal year:

Fund Transferred From	Transferred To General Fund	Purpose
Water & Sewer	\$ 9,266	Debt Service
Water & Sewer	55,835	Budgetary Transfer
	<u>\$ 65,101</u>	

NOTE K - EMPLOYEE RETIREMENT SYSTEM

The City has elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling (502) 696-8900, or at <https://kvret.ky.gov>.

Plan Description

CERS is a cost sharing, multiple employer defined benefit pension plan which covers all eligible full-time employees in both non-hazardous and hazardous positions of each county, city, school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefit contributions and provisions are established by statute. The City of Muldraugh, Kentucky has no employees that qualify for the hazardous duty retirement portion of this pension plan.

Prior to July 1, 2009, cost-of-living adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgement, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE K - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Non-hazardous Benefits

Non-hazardous covered employees who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 5-highest creditable compensation years with a minimum of 48 months and a minimum of five fiscal years. Final compensation is determined by dividing the total salary earned during the 5-highest years by the number of months worked, then multiplying by twelve. Non-hazardous members age 65 or older, or with 27 or more years of service are eligible to retire and receive unreduced benefits. Any non-hazardous member, age 55, with a minimum of five years of service may retire with a reduction in benefits.

For non-hazardous members who began contributing to CERS on or after September 1, 2008, any member age 57 or older, may retire with no reduction in benefits if the member's age and years of service equal 87. In addition, a member, age 65, with at least 60 months of service may retire with no reduction in benefits. A member, age 60 or older, with at least 120 months of service credit may retire at any time with a reduction of benefits.

Non-hazardous Contributions

For the year ending June 30, 2017, all covered employees who began participating before September 1, 2008, are required to contribute 5 percent of their annual creditable compensation to the plan. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2017, participating employers contributed 18.68% (allocated 13.95% for pension and 4.73% for insurance) of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, covered employees who began participating on, or after, September 1, 2008 were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 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 102 KAR 1:420E). Interest is paid each June 30th on covered employees' accounts at a rate of 2.5%. If a covered employee terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of the annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, covered employees who began participating on, or after, January 1, 2014, were required to participate in the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous covered employees contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the covered employee's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributions

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE K - EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Non-hazardous Contributions - Continued

a set percentage of the covered employee's compensation. Each month, when employer contributions are received, an employer pay credit is deposited to the covered employee's account. A covered employee's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contributions to the non-hazardous pension plan from the City were \$53,968 for the year ended June 30, 2017.

General Information about Insurance Benefits

Plan Description

The Kentucky Retirement Insurance Fund (Fund) was established to provide hospital and medical insurance for covered employees from KERS, CERS, and SPRS. The Fund pays a prescribed contribution of the whole or partial payment of required premiums to purchase hospital and medical insurance. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

Insurance Benefits

For covered employees participating prior to July 1, 2003, the amount of contribution paid for hospital and medical insurance is based on the years of service and respective percentages of the maximum contribution as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of the Kentucky Revised Statute 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE K - EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Insurance Contributions

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

The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS's retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

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

Pension Liabilities

At June 30, 2017 the City recognized a liability of \$644,072 (\$398,291 in governmental activities and \$245,781 in business-type activities) for its proportionate share of the CERS net pension liability related to non-hazardous duty employees. The City's net pension liability was measured as of June 30, 2016, as allowed by standards, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan (\$38,757 non-hazardous) relative to the total contributions of all participants in the non-hazardous retirement plan for the year ending June 30, 2016. At June 30, 2016 the City's share of the non-hazardous net pension liability was .013081% which a decrease of .001340% from the figure of .014421% in the prior period.

Pension Payable/Expense

At June 30, 2017 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous pension withholdings and the City's required matching contribution for the month of June 2017.

For the year ended June 30, 2017, the City recognized pension expense of \$91,225 (\$53,850 governmental activities and \$37,375 business-type activities) for non-hazardous covered employees in the statement of activities.

Deferred Inflows/Outflows of Resources

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE K - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

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

	Non-Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference between projected and actual earnings on plan investments	\$ 2,812	\$ -
Change of assumptions	34,120	-
Net difference between projected and actual earnings on plan investments	60,549	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,702	35,909
City's contributions to the plan subsequent to the measurement date	40,303	-
Totals	\$ 142,486	\$ 35,909

The schedule above includes only certain categories of deferred outflows of resources and deferred inflows of resources. These include the differences between expected and actual earnings on investments as well as contributions made after the measurement date. If the amounts serve to reduce pension expense they are labeled deferred inflows. If they will increase pension expense they are labeled deferred outflows.

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows / inflows will be recognized in pension expense as follows:

	Non-Hazardous
Year 1	\$ 24,422
Year 2	10,913
Year 3	17,486
Year 4	13,453
Year 5	-
Thereafter	-
Total	\$ 66,274

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE K - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Actuarial Assumptions

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

Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50 percent, net of pension plan investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in 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 assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocations 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 THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017**

NOTE K - EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Actuarial Assumptions - Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.00%	5.40%
Combined Fixed Income	19.00%	1.50%
Real Return (Diversified Inflation Strategies)	10.00%	3.50%
Real Estate		
Absolute Return (Diversified Hedge Funds)	5.00%	4.50%
	10.00%	4.25%
Private Equity	10.00%	8.50%
Cash Equivalent	2.00%	-0.25%
	<u>100.00%</u>	

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

The following table presents the City's net pension liability, calculated using the discount rate of 7.50%, as well as what the liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) and 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>
Non-Hazardous	<u>\$ 802,612</u>	<u>\$ 644,072</u>	<u>\$ 508,163</u>

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued CERS financial report.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE L - LITIGATION

The City is involved in various legal proceedings incidental to the normal course of business. City Council is of the opinion, based upon the advice of general counsel, that although the outcome of such litigation cannot be forecast with certainty, final disposition should not have a material effect on the financial position of the City.

NOTE M - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance coverage for each of the above risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS

The City prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a listing of standards implemented during this fiscal year and schedule for implementation in the future.

Pronouncements Scheduled to be Adopted in this Fiscal Year:

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The provisions of this statement are effective for fiscal years beginning after June 15, 2016 with earlier adoption encouraged. This standard is intended to improve the usefulness of information provided about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental plans for making decisions and assessing accountability.

GASB Statement No. 77, Tax Abatement Disclosures

The provisions of this statement are effective for fiscal years beginning after December 15, 2015 with earlier adoption encouraged. This standard is meant to assist users of the City's financial statement in determining any limitations on its revenue raising capacity resulting from programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the City or its citizens.

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

The provisions of this statement are effective for fiscal years beginning after December 15, 2015 with earlier adoption encouraged. This standard is meant to clarify the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14

The provisions of this statement are effective for fiscal years beginning after June 15, 2016 with earlier adoption encouraged. This standard is meant to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017

NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED

Pronouncements Scheduled to be Adopted in Future Fiscal Years (Continued):

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*

The provisions of this statement are effective for fiscal years beginning after June 15, 2016 with earlier adoption encouraged. This standard is meant address certain issues that have been raised with respect to the statements referred to above.

Pronouncements Scheduled to be Adopted in Future Fiscal Years:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

The provisions of this statement are effective for fiscal years beginning after June 15, 2017 with earlier adoption encouraged. This standard is intended to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions as well as improving information provided by state and local governmental employers about financial support for such benefits that is provided by other entities. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*

The provisions of this statement are effective for fiscal years beginning after December 15, 2016 with earlier adoption encouraged. This standard is meant to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*

The provisions of this statement are effective for fiscal years beginning after June 15, 2018 with earlier adoption encouraged. This standard is meant address accounting and financial reporting for certain asset retirement obligations. The City is still determining the impact, if any, this statement will have on the financial statements.

GASB Statement No. 84, *Fiduciary Activities*

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 with earlier adoption encouraged. This standards is meant to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

GASB Statement No. 85, *Omnibus 2017*

The provisions of this statement are effective for fiscal years beginning after June 15, 2017 with earlier adoption encouraged. This standard is meant to address practice issues that have been identified during implementation and application of certain GASB Statements as they relate to a variety of topics including goodwill, fair value measurement and postemployment benefits. The City is still determining the impact, if any, this statement will have on the financial statements.

**CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017**

NOTE N – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED

GASB Statement No. 86, Certain Debt Extinguishment Issues

The provisions of this statement are effective for fiscal years beginning after June 15, 2017 with earlier adoption encouraged. The primary objective of this standard is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

GASB Statement No. 87, Leases

The provisions of this statement are effective for fiscal years beginning after December 15, 2019. The objective of this standard is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The City is still determining the impact, if any, this statement will have on the financial statements.

NOTE O – PRIOR PERIOD ADJUSTMENT

The following prior period adjustments were made to the books of the City:

Reason	Statement of Net Position		Balance Sheet - Governmental Funds		
	Governmental Activities	Business-type Activities	General Fund	Road Fund	Storm Water Management
Restate Accrued Interest	\$ -	\$ (1,532)	\$ -	\$ -	\$ -
Restate Compensated Absences	-		1,049	-	-

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
JUNE 30, 2017

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
REVENUES					
Property Tax	\$ 45,800	\$ 3,990	\$ 49,790	\$ 50,176	\$ 386
Motor Vehicle Tax	6,200	350	6,550	6,557	7
Insurance Tax	110,000	22,500	132,500	131,269	(1,231)
Occupational Tax	70,300	13,650	83,950	92,922	8,972
Bank Deposit Tax	830	170	1,000	1,001	1
Net Profits License Fees	-	-	-	-	-
Franchise Fees:	-	-	-	-	-
Cable Franchise Fees	4,800	-	4,800	4,802	2
Utilities Franchise Fees	29,200	370	29,570	29,574	4
License and Permits:					
Building Permits	150	250	400	405	5
Business License Fee	46,800	(16,900)	29,900	31,401	1,501
Unloading License	1,000	(1,000)	-	-	-
Intergovernmental Revenue:					
Area Development Funds	1,500	(1,500)	-	-	-
Fire Department State Aid	10,000	8,250	18,250	18,250	-
Fire Department County Aid	8,000	2,000	10,000	10,000	-
Highway Safety Grant	3,000	(1,800)	1,200	1,276	76
HB413 Revenue	6,400	(760)	5,640	6,886	1,246
Police Incentive Pay	12,000	(5,000)	7,000	6,818	(182)
LGEA Funds	10,300	(2,550)	7,750	7,756	6
Charges for Services:					
Accident Reports	-	-	-	485	485
Arrest Fees	-	-	-	1,202	1,202
Fax Fees	-	-	-	28	28
Fire Dept. Runs	3,500	(1,200)	2,300	2,331	31
Impound Fees	8,650	9,330	17,980	19,102	1,122
Police Forfeitures	1,000	-	1,000	-	(1,000)
Police Runs	2,600	(2,200)	400	826	426
Report/Release Fees	-	-	-	-	-
Festival Income/Donations	4,500	4,140	8,640	8,644	4
Donations and Fundraisers:					
Fire Department	1,000	-	1,000	-	(1,000)
Rents:					
Cell Tower Land Lease	19,200	800	20,000	20,076	76
Wendell Street Property Lease	6,000	-	6,000	6,000	-
702 Dixie Rent	-	-	-	6,400	6,400
Outdoor System Rental	-	-	-	750	750
Safe Room	1,000	-	1,000	3,325	2,325
Interest	40	10	50	61	11
Other Income	12,700	74,210	86,910	2,476	(84,434)
Total General Fund Revenues	<u>426,470</u>	<u>107,110</u>	<u>533,580</u>	<u>470,799</u>	<u>(62,781)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND - CONTINUED
JUNE 30, 2017

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
REVENUES - Continued					
Prior Year Fund Balance:					
Appropriated for Current Year Budget	37,950	2,730	40,680	-	(40,680)
Total Revenues and Prior Year Fund Balance	464,420	109,840	574,260	470,799	(103,461)
EXPENDITURES					
General Government:					
Salaries	183,720	1,340	185,060	171,231	13,829
FICA and Medicare	14,600	-	14,600	13,913	687
Retirement	30,700	1,340	32,040	31,857	183
Insurance	21,900	(8,200)	13,700	15,241	(1,541)
Office Expense	5,000	-	5,000	5,212	(212)
Training and Expenses	1,500	-	1,500	-	1,500
Telephone	4,200	-	4,200	4,344	(144)
Utilities	34,000	4,500	38,500	39,270	(770)
Mayor and Council Expenses	1,000	-	1,000	75	925
Legal and Advertising	4,000	-	4,000	1,097	2,903
Audit	3,500	-	3,500	4,508	(1,008)
Liability & Property Insurance	30,000	-	30,000	26,181	3,819
Workers Compensation Insurance	4,500	3,000	7,500	-	7,500
Land Development Park Renovation	23,704	-	23,704	-	23,704
Land Development Works Building	8,760	-	8,760	3,410	5,350
Demo Debris Dump	10,000	-	10,000	-	10,000
Safe Room Loan	18,450	-	18,450	-	18,450
Building Maintenance	4,000	3,000	7,000	300	6,700
Maintenance - Safe Room	1,150	-	1,150	18,219	(17,069)
Wendell Street Property Loan	6,500	-	6,500	12,004	(5,504)
HVAC System Payment	10,780	-	10,780	10,780	-
Miscellaneous	11,750	-	11,750	26,401	(14,651)
Total Administration	433,714	4,980	438,694	384,043	54,651
Police Department:					
Training Expenses	1,500	-	1,500	-	1,500
Maintenance	4,500	500	5,000	3,818	1,182
Uniforms	3,000	500	3,500	4,282	(782)
Towing and Other Impound Expense	5,000	1,000	6,000	5,405	595
Mobile Data and Computer Repair	3,000	-	3,000	3,417	(417)
Supplies	1,500	-	1,500	-	1,500
Dispatch	1,800	-	1,800	-	1,800
Gas and Oil	13,500	(5,000)	8,500	7,977	523
Police Vehicle Purchase and Payments	14,000	(4,000)	10,000	54,505	(44,505)
Miscellaneous	4,000	33,000	37,000	3,244	33,756
Total Police Department	51,800	26,000	77,800	82,648	(4,848)

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND - CONTINUED
JUNE 30, 2017

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<u>EXPENDITURES - Continued</u>					
Fire Department:					
Utilities	3,300	700	4,000	-	4,000
Fuels	1,000	-	1,000	-	1,000
Maintenance	9,000	-	9,000	-	9,000
Fire Runs	8,000	-	8,000	-	8,000
Equipment and Supplies	3,000	39,000	42,000	58,364	(16,364)
Equipment Loan Payment	4,200	(4,200)	-	-	-
Miscellaneous	1,700	500	2,200	-	2,200
Total Fire Department	<u>30,200</u>	<u>36,000</u>	<u>66,200</u>	<u>58,364</u>	<u>7,836</u>
Parks and Recreation:					
Muldraugh Festival Days	6,000	4,950	10,950	9,846	1,104
Dunking Booth	-	1,000	1,000	-	1,000
Park	1,000	-	1,000	-	1,000
Playground	1,000	-	1,000	256	744
Total Parks and Recreation	<u>8,000</u>	<u>5,950</u>	<u>13,950</u>	<u>10,102</u>	<u>3,848</u>
Total Expenditures	<u>523,714</u>	<u>72,930</u>	<u>596,644</u>	<u>535,157</u>	<u>61,487</u>
Excess of Revenue over Expenditures	(59,294)	36,910	(22,384)	(64,358)	(41,974)
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Debt	-	-	-	49,682	49,682
Transfer In	61,264	200	61,464	65,101	3,637
Sale of Surplus Property	10,000	24,400	34,400	68,627	34,227
Total Other Financing Sources (Uses)	<u>71,264</u>	<u>24,600</u>	<u>95,864</u>	<u>183,410</u>	<u>87,546</u>
Net Change in Fund Balances	11,970	61,510	73,480	119,052	45,572
Fund Balance, Beginning	-	-	-	89,169	89,169
Prior Period Adjustment	-	-	-	1,049	1,049
Fund Balance, Ending	<u>\$ 11,970</u>	<u>\$ 61,510</u>	<u>\$ 73,480</u>	<u>\$ 209,270</u>	<u>\$ 135,790</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - ROAD FUND
JUNE 30, 2017

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
Road Aid					
Intergovernmental Revenue	\$ 18,000	\$ -	\$ 18,000	\$ 19,028	\$ 1,028
Interest Income	20	-	20	20	-
Total Road Fund Revenues	<u>18,020</u>	<u>-</u>	<u>18,020</u>	<u>19,048</u>	<u>1,028</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	14,000	4,500	18,500	-	(18,500)
Total Revenues and Prior Year Fund Balance	<u>32,020</u>	<u>4,500</u>	<u>36,520</u>	<u>19,048</u>	<u>(17,472)</u>
<u>EXPENDITURES</u>					
Road Aid					
General Expense-Streets	32,020	4,500	36,520	16,839	19,681
Total Road Aid	<u>32,020</u>	<u>4,500</u>	<u>36,520</u>	<u>16,839</u>	<u>19,681</u>
Net Change in Fund Balances	-	-	-	2,209	2,209
Fund Balance, Beginning	-	-	-	18,596	18,596
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,805</u>	<u>\$ 20,805</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - STORM WATER MANAGEMENT
JUNE 30, 2017

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>REVENUES</u>					
Storm Water Management					
Charges for Services	\$ 7,500	\$ -	\$ 7,500	\$ 8,576	\$ 1,076
Interest Income	10	-	10	5	(5)
Total Storm Water Fund Revenues	<u>7,510</u>	<u>-</u>	<u>7,510</u>	<u>8,581</u>	<u>1,071</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
Total Revenues and Prior Year Fund Balance	<u>12,510</u>	<u>-</u>	<u>12,510</u>	<u>8,581</u>	<u>(3,929)</u>
<u>EXPENDITURES</u>					
Storm Water Management					
Maintenance and Repairs	<u>12,510</u>	<u>-</u>	<u>12,510</u>	<u>5,247</u>	<u>7,263</u>
Total Storm Water Management	<u>12,510</u>	<u>-</u>	<u>12,510</u>	<u>5,247</u>	<u>7,263</u>
Net Change in Fund Balances	-	-	-	3,334	3,334
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,240</u>	<u>5,240</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,574</u>	<u>\$ 8,574</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - PROPRIETARY FUND
JUNE 30, 2017

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
REVENUES					
Charges for Services	\$ 560,000	\$ (3,400)	\$ 556,600	\$ 503,099	\$ (53,501)
Miscellaneous Labor and Tap Fees	7,000	2,200	9,200	-	(9,200)
Reconnect Fees	1,200	(400)	800	-	(800)
Online Meter Deposits	2,000	1,625	3,625	-	(3,625)
Meter Deposits	12,000	-	12,000	3,673	(8,327)
Sewer Surcharge	-	-	-	30,913	30,913
Infiltration Fees	-	-	-	25,891	25,891
Interest Income	60	-	60	59	(1)
Miscellaneous Revenue	-	-	-	16,202	16,202
Total Proprietary Fund Revenues	582,260	25	582,285	579,837	(2,448)
Prior Year Fund Balance:					
Appropriated for Current Year Budget	90,700	5,000	95,700	-	(95,700)
Total Revenues and Prior Year Fund Balance	672,960	5,025	677,985	579,837	(98,148)

The accompanying notes are an integral part of these financial statements.

**CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
PROPRIETARY FUND - CONTINUED
JUNE 30, 2017**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
EXPENSES					
Water and Sewer System					
Salaries	107,580	12,420	120,000	116,485	3,515
FICA and Medicare	8,500	-	8,500	8,368	132
Retirement	18,900	3,200	22,100	37,375	(15,275)
Insurance	18,000	200	18,200	17,169	1,031
Waste Management	72,000	(1,000)	71,000	64,596	6,404
Telephone	2,800	320	3,120	3,201	(81)
Repair and Maintenance - Equipment	14,000	(9,000)	5,000	4,932	68
Repair and Maintenance - Water	18,000	(4,000)	14,000	16,678	(2,678)
Repair and Maintenance - Sewer	48,000	-	48,000	33,870	14,130
Uniforms	1,000	-	1,000	479	521
Water and Sewer Purchased	98,000	(8,000)	90,000	100,242	(10,242)
Utilities	21,000	500	21,500	21,664	(164)
Office Supplies	5,000	(250)	4,750	3,784	966
Office Equipment	7,000	-	7,000	-	7,000
Building Maintenance	2,000	(1,500)	500	-	500
Advertising and Legal Fees	4,500	(2,500)	2,000	-	2,000
Insurance - Property and Liability	12,000	(1,000)	11,000	12,995	(1,995)
Insurance - Workers Compensation	3,000	(400)	2,600	-	2,600
Gas and Oil	9,600	(1,800)	7,800	7,582	218
Sales and Utility Tax	14,800	(1,600)	13,200	14,411	(1,211)
Audit	3,500	-	3,500	4,415	(915)
Wendell Street Property Loan	6,100	-	6,100	-	6,100
Capital Investment	5,000	(3,500)	1,500	-	1,500
Truck Payment	13,920	(7,720)	6,200	1,365	4,835
Rural Development Loan Payment	14,000	-	14,000	2,864	11,136
South Lift Station Loan Payment	22,000	-	22,000	2,134	19,866
Customer Deposit Refunds	17,000	-	17,000	-	17,000
Miscellaneous - Water and Sewer	4,706	2,300	7,006	4,935	2,071
Depreciation	-	-	-	149,557	(149,557)
Total Water & Sewer System	571,906	(23,330)	548,576	629,101	(80,525)
Total Expenses	571,906	(23,330)	548,576	629,101	(80,525)
Excess of Revenue over Expenses	101,054	28,355	129,409	(49,264)	(178,673)

The accompanying notes are an integral part of these financial statements.

**CITY OF MULdraUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
PROPRIETARY FUND - CONTINUED
JUNE 30, 2017**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
OTHER FINANCING SOURCES (USES)					
Transfers In	35,000	(35,000)	-	-	-
Transfers Out	(71,964)	6,645	(65,319)	(65,101)	218
Total Other Financing Sources (Uses)	<u>(36,964)</u>	<u>(28,355)</u>	<u>(65,319)</u>	<u>(65,101)</u>	<u>218</u>
Change in Net Position	64,090	-	64,090	(114,365)	(178,455)
Net Position, Beginning	-	-	-	2,802,983	2,802,983
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,532)</u>	<u>(1,532)</u>
Net Position, Ending	<u>\$ 64,090</u>	<u>\$ -</u>	<u>\$ 64,090</u>	<u>\$ 2,687,086</u>	<u>\$ 2,622,996</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION ON
BUDGETARY REPORTING
JUNE 30, 2017

Budgets and the Budgetary Process

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets and budget amendments for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Encumbrances

As previously disclosed, the City does not employ encumbrance accounting; under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to preserve that portion of the applicable appropriation.

Reconciliation

Certain expenditures are required to be reported as capital outlay on the fund financial statements regardless of the department or function within general government that acquires the capital item. For budgetary purposes however, the City budgets for those expenditures on specific lines of the department or function from which payment will be made. Differences between the budgetary basis as reported in the required supplementary information differs from the fund financial statements in the following areas:

<u>Budgetary Fund/Department/Line Item</u>	<u>Reported As Capital Outlay in the Fund Financials</u>	<u>Reported As Debt Service in the Fund Financials</u>
General Fund:		
General Government:		
Office Expense	\$ 2,515	\$ -
City Hall Mortgage	-	12,004
HVAC Payment	-	10,780
Safe Room Payment	-	18,218
Police Department:		
Police Car Payment	-	21,995
Miscellaneous Police	32,510	-
Fire Department:		
Fire Department Supplies	20,644	-
	<u>\$ 55,669</u>	<u>\$ 62,997</u>

Stewardship

Expenditures exceeded budget in the following departments:

<u>Department</u>	<u>Amount Over Budget</u>
Police Department	\$4,848

**CITY OF MULDRAUGH, KENTUCKY
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION
 LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2017**

<u>Year Ended June 30th</u>	<u>City's proportion of the net pension liability</u>	<u>City's proportionate share of the net pension liability (asset)</u>	<u>City's covered employee payroll</u>	<u>City's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
Non-Hazardous:					
2017	Not Available	Not Available	\$ 288,906	Not Available	Not Available
2016	0.013081%	\$ 644,072	\$ 312,053	206.40%	55.50%
2015	0.014421%	\$ 620,048	\$ 336,469	184.28%	59.97%
2014	0.014118%	\$ 458,050	Not Available	Not Available	66.80%
2013-2008	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on pension reporting.

**CITY OF MULDRAUGH, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS TO THE COUNTY
EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Year Ended June 30th</u>	<u>Contractually required contribution</u>	<u>Contribution relative to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>City's covered employee payroll</u>	<u>Contributions as a percentage of covered employee payroll</u>
Non-Hazardous:					
2017	\$ 40,303	\$ 40,303	\$ -	\$ 288,906	13.95%
2016	\$ 38,757	\$ 38,757	\$ -	\$ 312,053	12.42%
2015	\$ 42,900	\$ 42,900	\$ -	\$ 336,469	12.75%
2014	Not Available	Not Available	Not Available	Not Available	Not Available
2013-2008	Not Available	Not Available	Not Available	Not Available	Not Available

This schedule is intended to present a 10-year trend as required by GASB 68. Additional years will be reported as incurred.

See the accompanying notes to the required supplementary information on pension reporting.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON PENSION REPORTING
FOR THE YEAR ENDED JUNE 30, 2017

NOTE A – ACCOUNTING POLICIES

For purposes of determining net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to the City by CERS.

NOTE B – CHANGES OF BENEFIT TERMS

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

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- Tiered Structure for benefit accrual rates
- New retirement eligibility requirements
- Different rules for the computation of final average compensation

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

NOTE C – CHANGES OF ASSUMPTIONS

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to .75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

NOTE D – METHOD AND ASSUMPTIONS USED IN CALCULATION OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

**CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
ON PENSION REPORTING
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE D – METHOD AND ASSUMPTIONS USED IN CALCULATION OF ACTUARIALLY DETERMINED CONTRIBUTIONS - CONTINUED

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

NOTE E – MEASUREMENT DATE

As allowed by current audit standards, CERS has used a measurement date of June 30, 2016 for reporting information to the City for inclusion in the City's audit for the fiscal year ending June 30, 2017.

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

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Muldraugh, Kentucky's basic financial statements, and have issued our report thereon dated December 4, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2017-1 that we consider to be a material weakness.

Compliance and Other Matters

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

City of Muldraugh, Kentucky's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephens & Lawson CPAs

Louisville, Kentucky
December 4, 2018

**CITY OF MULDRAUGH, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

Findings:

2017-1 *Condition:* The City does not have internal controls in place that enable it to prepare complete financial statements, including footnote disclosures, in compliance with generally accepted accounting principles

Criteria: Generally accepted accounting principles require that an entity have internal controls in place that enable it to prepare complete financial statements, including note disclosures.

Cause: The City lacks personnel with the expertise to prepare its financial statements, including note disclosures, in conformity with generally accepted accounting principles.

Effect: Management engaged the auditor to prepare draft financial statements, including related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements, or review the financial statements as drafted by the auditor, for compliance with generally accepted accounting principles.

Management's Response: Management has determined that the most efficient way to resolve this issue is to have the auditor's, as allowed by their professional standards, to render assistance in the drafting of the financial statements and related notes to the financial statements.