

CITY OF MULdraUGH, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

**CITY OF MULDRAGH, KENTUCKY
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
BASIC FINANCIAL STATEMENTS	
GOVERNMENT - ENTITY WIDE FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Activities	5
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	6
Statement of Revenues, Expenditures, and Changes In Fund Balance - Governmental Funds	7-8
Statement of Net Position - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Notes to the Financial Statements	12-33
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison General Fund	34
Schedule of Proportionate Share of the Net Pension Liability	35
Schedule of Pension Contributions County Employees' Retirement System	36
Schedule of Proportionate Share of the Net OPEB Liability	37
Schedule of Contributions to the Other Post Employment Benefits	38
Notes to the Required Supplementary Information	39-40
OTHER INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	42
Combining Statement of Net Position - Nonmajor Proprietary Funds	43
Combining Statement of Revenues, Expenses, and Changes in Net Position - Nonmajor Proprietary Funds	44
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>	45-46
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	47-49

SK LEE CPAS, P.S.C.
Certified Public Accountants

208 Pauline Drive, Suite D
Berea, Kentucky 40403
(859) 986-3756
(859) 986-0103

Member of American Institute of CPA's

Member of Kentucky Society of CPA's

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Muldraugh
Muldraugh, Kentucky 40155

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muldraugh (hereinafter called the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison general fund, pension schedules and OPEB schedules on pages 34-40 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplemental information such as the combining balance sheet – nonmajor governmental funds, combining statement of revenues, expenditures, and changes in fund balance – nonmajor governmental funds, combining statement of net position – nonmajor proprietary funds, and combining statement of revenues, expenses, and changes in net position – nonmajor proprietary funds as shown on pages 41-44 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information such as the financial data schedules and the schedule of certification of actual modernization costs is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

SK LEE CPAs, P.S.C.

Berea, Kentucky
November 13, 2023

CITY OF MULDRAGH, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2021

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 119,783	\$ 34,255	\$ 154,038
Receivables, net			
Customers	-	106,019	106,019
Other	89,727	-	89,727
Due from other funds	4,641	-	4,641
Total Current Assets	<u>214,151</u>	<u>140,274</u>	<u>354,425</u>
Non-Current Assets			
Restricted cash	153,797	80,865	234,662
Reserve deposit	7,650	-	7,650
Capital assets:			
Non-depreciable	76,164	10,300	86,464
Depreciable, net	1,422,763	2,500,611	3,923,374
Total Non-Current Assets	<u>1,660,374</u>	<u>2,591,776</u>	<u>4,252,150</u>
Total Assets	<u>1,874,525</u>	<u>2,732,050</u>	<u>4,606,575</u>
Deferred Outflows of Resources			
Deferred amounts related to pension	107,387	46,023	153,410
Deferred amounts related to OPEB	91,466	39,200	130,666
Total Deferred Outflows of Resources	<u>198,853</u>	<u>85,223</u>	<u>284,076</u>
Liabilities			
Current Liabilities			
Accounts payable	11,944	10,621	22,565
Accrued expenses	8,445	9,425	17,870
Accrued interest	-	-	-
Customer deposits payable	-	37,050	37,050
Due to other funds	-	4,641	4,641
Notes payable	29,847	13,782	43,629
Capital leases	10,000	-	10,000
Revenue bonds payable	-	10,000	10,000
Total Current Liabilities	<u>60,236</u>	<u>85,519</u>	<u>145,755</u>
Non-Current Liabilities			
Notes payable	103,151	89,018	192,169
Capital leases	175,834	-	175,834
Revenue bonds payable	-	9,273	9,273
Net pension liability	597,134	255,914	853,048
Net OPEB liability	187,943	80,547	268,490
Total Non-Current Liabilities	<u>1,064,062</u>	<u>434,752</u>	<u>1,498,814</u>
Total Liabilities	<u>1,124,298</u>	<u>520,271</u>	<u>1,644,569</u>
Deferred Inflows of Resources			
Deferred amounts related to pension	50,082	21,464	71,546
Deferred amounts related to OPEB	49,311	21,133	70,444
Total Deferred Inflows of Resources	<u>99,393</u>	<u>42,597</u>	<u>141,990</u>
Net Position (Deficit)			
Net investment in capital assets	1,214,982	2,388,838	3,603,820
Restricted	180,985	43,815	224,800
Unrestricted (deficit)	(546,280)	(178,248)	(724,528)
Total Net Position (Deficit)	<u>\$ 849,687</u>	<u>\$ 2,254,405</u>	<u>\$ 3,104,092</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, 2021

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Government Activities							
General government	292,763	\$ -	\$ -	\$ -	\$ (292,763)	\$ -	\$ (292,763)
Police	254,809	-	-	-	(254,809)	-	(254,809)
Fire	42,072	-	-	-	(42,072)	-	(42,072)
Street	66,794	66,771	-	-	(23)	-	(23)
Parks and recreation	3,831	-	-	-	(3,831)	-	(3,831)
Total Governmental Activities	660,269	66,771	-	-	(593,498)	-	(593,498)
Business-Type Activities							
Water and sewer system	684,192	547,290	-	-	-	(136,902)	(136,902)
Total Business-Type Activities	684,192	547,290	-	-	-	(136,902)	(136,902)
Total Activities	\$ 1,344,461	\$ 614,061	\$ -	\$ -	\$ (593,498)	\$ (136,902)	\$ (730,400)

	Governmental Activities	Business-Type Activities	Total
General Revenues			
Property taxes	56,844	-	56,844
Motor vehicle taxes	8,161	-	8,161
Insurance premium taxes	133,093	-	133,093
Occupational taxes	103,750	-	103,750
Gross profits	12,378	-	12,378
Intergovernmental	66,911	-	66,911
Franchise taxes	39,763	-	39,763
License & permits	27,843	-	27,843
Rental income	42,922	-	42,922
Bank deposit taxes	955	-	955
Miscellaneous	181,016	14,086	195,102
Transfers	4,179	6,721	10,900
Total General Revenues and Transfers	677,815	20,807	698,622
Change in Net Position	84,317	(116,095)	(31,778)
Total Net Position, Beginning	765,370	2,370,500	3,135,870
Net Position, Ending	\$ 849,687	\$ 2,254,405	\$ 3,104,092

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

CITY OF MULDRAGH, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021

	General	Payroll	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 113,914	2,744	\$ 3,125	\$ 119,783
Cash and cash equivalents (restricted)	10,066	-	143,731	153,797
Accounts receivable	70,189	-	19,538	89,727
Prepaid expenses	-	-	-	-
Reserve deposit (restricted)	7,650	-	-	7,650
Due from other funds	4,641	-	-	4,641
Total Assets	\$ 206,460	\$ 2,744	\$ 166,394	\$ 375,598
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 11,944	-	\$ -	\$ 11,944
Accrued expenses	8,445	-	-	8,445
Due to other funds	-	-	-	-
Total Liabilities	20,389	-	-	20,389
Fund Balances				
Restricted	17,716	-	163,269	180,985
Assigned	-	-	1,265	1,265
Unassigned	168,355	2,744	1,860	172,959
Total Fund Balances	186,071	2,744	166,394	355,209
Total Liabilities and Fund Balances	\$ 206,460	\$ 2,744	\$ 166,394	\$ 375,598

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Fund balances reported above \$ 355,209

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,498,927

Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds. 99,460

All long-term liabilities are reported in the Statement of Net Position whereas in governmental funds, long-term liabilities are not due and payable in the current period and therefore are not reported.

Notes, capital leases and bonds payables	(318,832)
Net pension liability	(597,134)
Net OPEB liability	(187,943)

Net Position of Governmental Activities **\$ 849,687**

CITY OF MULdraUGH, Kentucky
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund	Payroll Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 56,844	\$ -	\$ -	\$ 56,844
Motor vehicle taxes	8,161	-	-	8,161
Insurance premium taxes	133,093	-	-	133,093
Occupational taxes	103,750	-	-	103,750
Gross profits	12,378	-	-	12,378
Intergovernmental revenues	48,505	-	18,406	66,911
Franchise taxes	39,763	-	-	39,763
Licenses & permits	27,843	-	-	27,843
Rental Income	42,922	-	-	42,922
Bank deposit taxes	955	-	-	955
Service charges and fees	54,791	-	11,980	66,771
Other	132,622	166	48,228	181,016
Total Revenues	661,627	166	78,614	740,407
Expenditures				
General	216,798	1,622	2,777	221,197
Police	195,146	-	1,839	196,985
Fire	31,048	-	-	31,048
Street	-	-	69,333	69,333
Parks and recreation	1,833	-	-	1,833
Capital outlay	52,259	-	-	52,259
Debt service:				
Principal	48,634	-	-	48,634
Interest	12,601	-	-	12,601
Total Expenditures	558,319	1,622	73,949	633,890
Excess (Deficiency) of Revenues Over Expenditures				
Other Financing Sources (Uses)				
Transfers in (out)	(5,922)	-	10,101	4,179
Total Other Financing Sources (Uses)	(5,922)	-	10,101	4,179
Net Change in Fund Balance	97,386	(1,456)	14,766	110,696
Fund Balance (Deficit), Beginning of Year	88,685	4,200	151,628	244,513
Fund Balance, Ending	\$ 186,071	\$ 2,744	\$ 166,394	\$ 355,209

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

Net Changes in Fund Balances - Total Governmental Funds	\$ 110,696
<p>Amounts reported for <i>government activities</i> in the Statement of Activities are different because:</p>	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$52,259 is less than depreciaton expense of \$84,464 in the current period.	(32,205)
Notes and lease proceeds provide current financial resources in the governmental funds, but issuing debt increases long-term debt in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds of \$0 is less than repayments of \$48,634.	48,634
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Change in pension liability and OPEB liability of governmental activities	(42,808)
Change in Net Position of Governmental Activities	<u>\$ 84,317</u>

CITY OF MULDRAGH, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2021

	Operations & Maintenance	Revenue Fund	Non-Major Proprietary Funds	Total Proprietary Funds
Assets				
Current Assets				
Cash and cash equivalents	\$ 4,512	\$ 8,576	\$ 21,167	\$ 34,255
Receivables, net				
Customers	-	106,019	-	106,019
Due from other funds	-	-	-	-
Total Current Assets	4,512	114,595	21,167	140,274
Non-Current Assets				
Restricted cash	-	-	80,865	80,865
Capital assets:				
Non-depreciable	10,300	-	-	10,300
Depreciable, net	2,500,611	-	-	2,500,611
Total Non-Current Assets	2,510,911	-	80,865	2,591,776
Total Assets	2,515,423	114,595	102,032	2,732,050
Deferred Outflows of Resources				
Deferred amounts related to pension	46,023	-	-	46,023
Deferred amounts related to OPEB	39,200	-	-	39,200
Total Deferred Outflows of Resources	85,223	-	-	85,223
Liabilities				
Current Liabilities				
Accounts payable	9,653	968	-	10,621
Accrued expenses	9,425	-	-	9,425
Customer deposits payable	-	-	37,050	37,050
Due to other funds	4,641	-	-	4,641
Notes payable	13,782	-	-	13,782
Revenue bonds payable	10,000	-	-	10,000
Total Current Liabilities	47,501	968	37,050	85,519
Non-Current Liabilities				
Notes payable	89,018	-	-	89,018
Revenue bonds payable	9,273	-	-	9,273
Net pension liability	255,914	-	-	255,914
Net OPEB liability	80,547	-	-	80,547
Total Non-Current Liabilities	434,752	-	-	434,752
Total Liabilities	482,253	968	37,050	520,271
Deferred Inflows of Resources				
Deferred amounts related to pension	21,464	-	-	21,464
Deferred amounts related to OPEB	21,133	-	-	21,133
Total Deferred Inflows of Resources	42,597	-	-	42,597
Net Position				
Net investment in capital assets	2,388,838	-	-	2,388,838
Restricted	-	-	43,815	43,815
Unrestricted (deficit)	(313,042)	113,627	21,167	(178,248)
Total Net Position	\$ 2,075,796	\$ 113,627	\$ 64,982	\$ 2,254,405

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

CITY OF MULdraUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Operations & Maintenance	Revenue Fund	Non-Major Proprietary Funds	Total Proprietary Funds
Operating Revenues				
Water	\$ -	\$ 163,613	\$ -	\$ 163,613
Sanitation	-	127,106	-	127,106
Sewer	-	202,633	-	202,633
Sewer Surcharge	-	29,767	-	29,767
Infiltrate	-	24,171	-	24,171
Miscellaneous	-	20,559	-	20,559
Total Operating Revenues	-	567,849	-	567,849
Operating Expenses				
Salaries	105,123	-	-	105,123
Employee benefits	18,553	-	-	18,553
Payroll taxes	6,568	-	-	6,568
Garbage collection	127,466	-	-	127,466
Water Purchases	104,179	-	-	104,179
Repairs and maintenance	41,425	-	-	41,425
Utilities	24,168	-	-	24,168
Miscellaneous expense	18,456	12,449	5,216	36,121
Insurance	35,857	-	-	35,857
Sales and utility tax	17,117	-	-	17,117
Professional fees	365	-	-	365
Gas and oil	5,811	-	-	5,811
Office expense	7,680	-	-	7,680
Telephone	2,317	-	-	2,317
Advertising	1,085	-	-	1,085
Uniforms	770	-	-	770
Refunds	-	-	14,543	14,543
Bank charges	-	-	46	46
Depreciation	139,581	-	-	139,581
Total Operating Expenses	656,521	12,449	19,805	688,775
Operating Loss	(656,521)	555,400	(19,805)	(120,926)
Non-Operating Revenues (Expenses)				
Interest income	20	24	51	95
Interest expense	(1,985)	-	-	(1,985)
Total Non-Operating Revenue (Expenses)	(1,965)	24	51	(1,890)
Income (loss) before transfers	(658,486)	555,424	(19,754)	(122,816)
Transfers (out) in	566,556	(565,999)	6,164	6,721
Change in Net Position	(91,930)	(10,575)	(13,590)	(116,095)
Total Net Position, Beginning,	2,167,726	124,202	78,572	2,370,500
Total Net Position, Ending	\$ 2,075,796	\$ 113,627	\$ 64,982	\$ 2,254,405

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

CITY OF MULDRAGH, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Operations & Maintenance	Revenue Fund	Non-Major Proprietary Funds	Total Proprietary Funds
Cash Flows from Operating Activities				
Cash received from customers	\$ -	\$ 562,536	\$ 6,243	\$ 568,779
Cash received from other sources	-	20,559	-	20,559
Cash payments to suppliers for goods and services	(390,734)	(11,481)	(19,805)	(422,020)
Cash payments to employees	(102,292)	-	-	(102,292)
Net Cash (Used in) Provided by Operating Activities	(493,026)	571,614	(13,562)	65,026
Cash Flows from Non-Capital and Related Financing Activities				
Transfers in(out)	566,556	(565,999)	6,164	6,721
Net Cash (Used in) Provided by Capital and Related Financing	566,556	(565,999)	6,164	6,721
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of long-term debt	105,055	-	-	105,055
Principal, interest, and related fees paid on long-term debt	(17,484)	-	-	(17,484)
Net Cash Provided by Capital and Related Financing Activities	87,571	-	-	87,571
Cash Flows from Investing Activities				
Capital expenditures	(163,360)	-	-	(163,360)
Cash received from interest income	20	24	51	95
Net Cash (Used in) Provided by Investing Activities	(163,340)	24	51	(163,265)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,239)	5,639	(7,347)	(3,947)
Cash and Cash Equivalents at July 1, 2020	6,751	2,937	109,379	119,067
Cash and Cash Equivalents at June 30, 2021	\$ 4,512	\$ 8,576	\$ 102,032	\$ 115,120
⁽¹⁾ Cash and cash equivalents are reflected in the Statement of Net Position as follows:				
Cash and cash equivalents	\$ 4,512	\$ 8,576	\$ 21,167	\$ 34,255
Restricted cash and cash equivalents	-	-	80,865	80,865
Subtotal	\$ 4,512	\$ 8,576	\$ 102,032	\$ 115,120
Reconciliation of Operating Income (Loss) to Net Cash (Used in) Provided by Operating Activities				
Operating Income (Loss)	\$ (656,521)	\$ 555,400	\$ (19,805)	\$ (120,926)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:				
Depreciation	139,581	-	-	139,581
Changes in assets and liabilities:				
(Increase) decrease in customer accounts receivable	-	15,246	-	15,246
(Increase) decrease in outflows of resources	214	-	-	214
Increase (decrease) in accounts payable	2,899	968	-	3,867
Increase (decrease) in accrued expenses	2,462	-	-	2,462
Increase (decrease) in due to other funds	-	-	-	-
Increase (decrease) in customer deposit payables	-	-	-	-
Increase (decrease) in net pension liability	(7,002)	-	6,243	(759)
Increase (decrease) in net OPEB liability	17,686	-	-	17,686
Increase (decrease) in inflows of resources	7,655	-	-	7,655
Total adjustments	163,495	16,214	6,243	185,952
Net Cash (Used in) Provided by Operating Activities	\$ (493,026)	\$ 571,614	\$ (13,562)	\$ 65,026

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

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – 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, 2021. 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.

Basis of Presentation

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and user charges.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

- **Statement of Net Position** presents information on all of the assets and liabilities, with the difference between the two reported as *net position*.
- **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and detailed in the supplementary information.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the business-type activities/enterprise funds and the general fund. Charges are allocated as reimbursement for services provided by the general fund in support of those functions based on levels or services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expenses.

- **General Fund** is the City's primary operating fund. It accounts for all financial operations of the City and except for those required to be accounted for in another designated fund.
- **Special Revenue Funds** consists of accounts for financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds, Cedar Hill fund, Christmas parade, Fire department, veterans memorial, and youth sports funds. These funds are restricted for the use of public safety, street improvements, and special events.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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.

The government-wide financial statements and the proprietary funds financial statements are presented on a *full accrual* basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental fund financial statements are presented on a modified accrual basis of accounting with a *current financial resource* measurement focus. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. *Measurable* means the amount of the transaction can be determined and revenues are considered *available* when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues taxes and fees, franchise fees, intergovernmental grants, and interest income

Unavailable revenue, a deferred inflow of resources, arises on the balance sheets of the governmental funds when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheets of the governmental funds for unavailable revenue is recognized as revenue in the Statement of Activities. Note that unavailable revenues also arise outside the scope of measurement focus and basis of accounting, such as when resources are received before there is legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as funds liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's water, sewer, and sanitation funds are charges to customers for sales and services. The water, sewer, and sanitation funds also recognize System Development Charges (SDC) fees intended to recover the cost of connecting new customers to the utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overhead charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2021, the original budget was approved in June 2020 and amended June 22, 2021. The budget for the General and Special Revenue Funds is presented in the Statements of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

Cash and Certificates of Deposit

The City considers demand deposits, money market funds, and other deposits with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

The City has restricted cash and or certificates of deposits to satisfy bond issue requirements, including cash restricted for bond payments.

Certificates of deposit are reported at cost which approximates fair value. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Inventories, and disbursements for inventory type items are considered expenditures at the time of purchase.

Receivables

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. An allowance for doubtful accounts is not deemed necessary by management, as uncollectible taxes become a lien on the property. Property taxes are levied and become a lien on July 1. Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Other receivables consist of amounts due at year end from other state, local and federal governments. Interest revenue receivable in all funds consist of revenue due on each certificate of deposit. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables. The City considers all receivables to be fully collectible; therefore, an allowance for doubtful accounts is not necessary.

Internal Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term inter-fund loans are reported as "inter-fund receivables and payables." Long-term inter-fund loans (non-current portion) are reported as "advances from and to other funds." Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Tax Calendar

Property taxes for fiscal year 2021 were levied in November 2020, respectively, on the assessed property located in the City of Muldraugh as of the preceding January 1. The rate for real estate was 19.3 cents per one hundred dollars of assessed value. The rate for auto and boats was 15.3 cents and other tangible property was 31.6 cents per one hundred dollars, respectively. The assessments are determined by the Meade County Property Valuation Administrator in accordance with Kentucky Revised Statutes. Taxes on real property are mailed and collected by the Meade County Sheriff who charges the city a of 4% of the gross amount collected. Personally property (on automobiles) are collected by the Meade County Clerk and remitted to the City on a monthly basis net of collection fees of 4%. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|---|---------------------------|
| 1. Due date for payment of taxes, 2% discount | November 30 |
| 2. Face value payment period | December 1 to December 31 |
| 3. Past due date, 10% penalty | January 1 |

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Cash and certificates of deposit which may only be used for construction of capital assets or debt service principal and interest payments in accordance with applicable laws and regulations have been reported as restricted cash and certificates of deposit on the Government-Wide Statement of Net Position and the Proprietary Fund Statement of Net Position.

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The City defines capital assets as assets with an individual cost of more than \$1,000, and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. When assets are retired or otherwise disposed of, the costs are removed from the asset accounts and a gain or loss is recorded. In the fund financial statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. 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 lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Description	Estimated Lives
Buildings and Improvements	10-39 years
Vehicles	5 years
Equipment	5-7 years
Water and Sewer System Infrastructure	5-25 years
Parks and Recreation	5-25 years

Compensated Absences

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 160 hours. Accumulated vacation is required to be used within one year of accumulation. Upon termination, accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination but will be paid only upon illness while in the employment of the City.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The City has two items that meets this criterion, as related to pensions and other postemployment benefits (OPEB) reported in the Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension and OPEB liabilities and difference during the measurement period between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet the criterion for this category as related to pensions and OPEB reported in the Statement of Net Position.

Pensions and Other Postemployment Benefits

The City participates in a cost-sharing multiple-employer plan to provide pension and OPEB benefits to employees. Each cost-sharing government reports its proportionate share of the cumulative net pension and OPEB liability. For the purposes of measuring the net pension and OPEB liability, deferred outflows or inflows of resources related to pension and OPEB, and pension and OPEB expense, information about the fiduciary net positions of the Kentucky "County Employer Retirement System" (CERS), have been determined by the same basis as they are reported by CERS.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position/Fund Balances

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through state statute. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

- *Non-spendable* – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- *Restricted* – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.
- *Committed* – *Portion of fund balance that can only be used for specific purposes imposed by majority vote of the City Council Members. Any changes or removal of specific purposes requires majority action by them.*
- *Assigned* – *Portion of fund balance that has been budgeted by the City Council.*
- *Unassigned* – *Portion of fund balance that has not been restricted, committed or assigned for specific purpose.*

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing and producing goods and/or services in connection with the enterprise funds. Operating expenses include administrative expenses, supplies, personnel costs, utilities, professional fees, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses and may include interest, grants, and gain or loss on disposition of capital assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT

As of June 30, 2021, the City's cash and cash equivalents balances include deposits held in checking accounts, savings accounts, and certificates of deposit.

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial bank in the City's name. The carrying amount of the City's deposits totaled \$396,350 and the bank balances totaled \$424,549. All deposits were fully covered by FDIC insurance and collateral held by the custodial bank.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT – CONTINUED

Credit Risk

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency. As of June 30, 2021, none of the City's deposits were subject to credit risk.

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of the deposits that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

NOTE 3 – RECEIVABLES

Receivables as of fiscal year-end for the City's individual major and non-major funds in the aggregate, including applicable allowances for doubtful accounts are as follows:

	<u>General</u>	<u>Water & Sanitation</u>	<u>Sewer</u>	<u>Total</u>
Accounts receivables				
Customers	\$ -	\$ 51,577	\$ 54,442	\$ 106,019
Other	89,727	-	-	89,727
Gross receivables	89,727	51,577	54,442	195,746
Less allowance for bad debt	-	-	-	-
Net total receivables	<u>\$ 89,727</u>	<u>\$ 51,577</u>	<u>\$ 54,442</u>	<u>\$ 195,746</u>

NOTE 4 – INTER-FUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Such inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Reallocation of resources between funds of the reporting entity is classified as inter-fund transfers. Such inter-fund transfers between funds are eliminated in the Statement of Activities. Inter-fund receivables/payables at June 30, 2021 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 4,641	\$ -
O&M	-	4,641
Total	<u>\$ 4,641</u>	<u>\$ 4,641</u>

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

Capital assets for the governmental activities during the year ended June 30, 2021 are as follows:

	Beginning Balance 7/1/2020	Increases	Decreases	Ending Balance 6/30/2021
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 76,164	\$ -	\$ -	\$ 76,164
Total capital assets, not being depreciated:	76,164	-	-	76,164
Capital assets, being depreciated:				
Buildings and Improvements	1,677,063	-	-	1,677,063
Equipment	206,602	52,259	-	258,861
Vehicles	390,098	-	-	390,098
Total capital assets, being depreciated:	2,273,763	52,259	-	2,326,022
Less accumulated depreciation for				
Buildings and Improvements	354,377	43,554	-	397,931
Vehicles	302,232	26,553	-	328,785
Equipment	143,450	11,319	-	154,769
Parks and Recreation	19,220	2,554	-	21,774
Total accumulated depreciation	819,279	83,980	-	903,259
Total capital assets, being depreciated, net	1,454,484			1,422,763
Government activities capital assets, net	\$ 1,530,648			\$ 1,498,927

Depreciation expense for governmental activities is charged to functions as follows:

	2021
General	\$ 46,092
Police	21,473
Fire	13,861
Park	2,554
Total	\$ 83,980

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

Capital assets for the business-type activities during the year ended June 30, 2021 are as follows:

	<u>Beginning Balance 7/1/2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 6/30/2021</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Construction in Process	\$ -	\$ 10,300	\$ -	\$ 10,300
Total capital assets, not being depreciated:	<u>-</u>	<u>10,300</u>	<u>-</u>	<u>10,300</u>
Capital assets, being depreciated:				
Equipment	172,479	33,005	-	205,484
Vehicles	42,567	120,055	-	162,622
Sewer	3,264,682	-	-	3,264,682
Water	971,389	-	-	971,389
Total capital assets, being depreciated:	<u>4,451,117</u>	<u>153,060</u>	<u>-</u>	<u>4,604,177</u>
Less accumulated depreciation for				
Accumulated Decreciation	1,963,984	139,582	-	2,103,566
Total accumulated depreciation	<u>1,963,984</u>	<u>139,582</u>	<u>-</u>	<u>2,103,566</u>
Total capital assets, being depreciated, net	<u>2,487,133</u>			<u>2,500,611</u>
Business-type activities capital assets, net	<u>\$ 2,487,133</u>			<u>\$ 2,510,911</u>

Depreciation expense for business-type activities is charged to functions as follows:

	2021
Water & Sewer	<u>\$ 139,582</u>
Total	<u>\$ 139,582</u>

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 6 – LONG-TERM DEBT

The following is a summary of long-term debt of the City for the year ended June 30, 2021:

	<u>Balance 7/1/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2021</u>	<u>Due Within One Year</u>
Governmental-type					
Notes Payable	\$ 171,631	\$ -	\$ 38,633	\$ 132,998	\$ 18,471
Capital Leases	195,834	-	10,000	185,834	10,000
Net Pension Liability	613,472	-	16,338	597,134	-
Net OPEB Liability	146,677	41,266	-	187,943	-
Business-type					
Notes Payable	-	105,055	2,255	102,800	13,782
Capital Leases	4,244	-	4,244	-	-
Revenue Bonds	28,273	-	9,000	19,273	10,000
Net Pension Liability	262,916	-	7,002	255,914	-
Net OPEB Liability	62,861	17,686	-	80,547	-
Total	<u>\$1,485,908</u>	<u>\$ 164,007</u>	<u>\$ 87,472</u>	<u>\$ 1,562,443</u>	<u>\$ 52,253</u>

Revenue Bonds and Covenants

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bond issued in prior years, for the bond listed below, was \$213,000. No general obligation bonds were issued during the current year. The revenue bond is pledged by revenues and by the full faith and credit of the government. This bond is issued as 36-year serial bonds with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rate 5%.

The following is a description of the City's bond outstanding as of June 30, 2021:

<u>Bond Series</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Bond Maturity</u>	<u>Original Issue</u>	<u>Outstanding Balance</u>
1986A	6/5/87	5%	1/1/23	\$ 213,000	\$ 19,273
Total				<u>\$ 213,000</u>	<u>\$ 19,273</u>

The following are the principal and interest maturities for the bonds outstanding as of June 30, 2021:

<u>Fiscal Year</u>	<u>Annual Requirements of Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2022	10,000	964	10,964
2023	9,273	464	9,737
Total	<u>\$ 19,273</u>	<u>\$ 1,428</u>	<u>\$ 20,701</u>

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable

On December 26, 2012, the City of Muldraugh entered into a loan agreement of \$165,794 with Meade County Bank for a city hall acquisition. As of June 30, 2021, the City had a balance of \$111,435 on the loan. The note is payable in 240 monthly installments of \$1,000 including interest of 3.96% and matures on December 26, 2032.

On October 18, 2018, the City of Muldraugh entered into two loan agreements with Meade County Bank for two 2019 Ford Explorers totaling \$45,604. As of June 30, 2021, the City had a balance of \$3,663 on the loans. The notes bear an interest rate of 3.75% with monthly payments of \$417. The notes mature on October 18, 2023.

On February 20, 2021, the City of Muldraugh entered into a loan agreement of \$25,024 with Meade County Bank for a fire truck. As of June 30, 2021, the City had a balance of \$17,142 on the loan. The note bears an interest rate of 4.31% with monthly payments of \$569. The note matures on February 20, 2024.

On September 9, 2016, the City of Muldraugh entered into a loan agreement of \$29,272 with the Kentucky Fire Commission for a fire equipment. As of June 30, 2021, the City had a balance of \$757 on the loan. The note bears an interest rate of 3.00% with fluctuating amounts of annual payments based on the amount of state aid received. The note matures on November 30, 2023.

On April 22, 2021, the City of Muldraugh entered into a loan agreement of \$105,055 with the Meade County Bank for a Ford F550 service truck. As of June 30, 2021, the City had a balance of \$102,800 on the loan. The note bears an interest rate of 2.95%. The note matures on April 22, 2028.

The minimum obligations of the City at June 30, 2021 for the payment of loan principal and interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2022	32,253	5,222	37,475
2023	33,473	4,780	38,253
2024	28,916	4,351	33,267
2025	23,734	2,911	26,645
2026	24,592	2,318	26,910
2027-2031	81,889	4,528	86,417
2032-2033	10,941	365	11,306
Total	<u>\$ 235,798</u>	<u>\$ 24,475</u>	<u>\$ 260,273</u>

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 7 – CAPITAL LEASES

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, equipment 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 \$232,426 at June 30, 2021. The lease matures January 1, 2035.

A building with a cost of \$1,219,073 and accumulated depreciation of \$234,437 was financed in part with proceeds from this capital lease. This building is shown as a fixed asset in the statement of net position.

The City entered into a lease agreement with Magnolia 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%. The lease matured February 2, 2021.

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

As of June 30, 2021, the City has a capital lease obligations through Kentucky Bond Corporation for a safe room. Total minimum lease payments are as follows:

2022	16,037
2023	15,737
2024	17,521
2025	20,075
2026	19,625
2027-2031	91,109
2032-2035	\$ 52,322
Total minimum lease payments	232,426
Less amount representing interest	(46,593)
Present value of minimum lease payments	<u>\$ 185,833</u>

NOTE 8 – RETIREMENT PLAN

The City is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statue 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, City, and school board, and any additional eligible local agencies electing to participate in the system. 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. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – RETIREMENT PLAN – CONTINUED

Plan Description - Continued

Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications. 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. Participating employers were 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 proceeding 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 19.33% (non-hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each month, when employer contribution are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

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 retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years or age 57+ sum of service years plus age equal 87
	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+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of 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. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits. For the fiscal year ended June 30, 2021 the City's covered payroll for non-hazardous positions was \$290,395.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – RETIREMENT PLAN – CONTINUED

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the City reported a liability of \$853,048 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the City's proportion was .011122 percent for non-hazardous.

For the year ended June 30, 2021, the City recognized pension expenses of \$61,843. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual results	\$ 21,272	\$ -
Changes of assumptions	33,310	-
Net difference between projected and actual earnings on plan investments	36,978	15,631
Changes in proportion and difference between City contributions and proportionate share of contributions	5,804	55,915
City contributions subsequent to the measurement date	56,046	-
Total	\$ 153,410	\$ 71,546

The \$56,046 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2021	10,937
2022	13,578
2023	8,525
2024	7,405
2025	(634)
Thereafter	-

Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability – For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2017 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication. Subsequent to the actuarial valuation date (June 30, 2017), but prior to the measurement date the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted the following updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2020, which were also used to determine the Total Pension Liability and Net Pension Liability as of June 30, 2020.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – RETIREMENT PLAN – CONTINUED

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2021:

Valuation date	June 30, 2017
Experience study	July 1, 2014 - June 30, 2018
Actuarial cost method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percent of pay
Remaining amortization period	26 years, closed
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 11.55% Nonhazardous 3.05% to 18.55%, Hazardous
Investment rate of return	6.25%

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 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four 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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate or return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 8 – RETIREMENT PLAN – CONTINUED

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

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 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City's proportionate share of the new pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% Decrease	5.25%	\$ 1,051,994
Current discount rate	6.25%	\$ 853,048
1% Increase	7.25%	\$ 688,313

Payable to the Pension Plan - At June 30, 2021, the City had no outstanding liability amount to the pension plan.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description – Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under the Kentucky revised Statue Section 61.645. The KRS board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Benefits Provided – The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Contributions – Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2021 was 4.76% (non-hazardous). Contributions to the Insurance Fund from the City were \$13,378 for the year ended June 30, 2021 for non-hazardous. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability – For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of Jun 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ended June 30, 2018, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2021:

Valuation date	June 30, 2016
Experience study	July 1, 2008 - June 30, 2017
Actuarial cost method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percent of pay
Remaining amortization period	26 years, closed
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.307% TO 11.55% Nonhazardous 3.05% to 18.55%, Hazardous
Investment rate of return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (setback 1 year for females).

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Discount Rate – The projection of cash flows used to determine the discount rate of 5.34% for CERS non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 4.76%, 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 long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2014 through 2014, is outlined in a report dated April 12, 2020. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighing the expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.34%) or one percentage point higher (6.34%) follows:

	<u>Discount Rate</u>		<u>City's Proportionate Share of Net OPEB Liability</u>
1% Decrease	4.34%	\$	344,931
Current discount rate	5.34%	\$	268,490
1% Increase	6.34%	\$	205,707

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.34%) or one percentage point higher (6.34%) than current healthcare cost trend rates follows:

<u>City's Net OPEB Liability (Asset)</u>		
<u>Healthcare Cost</u>		
Trend Rate 1% Decrease 4.34%	Current Discount Rate 5.34%	Trend Rate 1% Increase 6.34%
<u>\$ 207,878</u>	<u>\$ 268,490</u>	<u>\$ 342,044</u>

OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources Related to OPEB – At June 30, 2021, the City reported a liability of \$268,490 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2020. This method to be reflective of the employers' long-term contribution effort. At June 30, 2021, the City's proportion was .011119 percent.

For the year ended June 30, 2021, the City recognized OPEB expenses of \$11,081. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual results	\$ 44,859	\$ 44,894
Implicit subsidy	6,589	-
Changes of assumptions	46,700	284
Net difference between projected and actual earnings on plan investments	14,403	5,479
Changes in proportion and difference between City contributions and proportionate share of contributions	4,292	19,787
City contributions subsequent to the measurement date	13,823	-
Total	<u>\$ 130,666</u>	<u>\$ 70,444</u>

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The \$13,378 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
<u>2021</u>	13,578
2022	8,525
2023	7,405
2024	(634)
Thereafter	-

Deferred outflows and inflows related to differences between projected and actual earnings on plan investment are netted and amortized over a closed five-year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they incurred.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

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.

The City receives state grants for specific purposes that are subject to review and audit by state agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of city management, such allowances, if any, will not be significant.

NOTE 11 – RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2021, the City was sufficiently insured.

NOTE 12 – COVID 19 IMPACT

In March 2021, 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, 2020 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 extent of the effects on the City cannot be reasonably estimated at this time.

CITY OF MULdraUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2021

NOTE 13 – DATE OF MANAGEMENT’S REVIEW

Subsequent events were evaluated through November 13, 2023, which is the date the financial statements were available to be issued.

**CITY OF MULdraUGH, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 56,800	\$ 56,700	\$ 56,844	\$ 144
Motor vehicle taxes	6,780	7,900	8,161	261
Insurance premium taxes	125,000	135,260	133,093	(2,167)
Occupational taxes	80,000	98,320	103,750	5,430
Gross profits	-	-	12,378	12,378
Intergovernmental Revenue	140,340	141,460	48,505	(92,955)
Franchise taxes	38,380	39,760	39,763	3
Licenses & permits	18,200	40,190	27,843	(12,347)
Rental income	-	-	42,922	42,922
Bank deposit taxes	950	950	955	5
Service charges and fees	70,800	43,150	54,791	11,641
Other	73,850	84,910	132,622	47,712
Total Revenues	611,100	648,600	661,627	13,027
Expenditures				
General	266,100	223,250	216,798	6,452
Police	262,560	262,560	195,146	67,414
Fire	60,140	60,140	31,048	29,092
Streets	18,000	-	-	-
Parks and recreation	45,000	45,000	1,833	43,167
Capital outlay			52,259	(52,259)
Debt service				
Principal	-	-	48,634	
Interest	-	-	12,601	(12,601)
Total Expenditures	651,800	590,950	558,319	32,631
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(40,700)	57,650	103,308	45,658
Other Financing Sources (uses)				
Loan proceeds			-	-
Transfer in	-	-	(5,922)	(5,922)
Transfer out	-	-	-	-
Net other financing sources (uses)	-	-	(5,922)	(5,922)
Net Change in Fund Balance	(40,700)	57,650	97,386	(25,526)
Fund Balance, Beginning	83,140	59,840	88,685	80,256
Fund Balance, Ending	\$ 42,440	\$ 117,490	\$ 186,071	\$ 54,730

**CITY OF IRVINE, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST EIGHT FISCAL YEARS**

	2015	2016	2017	2018	2019	2020	2021	2022
City's proportion of the net pension liability	0.038%	0.043%	0.043%	0.044%	0.044%	0.045%	0.045%	0.047%
City's proportionate share of the net pension liability	\$1,279,533	\$1,857,975	\$2,094,932	\$2,588,391	\$2,696,544	\$3,163,645	\$3,415,031	\$3,001,847
City's covered-employee payroll	\$1,020,034	\$999,294	\$1,066,106	\$1,098,830	\$1,107,578	\$1,130,325	\$1,202,608	\$1,359,670
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	125.44%	185.93%	196.50%	235.56%	243.46%	279.89%	283.97%	220.78%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.50%	53.54%	50.45%	47.81%	57.33%

Note: The above schedule will present 10 years of historical data, once available.

**CITY OF IRVINE, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST EIGHT FISCAL YEARS**

	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required contribution	\$ 138,790	\$ 138,988	\$ 159,176	\$ 174,059	\$ 183,982	\$ 218,560	\$ 169,505	\$ 299,911
Contributions in relation to the contractually required contribution	<u>138,790</u>	<u>138,988</u>	<u>159,176</u>	<u>174,059</u>	<u>183,982</u>	<u>218,560</u>	<u>169,505</u>	<u>299,911</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,020,034	\$ 999,294	\$ 1,066,106	\$ 1,098,830	\$ 1,107,578	\$ 1,130,325	\$ 1,202,608	\$ 1,359,670
Contributions as a percentage of covered-employee payroll	12.32%	12.18%	13.95%	15.84%	16.61%	19.34%	14.09%	22.06%

**CITY OF MULDRAGH, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
City's proportion of the net OPEB liability	0.011866%	0.012389%	0.012458%	0.011119%
City's proportionate share of the net OPEB liability	\$ 238,547	\$ 219,964	\$ 209,538	\$ 268,490
City's covered-employee payroll	\$ 288,906	\$ 307,064	\$ 284,900	\$ 290,395
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	82.57%	71.63%	73.55%	92.46%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%

Note: The above schedules will present 10 years of historical data, once available.

**CITY OF MULDRUGH, KENTUCKY
SCHEDULE OF CONTRIBUTIONS TO THE
OTHER POST EMPLOYMENT BENEFITS
LAST FOUR FISCAL YEARS**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contribution	\$ 13,665	\$ 14,432	\$ 13,561	\$ 13,823
Contributions in relation to the contractually required contribution	<u>13,665</u>	<u>14,432</u>	<u>13,561</u>	<u>13,823</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 288,906	\$ 307,064	\$ 284,900	\$ 290,395
Contributions as a percentage of covered-employee payroll	4.73%	4.70%	4.76%	4.76%

Note: The above schedules will present 10 years of historical data, once available.

**CITY OF MULDRAGH, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2021**

NOTE 1 – BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The City annually prepares a budget under the provisions of Kentucky Revised Statute (KRS) 91A.030. In accordance with the Statute, the following process is used to adopt the annual budget:

- The budget proposal is the responsibility of the Mayor and the City and shall be submitted to the legislative body not later than thirty days prior to the beginning of the fiscal year it covers.
- The legislative body shall adopt a budget ordinance making appropriations for the fiscal year in such sums as the legislative body finds sufficient and proper, whether greater or less than the sums recommended in the budget proposal. The budget ordinance may be in any form that the legislative body finds most efficient in enabling it to make the necessary fiscal policy decisions.
- No budget ordinance shall be adopted that provides for appropriations to exceed available resources in any one fiscal year, which would also violate section 157 of the Kentucky Constitution.
- The City legislative body may amend the budget ordinance after the ordinances' adoption if the amended ordinance continues to satisfy the requirements of KRS 91A.030.
- Immediately following the adoption of an annual budget, the clerk shall cause a summary of the budget or the text of the budget ordinance to be advertised by publication in a newspaper.

Budgetary Accounting

The annual operation budgets of governmental and proprietary funds are prepared and presented on the modified accrual basis of accounting. The City does not use an encumbrance accounting system; thus, the budgetary and GAAP presentation of the Statement of Revenues, Expenditures and Changes in Fund Balance, Budgetary and Actual are the same.

NOTE 2 – CERS

General Information

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

June 30, 2020 – Pension and OPEB Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years.

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

CITY OF MULDRAGH, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2021

NOTE 2 – CERS – CONTINUED

Changes of Assumptions- Continued

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

June 30, 2017 – Pension and OPEB – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017, for both pension and OPEB:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the 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.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

CITY OF MULDRAUGH, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2021

	Festival Fund	Land Development Fund	Police Special Fund	Storm Water Management Fund	Road Fund	Total Non-major Fund
<u>Assets</u>						
Cash and cash equivalents	\$ 1,860	-	\$ 1,265	\$ -	\$ -	\$ 3,125
Cash and cash equivalents- restricted		69,004		46,802	27,925	143,731
Accounts receivable	-	-	-	-	19,538	19,538
Due from other funds	-	-	-	-	-	-
Total Assets	\$ 1,860	\$ 69,004	\$ 1,265	\$ 46,802	\$ 47,463	\$ 166,394
<u>Fund Balance</u>						
Restricted:						
Land development	-	69,004	-	-	-	69,004
Storm water	-	-	-	46,802	-	46,802
Municipal roads	-	-	-	-	47,463	47,463
Assigned:						
Police special	-	-	1,265	-	-	1,265
Unrestricted	1,860	-	-	-	-	1,860
Total Fund Balance	\$ 1,860	\$ 69,004	\$ 1,265	\$ 46,802	\$ 47,463	\$ 166,394

CITY OF MULdraUGH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Festival Fund	Land Development Fund	Police Special Fund	Storm Water Management Fund	Road Fund	Total Non-major Fund
Revenues						
Charges for services	\$ -	\$ -	\$ -	\$ 11,980	\$ -	\$ 11,980
Interest income	-	-	-	42	45	87
Intergovernmental revenues	-	-	-	-	18,406	18,406
Miscellaneous	550	-	1,800	-	45,791	48,141
Total Revenues	550	-	1,800	12,022	64,242	78,614
Expenditures						
General government	1,153	1,624	-	-	-	2,777
Police	-	-	1,839	-	-	1,839
Street and Roads	-	-	-	2,539	66,794	69,333
Total Expenditures	1,153	1,624	1,839	2,539	66,794	73,949
Excess (Deficiency) of Revenues over Expenditures	(603)	(1,624)	(39)	9,483	(2,552)	4,665
Other Financing Sources						
Transfers in (out)	-	10,000	-	101	-	10,101
Net Change in Fund Balance	(603)	8,376	(39)	9,584	(2,552)	14,766
Fund Balance - Beginning of Year	2,463	60,628	1,304	37,218	50,015	151,628
Fund Balance - End of Year	\$ 1,860	\$ 69,004	\$ 1,265	\$ 46,802	\$ 47,463	\$ 166,394

CITY OF MULdraugh, Kentucky
 COMBINING STATMENT OF NET POSITION - NON-MAJOR PROPRIETARY FUNDS
 JUNE 30, 2021

	Meter Deposit Fund	Sewer Infiltration Fund	Sewer Surcharge Fund	Bond and Interest Fund	Depreciation Fund	Water/Sewer Construction Fund	Total Non-major Funds
Assets							
Cash and cash equivalents	\$ 21,167	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,167
Cash and cash equivalents- restricted	37,050	1,000	13,954	13,084	14,777	1,000	80,865
Accounts receivable	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Total Assets	\$ 58,217	\$ 1,000	\$ 13,954	\$ 13,084	\$ 14,777	\$ 1,000	\$ 102,032
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer deposits	37,050	-	-	-	-	-	37,050
Net Position							
Restricted	-	1,000	13,954	13,084	14,777	1,000	43,815
Unrestricted	21,167	-	-	-	-	-	21,167
Total Liabilities and Net Position	\$ 58,217	\$ 1,000	\$ 13,954	\$ 13,084	\$ 14,777	\$ 1,000	\$ 102,032

CITY OF MULDRAGH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	Meter Deposit Fund	Sewer Infiltration Fund	Sewer Surcharge Fund	Bond and Interest Fund	Depreciation Fund	Water/Sewer Construction Fund	Total Non-major Funds
Operating Revenues							
Other income	-	-	-	-	-	-	-
Total Operating Revenues	-	-	-	-	-	-	-
Operating Expenses							
Refunds	14,543	-	-	-	-	-	14,543
Bank charges	46	-	-	-	-	-	46
Miscellaneous	-	-	5,216	-	-	-	5,216
Total Operating Expenses	14,589	-	5,216	-	-	-	19,805
Operating Income (Loss)	(14,589)	-	(5,216)	-	-	-	(19,805)
Non-Operating Revenues (Expenses)							
Interest income	-	-	25	12	14	-	51
Total Non-Operating Revenues (Expenses)	-	-	25	12	14	-	51
Transfers in	9,351	25,090	30,847	12,000	1,560	-	78,848
Transfers out	-	(25,090)	(37,180)	(10,414)	-	-	(72,684)
Changes in Net Position	(5,238)	-	(11,524)	1,598	1,574	-	(13,590)
Net Position - Beginning of Year	26,405	1,000	25,478	11,486	13,203	1,000	78,572
Net Position - End of Year	\$ 21,167	\$ 1,000	\$ 13,954	\$ 13,084	\$ 14,777	\$ 1,000	\$ 64,982

SK LEE CPAS, P.S.C.

Certified Public Accountants

*208 Pauline Drive, Suite D
Berea, Kentucky 40403
(859) 986-3756*

Member of American Institute of CPA's

Member of Kentucky Society of CPA's

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 Honorable Mayor and Members of the City Council
City of Muldraugh
Muldraugh, Kentucky 40155

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Muldraugh (hereinafter called the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 13, 2023

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2021-003.

The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

SK LEE CPAs, P.S.C.

Berea, Kentucky
November 13, 2023

**CITY OF MULDRAGH, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

MATERIAL WEAKNESS

2021-001 Financial Statement Preparation

Condition:

A key component of internal control is to ensure that personnel, management, or others within the City have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria:

During our audit procedures, we noted some instances of this objective not being completely achieved.

Cause:

The City did not prepare a complete set of GAAP financial statements and related note disclosures.

Effect:

Management is responsible establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The City does not internally possess the ability to recognize and implement new authoritative guidance in regard to financial reporting. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:

Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial or hire an accountant to perform their services.

Views of Responsible Officials:

Management agrees with the recommendation.

CITY OF MULdraugh, Kentucky
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021

MATERIAL WEAKNESS

2021-002 Segregation of Duties

Condition:

While conducting our audit procedures to gain an understanding of internal controls over financial reporting, we noted a lack of segregation of duties which enabled one individual access to custody of assets and recording and reporting of the City's transactions in the cash receipts.

Criteria:

Segregation of duties is a control in which no person should be given the responsibility to perform more than one related function of an accounting process.

Cause:

Due to the small number of administrative and clerical employees at the City, there is an inherent limitation in its ability to segregate custodial duties from recordkeeping duties in the cash collection and billing process.

Effect:

The lack of internal controls increases the risk that an error, either intentional or unintentional, will go undetected and the financial statements will contain material misstatements.

Recommendation:

The lack of segregation of duties is a common deficiency in cities the size of Irvington.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF MULDRAGH, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2021**

NON-COMPLIANCE

2021-003 Late Audit Report

Condition:

The City's audit report for the year ended June 30, 2020 was not completed by the due date of February 1, 2021.

Criteria:

KRS 91A.040 requires city audits to be completed by February 1 immediately following the fiscal year being audited. In addition, an electronic copy of the audit report is required to be submitted to the Department of Local Government within ten days of completion.

Cause:

The City did not engage an auditor timely to be in compliance with financial audit requirement.

Effect:

The City was in violation of its annual financial audit requirement.

Recommendation:

The City should engage auditors with sufficient time to complete the engagement by the required date.

Views of Responsible Officials:

Management agrees with recommendation.