

CITY OF MULDRAUGH, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019



**CITY OF MULdraUGH, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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	42
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget to Actual – Road Fund	45
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget to Actual – Storm Water Management	46
Statement of Revenues, Expenditures, and Changes in Fund Balance -	
Budget to Actual – Proprietary Fund	47
Notes to the Required Supplementary Information on Budgetary Reporting	49
Schedule of the City's Proportionate Share of the Net Pension	
Liability of the County Employees Retirement System	50
Schedule of the City's Contributions to the County Employees Retirement System	51
Notes to the Required Supplementary Information on Pension Reporting	52
Schedule of the City's Proportionate Share of the Net OPEB	
Liability of the County Employees Retirement System	54
Schedule of the City's Insurance Contributions to the County Employees Retirement System	55
Notes to the Required Supplementary Information on OPEB Reporting	56
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>	57
Schedule of Findings and Responses	59



# STEPHENS & LAWSON

Certified Public Accountants

## 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor 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, 2019, 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**

Accounting principles generally accepted in the United States of America require that budgetary comparison information, pension schedules, and OPEB schedules on pages 42 through 56 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 the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our 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 February 15, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Muldraugh, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Muldraugh, Kentucky's internal control over financial reporting on compliance.

*Stephens & Lawson, CPAs*

Louisville, Kentucky  
February 15, 2022

**CITY OF MULDRAGH, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 70,459	\$ 8,544	\$ 79,003
Cash and Cash Equivalents (restricted)	127,880	98,446	226,326
Receivables	45,248	-	45,248
Receivables (restricted)	1,568	91,168	92,736
Prepaid Expenses	2,759	2,168	4,927
Reserve Deposit (restricted)	7,650	-	7,650
Internal Balances	6,588	(6,588)	-
Total Current Assets	262,152	193,738	455,890
Non-current Assets:			
Non-depreciable Fixed Assets	76,164	-	76,164
Depreciable Fixed Assets, Net	1,512,653	2,627,830	4,140,483
Total Non-current Assets	1,588,817	2,627,830	4,216,647
<b>Total Assets</b>	1,850,969	2,821,568	4,672,537
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Amounts Related to Pensions/OPEB	165,995	107,031	273,026
Total Assets and Deferred Outflows of Resources	<u>\$ 2,016,964</u>	<u>\$ 2,928,599</u>	<u>\$ 4,945,563</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 1,763	\$ 20,024	\$ 21,787
Customer Deposits	-	29,825	29,825
Accrued Interest	170	932	1,102
Bonds Payable Due Within One Year	-	9,000	9,000
Notes Payable Due Within One Year	45,527	-	45,527
Capital Lease Obligations Due Within One Year	10,000	7,051	17,051
Total Current Liabilities	57,460	66,832	124,292
Noncurrent Liabilities:			
Bonds Payable	-	28,273	28,273
Notes Payable	230,875	-	230,875
Capital Lease Obligations	195,833	4,250	200,083
Accrued Compensated Absences	2,415	5,367	7,782
OPEB Obligation	130,642	89,322	219,964
Pension Obligation	464,865	289,663	754,528
Total Long-Term Liabilities	1,024,630	416,875	1,441,505
Total Liabilities	1,082,090	483,707	1,565,797
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Amounts Related to Pensions/OPEB	75,020	49,461	124,481
<b>NET POSITION</b>			
Net Investment in Capital Assets	1,106,582	2,579,256	3,685,838
Restricted	137,098	98,447	235,545
Unrestricted	(383,826)	(282,272)	(666,098)
Total Net Position	859,854	2,395,431	3,255,285
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 2,016,964</u>	<u>\$ 2,928,599</u>	<u>\$ 4,945,563</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, 2019**

<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	\$ 284,468	\$ 42,876	\$ 3,542	\$ -	\$ (238,050)	\$ -
Police Department	262,537	20,170	20,020	-	(222,347)	-
Fire Department	39,341	5,623	29,500	-	(4,218)	-
Parks and Recreation	24,520	11,909	-	-	(12,611)	-
Public Works	19,145	11,791	-	-	(7,354)	-
Streets and Roads	5,412	-	20,873	-	15,461	-
Total Governmental Activities	635,423	92,369	73,935	-	(469,119)	-
Business-type Activities:						
Water and Sewer System	655,986	581,967	-	-	-	(74,019)
<b>Total Primary Government</b>	<b>\$ 1,291,409</b>	<b>\$ 674,336</b>	<b>\$ 73,935</b>	<b>\$ -</b>	<b>\$ (469,119)</b>	<b>\$ (74,019)</b>
<b>General Revenues:</b>						
					\$ 57,739	\$ -
Property Tax					6,858	-
Automobile Tax					131,207	-
Insurance Tax					85,466	-
Occupational Tax					921	-
Bank Deposit Tax					38,195	-
Franchise Fees					39,586	-
Business License/Gross Profit Tax					13,530	-
Intergovernmental					169	60
Interest Income					(1,385)	-
Gain (Loss) on Disposal of Assets					20,543	-
Other Income					31,138	(31,138)
Transfers In/Out					423,967	(31,078)
Total General Revenues					(45,152)	(105,097)
Change in Net Position					905,006	2,500,528
Net Position - July 1, 2018					\$ 859,854	\$ 2,395,431
Net Position - June 30, 2019						

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

**CITY OF MULDRAUGH, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	GOVERNMENTAL FUND TYPES			Total Governmental Funds
	General Fund	Road Fund	Storm Water Management	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 70,459	\$ -	\$ -	\$ 70,459
Cash and Cash Equivalents (restricted)	62,422	43,205	22,253	127,880
Receivables	45,248	1,568	-	46,816
Prepaid Expenses	2,759	-	-	2,759
Reserve Deposit (restricted)	7,650	-	-	7,650
Due from Other Funds	6,588	-	-	6,588
Total Assets	195,126	44,773	22,253	262,152
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	1,763	-	-	1,763
Total Liabilities	1,763	-	-	1,763
Fund Balances:				
Restricted	70,072	44,773	22,253	137,098
Committed	50,000	-	-	50,000
Unassigned	73,291	-	-	73,291
Total Fund Balances	193,363	44,773	22,253	260,389
Total Liabilities and Fund Balances	\$ 195,126	\$ 44,773	\$ 22,253	\$ 262,152

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



**CITY OF MULDRUGH, KENTUCKY**  
**RECONCILIATION OF TOTAL FUND BALANCE, GOVERNMENTAL FUNDS**  
**TO NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2019**

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

Total Fund Balances, Governmental Funds	\$ 260,389
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	1,588,817
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.	(170)
Deferred outflows/inflows of resources related to pensions/opeb are not reported in the fund financial statements	
Deferred outflows of resources related to pensions	\$ 123,406
Deferred outflows of resources related to opeb	42,590
Deferred inflows of resources related to pensions	(50,005)
Deferred inflows of resources related to opeb	<u>(25,016)</u>
	90,975
Long-term obligations are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(1,080,157)</u>
Net Position of Governmental Activities	<u><u>\$ 859,854</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, 2019**

	GOVERNMENTAL FUND TYPES			Totals Governmental Funds
	General Fund	Road Fund	Storm Water Management	
<b>REVENUE</b>				
Property Tax	\$ 57,739	\$ -	\$ -	\$ 57,739
Motor Vehicle Tax	6,858	-	-	6,858
Insurance Tax	131,207	-	-	131,207
Occupational Tax	85,466	-	-	85,466
Bank Deposit Tax	921	-	-	921
Gross Profit Tax	14,411	-	-	14,411
Franchise Fees	38,195	-	-	38,195
License and Permits	25,320	-	-	25,320
Intergovernmental Revenue	63,050	20,873	-	83,923
Charges for Services	38,058	-	11,791	49,849
Rental Income	42,375	-	-	42,375
Interest Income	116	33	20	169
Other Income	24,075	-	10	24,085
Total Revenue	527,791	20,906	11,821	560,518
<b>EXPENDITURES</b>				
General Government	213,584	-	-	213,584
Police Department	219,468	-	-	219,468
Fire Department	31,148	-	-	31,148
Parks and Recreation	23,151	-	-	23,151
Public Works	12,950	-	6,065	19,015
Streets and Roads	-	5,283	-	5,283
Capital Outlay	196,622	2,167	2,167	200,956
Debt Service	81,370	-	-	81,370
Total Expenditures	778,293	7,450	8,232	793,975
Excess of Revenues over Expenditures	(250,502)	13,456	3,589	(233,457)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Issuance of Debt	153,490	-	-	153,490
Sale of Surplus Property	25,663	452	-	26,115
Transfer In	31,138	-	-	31,138
Total Other Financing Sources (Uses)	210,291	452	-	210,743
Net Change in Fund Balances	(40,211)	13,908	3,589	(22,714)
Fund Balances Beginning of Year	233,574	30,865	18,664	283,103
Fund Balances End of Year	\$ 193,363	\$ 44,773	\$ 22,253	\$ 260,389

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

**CITY OF MULDRAUGH 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, 2019**

**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		\$	(22,714)
Amounts reported for governmental activities in the statement of activities are different because:			
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			(27,500)
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	\$	200,957	
Depreciation expense		<u>(73,815)</u>	127,142
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		(153,490)	
Repayment of principal on long-term obligations		<u>62,932</u>	(90,558)
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 decrease in accrued interest			1,444
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 decrease in compensated absence balance			2,138
Pension/opeb expense in the fund financial statements are based on amounts paid into the retirement plan during the current fiscal year. Pension/opeb expense in the government-wide financial statements are based on the measurement date of the net pension/opeb liability which was June 30, 2018.			
Net increase in pension expense		(29,503)	
Net increase in opeb expense		<u>(5,601)</u>	<u>(35,104)</u>
Change in Net Position of Governmental Activities		\$	<u><u>(45,152)</u></u>

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

**CITY OF MULDRAGH, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2019**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 8,544	
Cash and Cash Equivalents (restricted)	98,446	
Receivables	91,168	
Prepays	<u>2,168</u>	
Total Current Assets		\$ 200,326

Non-current Assets:

Depreciable Fixed Assets, Net	<u>2,627,830</u>	
Total Non-current Assets		<u>2,627,830</u>

<b>Total Assets</b>		<b>2,828,156</b>
---------------------	--	------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Amounts Related to Pensions/OPEB		<u>107,031</u>
---	--	----------------

<b>Total Assets and Deferred Outflows of Resources</b>		<b><u>\$2,935,187</u></b>
--	--	---------------------------

**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 20,024	
Customer Deposits	29,825	
Accrued Interest	932	
Due to Other Funds	6,588	
Bonds Payable Due Within One Year	9,000	
Capital Lease Obligations Due Within One Year	<u>7,051</u>	
Total Current Liabilities		\$ 73,420

Noncurrent Liabilities:

Bonds Payable	28,273	
Capital Lease Obligations	4,250	
Accrued Compensated Absences	5,367	
OPEB Obligation	89,322	
Pension Obligation	<u>289,663</u>	
Total Long-Term Liabilities		<u>416,875</u>

<b>Total Liabilities</b>		<b>490,295</b>
--------------------------	--	----------------

**DEFERRED INFLOWS OF RESOURCES**

Deferred Amounts Related to Pensions/OPEB		49,461
---	--	--------

**NET POSITION**

Net Investment in Capital Assets	2,579,256	
Restricted	98,447	
Unrestricted	<u>(282,272)</u>	
<b>Total Net Position</b>		<b><u>2,395,431</u></b>

<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>		<b><u>\$2,935,187</u></b>
---	--	---------------------------

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

**CITY OF MULDRAGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**OPERATING REVENUE**

Garbage Revenue	\$ 132,175	
Sewer Revenue	206,048	
Water Revenue	167,731	
Sewer Surcharge	30,733	
Infiltration Fees	24,770	
Meter Deposit Revenue	5,669	
Miscellaneous Revenue	<u>14,841</u>	
Total Operating Revenues		\$ 581,967

**OPERATING EXPENSES**

Advertising	965	
Employee Insurance	25,113	
Garbage Collection	73,060	
Gas and Oil	7,616	
Insurance	12,157	
Miscellaneous Expense	7,374	
Office Expense	5,787	
Payroll Taxes	9,250	
Professional Fees	6,760	
Repairs and Maintenance	30,085	
Retirement	51,041	
Salaries	123,676	
Sales and Utility Tax	15,659	
Telephone	3,410	
Uniforms	323	
Utilities	25,165	
Water/Sewer Purchase	116,075	
Depreciation Expense	<u>139,743</u>	
Total Operating Expenses		<u>653,259</u>

Operating Income (Loss) (71,292)

**NON-OPERATING REVENUE AND EXPENSES**

Interest Income	60	
Transfer Out	(31,138)	
Interest on Bonds and Leases	<u>(2,727)</u>	
Total Non-Operating Revenue and Expenses		<u>(33,805)</u>

Change in Net Position (105,097)

Net Position - July 1, 2018	<u>2,500,528</u>
Net Position - June 30, 2019	<u><u>\$ 2,395,431</u></u>

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, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Users	\$ 565,367	
Other Receipts	14,841	
Payments to Suppliers	(389,532)	
Payments to Employees	(104,345)	
Net Cash Provided by Operating Activities		\$ 86,331

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Transfers to Other Funds	(29,191)	
Net Cash Used by Noncapital Financing Activities		(29,191)

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Purchase of Capital Assets	(2,167)	
Principal Paid on Capital Debt	(27,103)	
Interest Paid on Capital Debt	(2,927)	
Net Cash Used by Capital and Related Financing Activities		(32,197)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received	60	
Net Cash Provided by Investing Activities		60

Net Decrease in Cash and Cash Equivalents	25,003
---	--------

Cash and Cash Equivalents - beginning of year	81,987
Cash and Cash Equivalents - end of year	<u>\$ 106,990</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ (71,292)
------------------	-------------

Adjustments to reconcile operating income to net  
cash provided by operating activities:

Cash Flows Reported in Other Categories:

Depreciation Expense	139,743
----------------------	---------

Changes in Assets and Liabilities:

Receivables	(1,309)
Prepays	(2,168)
Accounts Payable	2,476
User Deposits and Refunds Payable	(450)
Payroll and Related Withholdings Payable	(4,445)
Net Pension Liability and Related Deferred Outflows/Inflows	23,776

17,880

\$ 86,331

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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, 2019. 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 MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**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, 2019**

**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, 2019**

**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 MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**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, 2019**

**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/opeb liabilities from those plans and the end of the City's fiscal year as well as other amounts related to pensions/opeb. 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 pension/opeb. 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 MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**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 .193 per \$100 of assessed real property value, .322 per \$100 of assessed personal property value, and .153 per \$100 of assessed value on motor vehicles as assessed on January 1<sup>st</sup> 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) are collected by the Meade County Clerk and remitted to the City on a monthly basis net of collection fees of 4%.

**CITY OF MULDRUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**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/Gross Profits Tax***

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 15<sup>th</sup>; 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 1/12<sup>th</sup> 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, 2019**

**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, 2019 all deposits of the City were fully covered by FDIC insurance.

The City had no investments as of June 30, 2019.

**NOTE C – ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2019 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	\$ 937	\$ -	\$ 937	\$ -
Occupational Tax	18,007	-	18,007	-
Insurance Tax	23,566	-	23,566	-
KLEFPF (Police Incentive)	1,232	-	1,232	-
Local Law Enforcement (HB 413)	1,506	-	1,506	-
User Fees - Water	-	41,193	-	-
User Fees - Sewer	-	22,162	-	-
User Fees - Sanitation	-	20,989	-	-
User Fees - Infiltration	-	6,824	-	-
Municipal Road Aid	1,568	-	-	1,568
Total Receivables	<u>\$ 46,816</u>	<u>\$ 91,168</u>	<u>\$ 45,248</u>	<u>\$ 1,568</u>

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE D – FIXED ASSETS**

Fixed asset activity for governmental activities for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental Activities</b>				
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	1,567,063	110,000	-	1,677,063
Vehicles	336,150	68,980	40,056	365,074
Equipment	154,135	17,581	-	171,716
Parks and Recreation	26,138	4,396	-	30,534
Total depreciable assets	<u>2,083,486</u>	<u>200,957</u>	<u>40,056</u>	<u>2,244,387</u>
Total fixed assets	<u>2,159,650</u>	<u>200,957</u>	<u>40,056</u>	<u>2,320,551</u>
Accumulated Depreciation:				
Buildings and Improvements	268,086	42,312	-	310,398
Vehicles	265,672	20,257	12,556	273,373
Equipment	120,865	9,877	-	130,742
Parks and Recreation	15,852	1,369	-	17,221
Total accumulated depreciation	<u>670,475</u>	<u>73,815</u>	<u>12,556</u>	<u>731,734</u>
Governmental activities fixed assets, net	<u>\$ 1,489,175</u>	<u>\$ 127,142</u>	<u>\$ 27,500</u>	<u>\$ 1,588,817</u>

Depreciation expense of \$73,815 was allocated to the various functions on the statement of activities as follows:

Governmental Activities	
General Government	\$ 47,286
Police	17,257
Fire	7,645
Parks & Recreation	1,369
Roads	129
Storm Water	129
Total	<u>\$ 73,815</u>



**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE D – FIXED ASSETS - CONTINUED**

Fixed asset activity for business-type activities for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Business-type Activities</b>				
Depreciable Assets:				
Machinery and Equipment	\$ 115,713	\$ 2,167	\$ -	\$ 117,880
Office Equipment	54,601	-	-	54,601
Vehicles	42,567	-	-	42,567
Sewer System	3,264,681	-	-	3,264,681
Water System	971,386	-	-	971,386
Total depreciable assets	<u>4,448,948</u>	<u>2,167</u>	<u>-</u>	<u>4,451,115</u>
Total fixed assets	4,448,948	2,167	-	4,451,115
 Accumulated Depreciation:				
Machinery and Equipment	115,278	397	-	115,675
Office Equipment	48,615	1,611	-	50,226
Vehicles	24,944	6,713	-	31,657
Sewer System	843,969	93,513	-	937,482
Water System	650,736	37,509	-	688,245
Total accumulated depreciation	<u>1,683,542</u>	<u>139,743</u>	<u>-</u>	<u>1,823,285</u>
Business-type activities fixed assets, net	<u><u>\$ 2,765,406</u></u>	<u><u>\$ (137,576)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,627,830</u></u>

**NOTE E – INTERFUND BALANCES**

Interfund balances at June 30, 2019 were as follows:

Receivable Fund	Payable Fund		Purpose
	General Fund	Proprietary Fund	
General Fund	\$ -	\$ 6,588	Funds advanced on behalf of
	<u><u>\$ -</u></u>	<u><u>\$ 6,588</u></u>	

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE F – LONG-TERM LIABILITIES**

**Governmental Activities:**

A summary of long-term liabilities of governmental activities and the corresponding activity for the year ended June 30, 2019 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Notes Payable	\$ 175,844	\$ 153,490	\$ 52,932	\$ 276,402	\$ 45,527
Capital Lease Obligations	215,833	-	10,000	205,833	10,000
Compensated Absences	4,553	-	2,138	2,415	-
Total Governmental Activities	<u>\$ 396,230</u>	<u>\$ 153,490</u>	<u>\$ 65,070</u>	<u>\$ 484,650</u>	<u>\$ 55,527</u>

**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, 2019 was \$125,544.

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%. This note was paid off during this fiscal year.

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, 2018, of \$4,730 including interest of 3.00%. The balance owed on this note at June 30, 2019 was \$9,765.

The City has a note payable secured by a vehicle financed in October 2018 from Meade County Bank in the amount of \$22,802, payable in 60 monthly installments of \$418 including interest of 3.75%. The balance owed on this note at June 30, 2019 was \$19,997.

The City has a note payable secured by a vehicle financed in October 2018 from Meade County Bank in the amount of \$22,802, payable in 60 monthly installments of \$418 including interest of 3.75%. The balance owed on this note at June 30, 2019 was \$17,486.

The City has a note payable secured by real estate for a new roof on city hall financed in April 2019 from Meade County Bank in the amount of \$107,886, payable in 47 monthly installments of \$2,480 including interest of 2.75%, and one final balloon payment of the unpaid principal balance on April 30, 2023. The balance owed on this note at June 30, 2019 was \$103,610.

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

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE F – LONG-TERM LIABILITIES – CONTINUED**

**Notes Payable - continued:**

Fiscal Year Ending	Notes Payable	
	Principal	Interest
2020	\$ 45,527	\$ 11,890
2021	47,579	9,838
2022	45,781	7,685
2023	40,605	5,543
2024	10,121	4,404
2025-2029	49,252	15,264
2030-2034	37,537	2,977
Totals	<u>\$ 276,402</u>	<u>\$ 57,601</u>

**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 \$276,838 at June 30, 2019.

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

Fiscal Year Ending	Capital Lease Obligations	
	Principal	Interest
2020	\$ 10,000	\$ 7,544
2021	10,000	7,277
2022	10,000	6,952
2023	10,000	6,627
2024	12,083	6,302
2025-2029	75,000	24,629
2030-2034	75,833	11,302
2035-2039	2,917	372
Totals (1)	<u>\$ 205,833</u>	<u>\$ 71,005</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 \$171,920 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 \$16,993 and in the statement of revenues, expenditures, and changes in fund balance – governmental funds for the general fund was \$16,823.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE F – LONG-TERM LIABILITIES - CONTINUED**

**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 records the entire amount of this obligation (\$2,415) as long-term.

**Business-Type Activities:**

A summary of long-term liabilities of business-type activities and the corresponding activity for the year ended June 30, 2019 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-Type Activities:</b>					
Bonds Payable	\$ 45,273	\$ -	\$ 8,000	\$ 37,273	\$ 9,000
Notes Payable	12,216	-	12,216	-	-
Capital Lease Obligations	18,188	-	6,887	11,301	7,051
Compensated Absences	9,812	-	4,445	5,367	-
Total Governmental Activities	<u>\$ 85,489</u>	<u>\$ -</u>	<u>\$ 31,548</u>	<u>\$ 53,941</u>	<u>\$ 16,051</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 1<sup>st</sup> and July 1<sup>st</sup> 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, 2019 was \$37,273.

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

Fiscal Year Ending	Bond Obligations	
	Principal	Interest
2020	\$ 9,000	\$ 1,864
2021	9,000	1,414
2022	10,000	964
2023	9,273	464
Totals	<u>\$ 37,273</u>	<u>\$ 4,706</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%. This note was paid off during this fiscal year.

**CITY OF MULDRUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**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 \$11,668 at June 30, 2019.

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

Fiscal Year Ending	Capital Lease Obligations	
	Principal	Interest
2020	\$ 7,051	\$ 318
2021	4,250	49
Totals (1)	<u>\$ 11,301</u>	<u>\$ 367</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 vehicle with a cost of \$33,567 and accumulated depreciation of \$22,656 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 \$2,727.

**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 records the entire amount of this obligation (\$5,367) as long-term.

**NOTE G – NET POSITION / FUND BALANCES**

At June 30, 2019, net position in the government-wide financial statements was composed of the following:

	Governmental Activities	Business-type Activities
<b>Net Investment in Capital Assets:</b>		
Fixed Assets, Net	\$ 1,588,817	\$ 2,627,830
Less:		
Bonds Payable	-	(37,273)
Notes Payable	(276,402)	-
Capital Lease Obligations	(205,833)	(11,301)
Net Investment in Capital Assets	<u>1,106,582</u>	<u>2,579,256</u>

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE G – NET POSITION / FUND BALANCES - CONTINUED**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<b>Restricted:</b>		
Festival	4,077	-
Land Development	54,628	-
Police Special Account	2,741	-
Roads	44,773	-
Safe Room	8,626	-
Storm Water Management	22,253	-
System Expansion	-	76,437
Debt Service and Debt Covenants	-	22,010
Restricted Net Position	<u>137,098</u>	<u>98,447</u>
<b>Unrestricted</b>	<u>(383,826)</u>	<u>(282,272)</u>
<b>Total Net Position</b>	<u><u>\$ 859,854</u></u>	<u><u>\$ 2,395,431</u></u>

At June 30, 2019, fund balances, as shown in the fund financial statements, was composed of the following:

<u>Classification</u>	<u>General Fund</u>	<u>Road Fund</u>	<u>Storm Water Management</u>
<b>Restricted:</b>			
By enabling legislation for roads	\$ -	\$ 44,773	\$ -
By agreement with the EPA	-	-	22,253
By agreement for festival activities	4,077	-	-
By agreement for land development	54,628	-	-
By agreement for police	2,741	-	-
By agreement for Safe Room debt service	8,626	-	-
<b>Assigned:</b>			
By passage of next year's budget	50,000	-	-
<b>Unassigned</b>	73,291	-	-
<b>Total Fund Balances</b>	<u><u>\$ 193,363</u></u>	<u><u>\$ 44,773</u></u>	<u><u>\$ 22,253</u></u>

**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, 2019.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**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

During this fiscal year, both parties agreed to extend the lease under the terms described above.

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. During this fiscal year both parties agreed to extend this lease for another 24 months.

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 scheduled 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 \$42,375 was recognized for the fiscal year ending June 30, 2019. Future payments to be received under these agreements for the years ending June 30<sup>th</sup> are as follows:

Fiscal Year Ending	Amount
2020	\$ 26,565
2021	17,119
2022	11,544
2023	11,544
2024	11,544
2025	6,734

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE J – INTERFUND TRANSFERS**

The following interfund transfers took place during this fiscal year:

Fund Transferred From	Transferred To General Fund	Purpose
Water & Sewer	\$ 6,452	Debt Service
Water & Sewer	24,687	Budgetary Transfer
	<u>\$ 31,139</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 (KRS). 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) 696-8800, or at <https://kyret.ky.gov>. Detailed information about the plan's fiduciary net position can be found here.

**Plan Description**

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating 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.

Cost of living adjustments (COLAs) are made at the discretion of the Kentucky General Assembly. In 2013 the General Assembly passed a new law to govern how COLAs will be granted. Language in that law states that COLAs will only be granted in the future if the KRS Board determines that the assets of the system are greater than 100% of the actuarial liabilities and legislation authorizes the use of surplus funds for the COLA; or the General Assembly fully prefunds the COLA or directs payments of funds in the year the COLA is provided. No COLA has been granted since July 1, 2011.

**Non-hazardous Contributions**

For the year ending June 30, 2019, all covered employees who began participating before September 1, 2008, Tier 1 members, 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



**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE K - EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

**Non-hazardous Contributions - Continued**

accordance with actuarial bases adopted by the Board.

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, Tier 2 members, 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 30<sup>th</sup> 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.

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, Tier 3 members, 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 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 for non-hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2019, participating employers contributed 21.48% (allocated 16.22% for pension and 5.26% for insurance) of each employee's creditable compensation for members with nonhazardous duty job classifications. During this fiscal year, the City contributed \$67,515, or 100% of the required contribution for non-hazardous members, which was allocated \$50,982 to the CERS pension fund and \$16,533 to the CERS insurance fund.

**Non-hazardous Benefits**

For retirement purposes, employees are grouped into three tiers based on hire date. Those tiers are as follows:

Tier 1	Participation Date	Before September 1, 2008
	Unreduced Retirement	27 years of service or 65 years old
	Benefit Amount	At least 4 years service, monthly benefit is 2% times final average compensation times years of service. Participation after 08/01/2004 the rate is 2.20%.
		Less than 4 years of service monthly benefit is actuarial equivalent of 2 times member contributions plus interest.
		Final average compensation is based on member's highest 5 years of compensation.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE K - EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Non-hazardous Benefits – Continued**

Tier 1	Reduced Retirement	At least 5 years of service and 55 years old or 25 years of service and any age.
Tier 2	Participation Date	September 1, 2008 to December 31, 2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.
	Benefit Amount	Monthly benefit is based upon applicable benefit multiplier (based on years of service) time final average compensation times years of service.  Final compensation is based on member's last 5 years.
	Reduced Retirement	At least 10 years of service and 60 years old.
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years of service and 65 years old or age 57+ with sum of service years plus age equal to 87+.
	Benefit Amount	Each year member is active, a 4% employer pay credit along with the member's 5% contribution will be credited to the member's account. If the system's geometric average net investment return for the prior 5 years exceeds 4%, then the member's account will be credited with interest equal to 75% of the return in excess of 4%.  At retirement, the account balance may be converted into an annuity based on an actuarial factor.
	Reduced Retirement	Not applicable

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement.

For non-hazardous duty employees the post-retirement death benefit is \$5,000 in a lump sum and requires 48 months of service and to be in receipt of retirement benefits. Pre-retirement death benefits are determined based on whether the death was in the line of duty or not. The non-line of duty death benefit requires the member to be eligible for early retirement or under the age of 55, with at least 60 months of service, or at least 144 months of service if no longer actively working. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump-sum payment of the member's contributions and any accumulated interest.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE K - EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Non-hazardous Benefits – Continued**

Disability benefits require 60 months of service except in the case of line of duty disability in which case the requirement is waived regardless of the member's classification.

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

**Pension Liabilities**

At June 30, 2019 the City recognized a liability of \$754,528 (\$464,865 for governmental activities and \$289,663 for 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, 2018, 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 (\$44,463 non-hazardous) relative to the total contributions of all participants in the non-hazardous retirement plan. At June 30, 2018 the City's share of the non-hazardous net pension liability was .012389% which an increase of .000523% from the figure of .011866% in the prior period.

**Pension Payable/Expense**

At June 30, 2019 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 2019.

For the year ended June 30, 2019, the City recognized pension expense of \$100,469 (\$59,897 for governmental activities and \$40,571 for business-type activities) for non-hazardous covered employees in the statement of activities.

**Deferred Outflows/Inflows of Resources**

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE K - EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

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

**Deferred Outflows/Inflows of Resources - Continued**

	<u>Non-Hazardous</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,611	\$ 11,045
Change of assumptions	73,739	-
Net difference between projected and actual earnings on plan investments	35,086	44,133
Changes in proportion and differences between employer contributions and proportionate share of contributions	18,082	27,562
City's contributions to the plan subsequent to the measurement date	50,982	-
Totals	<u>\$ 202,500</u>	<u>\$ 82,740</u>

If the amounts serve to reduce pension expense in the future they are labeled as 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, 2019. Other amounts reported as deferred outflows / inflows will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
Year 1	\$ 47,725
Year 2	30,480
Year 3	(5,377)
Year 4	(4,050)
Year 5	-
Thereafter	-
Total	<u>\$ 68,778</u>

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE K - EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Actuarial Assumptions**

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary Increase	3.05%
Investment Rate of Return	6.25%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year end, June 30, 2018.

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled 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 retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	8.50%	4.50%
US Mid Cap	5.00%	4.50%
US Small Cap	4.00%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	10.00%	3.00%
<b>Credit Fixed</b>	<b>17.00%</b>	
Global IG Credit	10.00%	3.75%
High Yield	3.00%	5.50%
Emerging Market Debt	4.00%	6.00%
Private Equity	10.00%	6.50%
Real Estate	5.00%	7.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	5.00%
Cash	3.00%	1.50%
Total	<u>100.00%</u>	<u>5.13%</u>

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE K - EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Discount Rate**

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Non-Hazardous	\$ 949,872	\$ 754,528	\$ 590,863

**NOTE L – POST-EMPLOYMENT BENEFITS**

The City, through its participation in CERS, also participates in the Kentucky Retirement Systems' Insurance Fund (Insurance Fund) which was established to provide hospital and medical insurance for eligible members receiving benefits from various plans including CERS. Information on how to obtain information on this plan, such as the OPEB plan's fiduciary net position, is more fully discussed in Note K.

**Plan Description**

CERS is a cost sharing, multiple employer defined benefit pension plan which covers substantially all regular full-time members in both non-hazardous and hazardous positions of each participating county, city, school board, and any additional eligible local agencies electing to participate in CERS. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other post-employment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

As more fully described in Note K, plan members contribute to CERS for non-hazardous job classifications in the amount of 5%. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. For the year ending June 30, 2019 the employer's contribution was 21.48% (allocated 16.22% for pension and 5.26% to the insurance trust) for creditable compensation paid in the non-hazardous duty job classification. These rates are the actuarially determined rates set by the Board. Per Kentucky Revised Statue 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. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE L – POST-EMPLOYMENT BENEFITS – CONTINUED**

For the year ended June 30, 2019, participating employers contributed 21.48% (allocated 16.22% for pension and 5.26% for insurance) of each employee's creditable compensation for members with nonhazardous duty job classifications. During this fiscal year, the City contributed \$67,515, or 100% of the required contribution for non-hazardous members, which was allocated \$50,982 to the CERS pension fund and \$16,533 to the CERS insurance fund.

**Non- Hazardous Insurance Benefits**

CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For OPEB purposes, employees are grouped into three tiers based on hire date as follows:

Tier 1	Participation Date	Before July 1, 2003
	Benefit Eligibility	Recipient of a retirement allowance.
	Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement.
Tier 2	Participation Date	After July 1, 2003 but before September 1, 2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement.
	Benefit	Monthly contribution of \$10 for each year of earned service increasing by 1.5% each July 1, 2009 annually.
Tier 3	Participation Date	On or after September 1, 2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 180 months of service.
	Benefit	Same as tier 2

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

At June 30, 2019 the City recognized a liability of \$219,964 (\$130,642 for governmental activities and \$89,322 for business-type activities) for its proportionate share of the CERS net OPEB liability related to non-hazardous duty employees. The City's net OPEB liability was measured as of June 30, 2018, as allowed by standards, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's contributions to the OPEB plan (\$17,057 non-hazardous) relative to the total contributions of all participants in the non-hazardous retirement plan. At June 30, 2018 the City's share of the non-hazardous net OPEB liability was .012389% which in an increase of .00523% over prior year amount of .011866%.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE L – POST-EMPLOYMENT BENEFITS - CONTINUED**

**OPEB Liabilities, Pension Expense, and Deferred Outflows / Inflows of Resources Related to OPEB - Continued**

OPEB Payable/Expense

At June 30, 2019 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous OPEB withholdings and the City's required matching contribution for the month of June 2019.

For the year ended June 30, 2019, the City recognized OPEB expense of \$25,928 (\$15,458 for governmental activities and \$10,470 for business-type activities) for non-hazardous covered employees in the statement of activities.

Deferred Outflows/Inflows of Resources

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Non-Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 25,634
Change of assumptions	43,930	508
Net difference between projected and actual earnings on plan investments	-	15,151
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,515	448
City's contributions to the plan subsequent to the measurement date	20,081	-
Totals	<u>\$ 70,526</u>	<u>\$ 41,741</u>

If the amounts serve to reduce OPEB expense in the future they are labeled as deferred inflows. If they will increase OPEB 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 OPEB liability in the year ended June 30, 2019. This amount includes adjustments of \$3,548 for the non-hazardous implicit subsidy. Other amounts reported as deferred outflows / inflows will be recognized in OPEB expense as follows:



**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE L – POST-EMPLOYMENT BENEFITS – CONTINUED**

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

Deferred Outflows/Inflows of Resources - Continued

	<u>Non-Hazardous</u>
Year 1	\$ 1,908
Year 2	1,907
Year 3	1,908
Year 4	4,850
Year 5	(789)
Thereafter	(1,080)
Total	<u>\$ 8,704</u>

**Actuarial Assumptions**

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

Inflation	2.30%
Salary Increase	3.05% average
Investment Rate of Return	6.25%
Healthcare Trend:	
	Pre-65: Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
	Post-65: Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year end, June 30, 2018.

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled 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 retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimate of arithmetic real rate 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, 2019**

**NOTE L – POST-EMPLOYMENT BENEFITS - CONTINUED**

**Actuarial Assumptions - Continued**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	<u>6.09%</u>

**Discount Rate**

The projection of cash flows used to determine the discount rate of 5.85% for non-hazardous and 5.97% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of project compensation of the remaining 25 years amortization period of the unfunded actuarial accrued liability. The discount rate determination used and expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's net OPEB liability, calculated using the discount rate of 5.85% for non-hazardous as well as what the liability would be if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current rate.

	<u>1% Decrease (4.85%)</u>	<u>Current Discount Rate (5.85%)</u>	<u>1% Increase (6.85%)</u>
Non-Hazardous	<u>\$ 285,698</u>	<u>\$ 219,964</u>	<u>\$ 163,971</u>

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE L – POST-EMPLOYMENT BENEFITS - CONTINUED**

**Discount Rate - Continued**

The following table presents the City's net OPEB liability, calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Non-Hazardous	\$ 163,766	\$ 219,964	\$ 286,206

**NOTE M - 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 N - 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 O – 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 Governmental Accounting Standards Board (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. 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.

***GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements***

The provisions of this statement are effective for fiscal years beginning after June 15, 2018 with earlier adoption encouraged. The objective of this standard is to improve information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, as well as clarifying which liabilities governments should include when disclosing information related to debt.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE O – IMPLEMENTATION OF GASB PRONOUNCEMENTS - CONTINUED**

*Pronouncements Scheduled to be Adopted in Future Fiscal Years:*

**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 standard 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. 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.

**GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period**

The provisions of this statement are effective for fiscal years beginning after December 15, 2019 with earlier adoption encouraged. The objectives of this standard are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

**GASB Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61**

The provisions of this statement are effective for fiscal years beginning after December 15, 2018 with earlier adoption encouraged. The objective of this standard is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. At this time the City does not believe the provisions of this standard will have any impact on its financial statements.

**GASB Statement No. 91, Conduit Debt Obligations**

The provisions of this statement are effective for fiscal years beginning after December 15, 2020 with earlier adoption encouraged. The objective of this standard is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated conduit debt obligations, and (3) related note disclosures. The City is still determining the impact, if any, this statement will have on the financial statements.

**NOTE P – COVID 19 IMPACT**

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 and its variants continue to spread across the globe as vaccines to prevent it are being rolled out. The City is closely monitoring the impact of COVID-19 on all aspects of its operations. As of June 30, 2019 and as of the date that the financial statements were issued, the City has not experienced significant disruption in its operations; however, since the situation surrounding the COVID-19 pandemic remains fluid, the long-term duration, nature, and extend of the effects on the City cannot be reasonably estimated at this time.

**CITY OF MULDRAGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND**  
**JUNE 30, 2019**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b>REVENUES</b>					
Property Tax	\$ 55,220	\$ 1,980	\$ 57,200	\$ 57,739	\$ 539
Motor Vehicle Tax	5,440	1,560	7,000	6,858	(142)
Insurance Tax	136,900	(4,400)	132,500	131,207	(1,293)
Occupational Tax	87,540	1,160	88,700	85,466	(3,234)
Bank Deposit Tax	942	(22)	920	921	1
Franchise Fees:					
Cable Franchise Fees	4,800	100	4,900	5,750	850
Utilities Franchise Fees	30,000	2,400	32,400	32,445	45
License and Permits:					
Building Permits	120	50	170	145	(25)
Business License/Gross Receipts	54,560	(18,060)	36,500	39,586	3,086
Intergovernmental Revenue:					
Area Development Funds	1,500	2,040	3,540	3,542	2
Fire Department State Aid	5,000	(5,000)	-	21,500	21,500
Fire Department County Aid	8,000	-	8,000	8,000	-
HB413 Revenue	3,890	1,410	5,300	5,425	125
Police Incentive Pay	14,300	(12,750)	1,550	14,595	13,045
LGEA Funds	10,900	2,600	13,500	13,530	30
Charges for Services:					
Accident Reports	-	-	-	340	340
Arrest Fees	-	-	-	1,250	1,250
Copies	-	-	-	5	5
Fax Fees	-	-	-	10	10
Fire Dept. Runs	5,000	(1,150)	3,850	5,623	1,773
Impound Fees	20,000	(2,000)	18,000	18,104	104
Police Forfeitures	1,000	-	1,000	377	(623)
Police Runs	700	100	800	816	16
Festival Income/Donations	8,500	-	8,500	11,909	3,409
Donations and Fundraisers:					
Fire Department	1,000	-	1,000	-	(1,000)
Rents:					
Cell Tower Land Lease	20,000	-	20,000	28,180	8,180
Wendell Street Property Lease	7,800	2,035	9,835	-	(9,835)
702 Dixie Rent	7,800	2,035	9,835	13,446	3,611
Outdoor System Rental	-	-	-	750	750
Safe Room	1,000	-	1,000	-	(1,000)
Interest	40	80	120	116	(4)
Other Income	5,000	182,250	187,250	20,156	(167,094)
Total General Fund Revenues	<u>496,952</u>	<u>156,418</u>	<u>653,370</u>	<u>527,791</u>	<u>(125,579)</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 -**  
**GENERAL FUND - CONTINUED**  
**JUNE 30, 2019**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b><u>REVENUES - Continued</u></b>					
Prior Year Fund Balance:					
Appropriated for Current Year Budget	102,200	66,500	168,700	-	(168,700)
Total Revenues and Prior Year Fund Balance	599,152	222,918	822,070	527,791	(294,279)
<b><u>EXPENDITURES</u></b>					
General Government:					
Salaries	62,580	620	63,200	62,795	405
FICA and Medicare	4,790	50	4,840	4,413	427
Retirement	11,520	520	12,040	12,003	37
Insurance	10,320	20	10,340	10,233	107
Advertising	-	-	-	1,642	(1,642)
Code Enforcement	10,000	2,500	12,500	-	12,500
Office Expense	8,000	-	8,000	8,312	(312)
Training and Expenses	3,000	(500)	2,500	-	2,500
Telephone	4,800	(400)	4,400	4,407	(7)
Utilities	41,000	(1,000)	40,000	40,118	(118)
Mayor and Council Expenses	1,000	-	1,000	-	1,000
Legal and Advertising	4,000	(1,500)	2,500	-	2,500
Audit	6,500	(500)	6,000	6,000	-
Liability and Property Insurance	30,000	(2,000)	28,000	35,337	(7,337)
Worker's Compensation Insurance	5,000	500	5,500	-	5,500
Maintenance - Other	1,400	-	1,400	613	787
Park Renovations	23,704	-	23,704	-	23,704
Land Development	20,000	-	20,000	-	20,000
Demo Debris Dump	10,000	-	10,000	-	10,000
Safe Room Loan	17,100	-	17,100	17,769	(669)
Building Maintenance	20,000	100,000	120,000	110,000	10,000
Wendell Street Property Loan	6,200	1,000	7,200	13,598	(6,398)
Roof Replacement	-	4,960	4,960	4,959	1
Miscellaneous	12,000	8,170	20,170	27,711	(7,541)
Total Administration	312,914	112,440	425,354	359,910	65,444
Police Department:					
Salaries	131,220	780	132,000	131,511	489
FICA and Medicare	10,040	60	10,100	10,010	90
Retirement	28,200	200	28,400	28,248	152
Insurance	14,800	3,600	18,400	18,334	66
Training Expenses	1,500	-	1,500	-	1,500
Maintenance	4,000	-	4,000	3,621	379
Uniforms	4,000	-	4,000	2,994	1,006
Towing and Other Impound Expense	6,500	-	6,500	5,925	575
Computers	3,000	(2,000)	1,000	-	1,000

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, 2019**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b><u>EXPENDITURES - Continued</u></b>					
Police Department (Continued):					
Equipment and Supplies	5,000	2,000	7,000	-	7,000
Dispatch	1,800	-	1,800	1,800	-
Gas and Oil	14,000	(3,500)	10,500	10,420	80
Police Vehicle Purchase and Payments	12,000	70,600	82,600	94,044	(11,444)
Miscellaneous	6,000	2,000	8,000	6,606	1,394
Total Police Department	242,060	73,740	315,800	313,513	2,287
Fire Department:					
Salaries	9,000	3,000	12,000	8,400	3,600
FICA and Medicare	-	-	-	613	(613)
Utilities	4,200	-	4,200	-	4,200
Fuels	1,000	-	1,000	-	1,000
Maintenance	10,000	-	10,000	-	10,000
Equipment and Supplies	18,500	-	18,500	33,860	(15,360)
Equipment Loan Payment	-	-	-	21,500	(21,500)
Miscellaneous	2,000	3,000	5,000	-	5,000
Total Fire Department	44,700	6,000	50,700	64,373	(13,673)
Parks and Recreation:					
Muldrough Festival Days	15,000	5,700	20,700	22,155	(1,455)
Park	7,000	-	7,000	5,150	1,850
Playground	7,000	-	7,000	242	6,758
Total Parks and Recreation	29,000	5,700	34,700	27,547	7,153
Public Works					
Mowing Expense	-	-	-	47	(47)
City Cleanup	-	-	-	12,903	(12,903)
Total Public Works	-	-	-	12,950	(12,950)
Total Expenditures	628,674	197,880	826,554	778,293	48,261
Excess of Revenue over Expenditures	(29,522)	25,038	(4,484)	(250,502)	(246,018)
OTHER FINANCING SOURCES (USES)					
Proceeds from Long-term Debt	-	-	-	153,490	153,490
Transfer In	60,000	(37,200)	22,800	31,138	8,338
Sale of Surplus Property	2,000	(2,000)	-	25,663	25,663
Total Other Financing Sources (Uses)	62,000	(39,200)	22,800	210,291	187,491
Net Change in Fund Balances	32,478	(14,162)	18,316	(40,211)	(58,527)
Fund Balance, Beginning	-	-	-	233,574	233,574
Fund Balance, Ending	\$ 32,478	\$ (14,162)	\$ 18,316	\$ 193,363	\$ 175,047

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, 2019**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>					
Road Aid					
Intergovernmental Revenue	\$ 19,000	\$ -	\$ 19,000	\$ 20,873	\$ 1,873
Interest Income	20	-	20	33	13
Total Road Fund Revenues	<u>19,020</u>	<u>-</u>	<u>19,020</u>	<u>20,906</u>	<u>1,886</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>20,000</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>
Total Revenues and Prior Year Fund Balance	<u>39,020</u>	<u>-</u>	<u>39,020</u>	<u>20,906</u>	<u>(18,114)</u>
<b><u>EXPENDITURES</u></b>					
Road Aid					
General Expense-Streets	<u>39,020</u>	<u>-</u>	<u>39,020</u>	<u>7,450</u>	<u>31,570</u>
Total Road Aid	<u>39,020</u>	<u>-</u>	<u>39,020</u>	<u>7,450</u>	<u>31,570</u>
Excess of Revenue over Expenditures	-	-	-	13,456	13,456
OTHER FINANCING SOURCES (USES)					
Sale of Surplus Property	<u>-</u>	<u>-</u>	<u>-</u>	<u>452</u>	<u>452</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>452</u>	<u>452</u>
Net Change in Fund Balances	-	-	-	13,908	13,908
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,865</u>	<u>30,865</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,773</u>	<u>\$ 44,773</u>

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



**CITY OF MULDRUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL - STORM WATER MANAGEMENT**  
**JUNE 30, 2019**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>					
Storm Water Management					
Charges for Services	\$ 12,000	\$ -	\$ 12,000	\$ 11,791	\$ (209)
Interest Income	-	-	-	20	20
Other Income	-	-	-	10	10
Total Storm Water Fund Revenues	<u>12,000</u>	<u>-</u>	<u>12,000</u>	<u>11,821</u>	<u>(179)</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>18,000</u>	<u>-</u>	<u>18,000</u>	<u>-</u>	<u>(18,000)</u>
Total Revenues and Prior Year Fund Balance	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>11,821</u>	<u>(18,179)</u>
<b><u>EXPENDITURES</u></b>					
Storm Water Management					
Maintenance and Repairs	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>8,232</u>	<u>7,768</u>
Total Storm Water Management	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>8,232</u>	<u>7,768</u>
Net Change in Fund Balances	14,000	-	14,000	3,589	(10,411)
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,664</u>	<u>18,664</u>
Fund Balance, Ending	<u>\$ 14,000</u>	<u>\$ -</u>	<u>\$ 14,000</u>	<u>\$ 22,253</u>	<u>\$ 8,253</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, 2019**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b><u>REVENUES</u></b>					
Charges for Services	\$ 566,560	\$ (5,310)	\$ 561,250	\$ 505,954	\$ (55,296)
Miscellaneous Labor and Tap Fees	4,000	2,200	6,200	-	(6,200)
Reconnect Fees	500	100	600	-	(600)
Online Meter Deposits	5,880	(2,830)	3,050	-	(3,050)
Meter Deposits	9,300	(1,100)	8,200	5,669	(2,531)
Sewer Surcharge	-	-	-	30,733	30,733
Infiltration Fees	-	-	-	24,770	24,770
Interest Income	50	7	57	60	3
Miscellaneous Revenue	-	-	-	14,841	14,841
Total Proprietary Fund Revenues	<u>586,290</u>	<u>(6,933)</u>	<u>579,357</u>	<u>582,027</u>	<u>2,670</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>74,410</u>	<u>7,320</u>	<u>81,730</u>	<u>-</u>	<u>(81,730)</u>
Total Revenues and Prior Year Fund Balance	<u>660,700</u>	<u>387</u>	<u>661,087</u>	<u>582,027</u>	<u>(79,060)</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 - CONTINUED**  
**JUNE 30, 2019**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b>EXPENSES</b>					
Water and Sewer System					
Salaries	112,400	10,900	123,300	123,676	(376)
FICA and Medicare	8,600	840	9,440	9,250	190
Retirement	24,150	2,340	26,490	51,041	(24,551)
Insurance	25,240	-	25,240	25,113	127
Waste Management	68,000	4,000	72,000	73,060	(1,060)
Telephone	3,200	200	3,400	3,410	(10)
Repair and Maintenance - Equipment	10,000	(6,000)	4,000	5,317	(1,317)
Repair and Maintenance - Water	10,000	4,000	14,000	12,990	1,010
Repair and Maintenance - Sewer	22,000	(12,253)	9,747	11,778	(2,031)
Uniforms	1,000	-	1,000	323	677
Water and Sewer Purchased	90,000	29,000	119,000	116,075	2,925
Utilities	21,900	3,900	25,800	25,165	635
Office Supplies	5,000	2,000	7,000	5,787	1,213
Office Equipment	5,000	(4,000)	1,000	-	1,000
Building Maintenance	2,000	(1,500)	500	-	500
Advertising and Legal Fees	4,000	(1,500)	2,500	965	1,535
Insurance - Property and Liability	11,500	(500)	11,000	12,157	(1,157)
Insurance - Workers Compensation	2,800	300	3,100	-	3,100
Gas and Oil	12,700	(5,200)	7,500	7,616	(116)
Sales and Utility Tax	15,300	700	16,000	15,659	341
Audit	6,500	(500)	6,000	6,760	(760)
Truck Payment	7,370	-	7,370	483	6,887
Rural Development Loan Payment	14,000	-	14,000	2,063	11,937
South Lift Station Loan Payment	12,800	(380)	12,420	181	12,239
Customer Deposit Refunds	12,000	(2,800)	9,200	-	9,200
Miscellaneous - Water and Sewer	9,080	-	9,080	7,374	1,706
Depreciation	-	-	-	139,743	(139,743)
Total Water & Sewer System	<u>516,540</u>	<u>23,547</u>	<u>540,087</u>	<u>655,986</u>	<u>(115,899)</u>
Total Expenses	<u>516,540</u>	<u>23,547</u>	<u>540,087</u>	<u>655,986</u>	<u>(115,899)</u>
Excess of Revenue over Expenses	144,160	(23,160)	121,000	(73,959)	(194,959)
OTHER FINANCING SOURCES (USES)					
Transfers Out	(73,550)	40,800	(32,750)	(31,138)	1,612
Total Other Financing Sources (Uses)	<u>(73,550)</u>	<u>40,800</u>	<u>(32,750)</u>	<u>(31,138)</u>	<u>1,612</u>
Change in Net Position	70,610	17,640	88,250	(105,097)	(193,347)
Net Position, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500,528</u>	<u>2,500,528</u>
Net Position, Ending	<u>\$ 70,610</u>	<u>\$ 17,640</u>	<u>\$ 88,250</u>	<u>\$ 2,395,431</u>	<u>\$ 4,807,709</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, 2019**

***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 bases as reported in the required supplementary information differs from the fund financial statements in the following areas:

Budgetary Fund/Department/Line Item	Reported As Capital Outlay in the Fund Financials	Reported As Debt Service in the Fund Financials
<b>General Fund:</b>		
General Government:		
Miscellaneous	\$ 110,000	\$ -
Roof Payment	-	4,959
City Hall Mortgage	-	13,598
Safe Room Payment	-	17,769
Police Department:		
Police Car Payment	56,656	23,544
Miscellaneous Police	13,845	-
Fire Department:		
Fire Department Supplies	11,725	21,500
Parks and Recreation:		
Park Expense	4,396	-
	<u>\$ 196,622</u>	<u>\$ 81,370</u>

***Stewardship***

Expenditures exceeded budget in the following departments:

<u>Department</u>	<u>Amount Over Budget</u>
Fire Department	\$ 13,673
Public Works	12,950
Water and Sewer System	115,899

**CITY OF MULDRAGH, 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, 2019**

<b>Year Ended June 30th</b>	<b>City's proportion of the net pension liability</b>	<b>City's proportionate share of the net pension liability (asset)</b>	<b>City's covered employee payroll</b>	<b>City's share of the net pension liability (asset) as a percentage of its covered employee payroll</b>	<b>Plan fiduciary net position as a percentage of the total pension liability</b>
<b>Non-Hazardous:</b>					
2019	Not Available	Not Available	\$ 314,316	Not Available	Not Available
2018	0.012389%	\$ 754,528	\$ 307,064	245.72%	53.54%
2017	0.011866%	\$ 694,553	\$ 288,906	240.41%	53.32%
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%
2013-2010	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 MULDRAGH, KENTUCKY  
SCHEDULE OF THE CITY'S CONTRIBUTIONS TO THE COUNTY  
EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>Year Ended June 30th</b>	<b>Contractually required contribution</b>	<b>Contribution relative to contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>City's covered employee payroll</b>	<b>Contributions as a percentage of covered employee payroll</b>
<b>Non-Hazardous:</b>					
2019	\$ 50,982	\$ 50,982	\$ -	\$ 314,316	16.22%
2018	\$ 44,463	\$ 44,463	\$ -	\$ 307,064	14.48%
2017	\$ 40,303	\$ 40,303	\$ -	\$ 288,906	13.95%
2016	\$ 38,758	\$ 38,758	\$ -	\$ 312,053	12.42%
2015	\$ 42,900	\$ 42,900	\$ -	\$ 336,469	12.75%
2014	Not Available	Not Available	Not Available	Not Available	Not Available
2013-2010	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 MULDRAGH, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON PENSION REPORTING**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**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. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**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.

2018: Legislation was enacted which provided increased pension and insurance benefits for the beneficiaries of active members who die in the line of duty.

**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.

**2017**

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The payroll growth assumption was reduced from 4.00% to 2.00%
- The asset valuation method was changed from the 5-year smoothed method to 20% of the difference between the market value of assets and the expected actuarial value of assets.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON PENSION REPORTING**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**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 2017 and 2018, determined as of July 1, 2017. 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.

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Inflation	3.25%
Salary increase	4.00%, average including inflation
Investment rate of return	7.50%

**NOTE E – MEASUREMENT DATE**

As allowed by current audit standards, CERS has used a measurement date of June 30, 2018 for reporting information to the City.



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

<u>Year Ended June 30th</u>	<u>City's proportion of the net OPEB liability</u>	<u>City's proportionate share of the net OPEB liability (asset)</u>	<u>City's covered employee payroll</u>	<u>City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total OPEB liability</u>
<b>Non-Hazardous:</b>					
2019	Not Available	Not Available	\$ 314,316	Not Available	Not Available
2018	0.012389%	\$ 219,964	\$ 307,064	71.63%	57.62%
2017	0.011866%	\$ 238,547	\$ 288,906	82.57%	52.39%
2016	Not Available	\$ 187,109	\$ 312,053	59.96%	Not Available
2015-2010	Not Available	Not Available	Not Available	Not Available	Not Available

*This schedule is intended to present a 10-year trend as required by GASB 75. Additional years will be reported as incurred.*

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

**CITY OF MULDRAGH, KENTUCKY  
SCHEDULE OF THE CITY'S INSURANCE CONTRIBUTIONS TO THE COUNTY  
EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>Year Ended June 30th</b>	<b>Contractually required contribution</b>	<b>Contribution relative to contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>City's covered employee payroll</b>	<b>Contributions as a percentage of covered employee payroll</b>
<b>Non-Hazardous:</b>					
2019	\$ 16,533	\$ 16,533	\$ -	\$ 314,316	5.26%
2018	\$ 14,432	\$ 14,432	\$ -	\$ 307,064	4.70%
2017	\$ 13,665	\$ 13,665	\$ -	\$ 288,906	4.73%
2016	\$ 14,479	\$ 14,479	\$ -	\$ 312,053	4.64%
2015-2010	Not Available	Not Available	Not Available	Not Available	Not Available

*This schedule is intended to present a 10-year trend as required by GASB 75. Additional years will be reported as incurred.*

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON OPEB REPORTING**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE A – ACCOUNTING POLICIES**

For purposes of determining net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEBs, OPEB 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. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE B – CHANGES OF BENEFIT TERMS**

2018: Legislation was enacted which provided increased pension and insurance benefits for the beneficiaries of active members who die in the line of duty.

**NOTE C – CHANGES OF ASSUMPTIONS**

2017

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.50% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%

**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 2017 and 2018, determined as of July 1, 2016. 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.

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years, closed
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00% average
Investment rate of return	7.50%

Healthcare Trend Rates:

- Pre 65 – Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over 5 years.
- Post 65 – Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over 2 years.

**NOTE E – MEASUREMENT DATE**

As allowed by current audit standards, CERS has used a measurement date of June 30, 2018 for reporting information to the City.

**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***



# STEPHENS & LAWSON

Certified Public Accountants

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 and each major fund of the City of Muldraugh, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Muldraugh, Kentucky's basic financial statements and have issued our report thereon dated February 15, 2022.

## 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 the City of Muldraugh, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 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 the 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-1 that we consider to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Muldraugh, Kentucky's financial statements are free of 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

February 15, 2022

**CITY OF MULDRAGH, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2019**

**Findings:**

2019-1 *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 auditors, as allowed by their professional standards, to render assistance in the drafting of the financial statements and related notes to the financial statements.