

CITY OF MULdraUGH, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

**CITY OF MULDRAGH, KENTUCKY
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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, 2022, 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, 2022, 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 33-41 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 schedule of expenditures of federal awards as shown on page 42 and 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 43-46 as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as respectively, 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 schedule of federal awards and the combining balance sheets listed above, are 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 27, 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 27, 2023

CITY OF MULDRAGH, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2022

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 77,791	\$ 45,188	\$ 122,979
Receivables, net			
Customers	-	115,520	115,520
Other	93,286	-	93,286
Due from other funds	4,641	-	4,641
Total Current Assets	175,718	160,708	336,426
Non-Current Assets			
Restricted cash	157,611	151,848	309,459
Reserve deposit	7,650	-	7,650
Capital assets:			
Non-depreciable	76,164	2,262,727	2,338,891
Depreciable, net	1,389,938	2,482,248	3,872,186
Total Non-Current Assets	1,631,363	4,896,823	6,528,186
Total Assets	1,807,081	5,057,531	6,864,612
Deferred Outflows of Resources			
Deferred amounts related to pension	73,705	31,587	105,292
Deferred amounts related to OPEB	77,950	33,407	111,357
Total Deferred Outflows of Resources	151,655	64,994	216,649
Liabilities			
Current Liabilities			
Accounts payable	12,988	13,984	26,972
Accrued expenses	9,939	12,749	22,688
Accrued interest	-	-	-
Customer deposits payable	-	40,200	40,200
Due to other funds	-	4,641	4,641
Notes payable	26,303	14,194	40,497
Capital leases	10,000	-	10,000
Revenue bonds payable	-	9,273	9,273
Total Current Liabilities	59,230	95,041	154,271
Non-Current Liabilities			
Notes payable	122,658	1,182,919	1,305,577
Capital leases	165,834	-	165,834
Net pension liability	507,404	217,459	724,863
Net OPEB liability	152,317	65,279	217,596
Total Non-Current Liabilities	948,213	1,465,657	2,413,870
Total Liabilities	1,007,443	1,560,698	2,568,141
Deferred Inflows of Resources			
Deferred amounts related to pension	93,403	40,030	133,433
Deferred amounts related to OPEB	84,762	36,327	121,089
Total Deferred Inflows of Resources	178,165	76,357	254,522
Net Position (Deficit)			
Net investment in capital assets	1,141,307	3,538,589	4,679,896
Restricted	184,799	111,648	296,447
Unrestricted (deficit)	(552,978)	(164,767)	(717,745)
Total Net Position (Deficit)	\$ 773,128	\$ 3,485,470	\$ 4,258,598

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

CITY OF MULDRAGH, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

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	309,033	\$ -	\$ -	\$ -	\$ (309,033)	\$ -	\$ (309,033)
Police	278,786	-	-	-	(278,786)	-	(278,786)
Fire	35,205	-	-	-	(35,205)	-	(35,205)
Street	2,012	1,871	-	-	(141)	-	(141)
Parks and recreation	14,244	-	-	-	(14,244)	-	(14,244)
Total Governmental Activities	639,280	1,871	-	-	(637,409)	-	(637,409)
Business-Type Activities							
Water and sewer system	720,034	601,723	-	-	-	(118,311)	(118,311)
Total Business-Type Activities	720,034	601,723	-	-	-	(118,311)	(118,311)
Total Activities	\$ 1,359,314	\$ 603,594	\$ -	\$ -	\$ (637,409)	\$ (118,311)	\$ (755,720)
					Governmental Activities	Business-Type Activities	Total
General Revenues							
Property taxes					62,067	-	62,067
Motor vehicle taxes					8,268	-	8,268
Insurance premium taxes					139,785	-	139,785
Occupational taxes					101,447	-	101,447
Gross profits					26,531	-	26,531
Intergovernmental					44,772	-	44,772
Franchise taxes					41,106	-	41,106
License & permits					12,196	-	12,196
Rental income					35,387	-	35,387
Bank deposit taxes					1,208	-	1,208
Grants					-	1,271,999	1,271,999
Miscellaneous					82,023	96,757	178,780
Transfers					6,060	(6,060)	-
Total General Revenues and Transfers					560,850	1,362,696	1,167,826
Change in Net Position					(76,559)	1,244,385	1,167,826
Total Net Position, Beginning					849,687	2,255,405	3,105,092
Net Position, Ending					\$ 773,128	\$ 3,499,790	\$ 4,272,918

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

CITY OF MULDRAGH, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2022

	General	Payroll	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 73,276	1,390	\$ 3,125	\$ 77,791
Cash and cash equivalents (restricted)	10,066	-	147,545	157,611
Accounts receivable	73,748	-	19,538	93,286
Prepaid expenses	-	-	-	-
Reserve deposit (restricted)	7,650	-	-	7,650
Due from other funds	4,641	-	-	4,641
Total Assets	\$ 169,381	\$ 1,390	\$ 170,208	\$ 340,979
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 12,988	-	\$ -	\$ 12,988
Accrued expenses	9,939	-	-	9,939
Due to other funds	-	-	-	-
Total Liabilities	22,927	-	-	22,927
Fund Balances				
Restricted	17,716	-	167,083	184,799
Assigned	-	-	1,265	1,265
Unassigned	128,738	1,390	1,860	131,988
Total Fund Balances	146,454	1,390	170,208	318,052
Total Liabilities and Fund Balances	\$ 169,381	\$ 1,390	\$ 170,208	\$ 340,979

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

Fund balances reported above	\$ 318,052
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,466,102
Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds.	(26,510)
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	(324,795)
Net pension liability	(507,404)
Net OPEB liability	(152,317)
Net Position of Governmental Activities	\$ 773,128

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Payroll Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 62,067	\$ -	\$ -	\$ 62,067
Motor vehicle taxes	8,268	-	-	8,268
Insurance premium taxes	139,785	-	-	139,785
Occupational taxes	101,447	-	-	101,447
Gross profits	26,531	-	-	26,531
Intergovernmental revenues	44,772	-	-	44,772
Franchise taxes	41,106	-	-	41,106
Licenses & permits	12,196	-	-	12,196
Rental Income	35,387	-	-	35,387
Bank deposit taxes	1,208	-	-	1,208
Service charges and fees	-	-	1,871	1,871
Other	81,829	145	49	82,023
Total Revenues	554,596	145	1,920	556,661
Expenditures				
General	239,356	1,498	-	240,854
Police	268,941	-	-	268,941
Fire	20,848	-	-	20,848
Street	-	-	2,012	2,012
Parks and recreation	10,708	-	-	10,708
Capital outlay	49,462	-	-	49,462
Debt service:				
Principal	34,798	-	-	34,798
Interest	13,015	-	-	13,015
Total Expenditures	637,128	1,498	2,012	640,638
Excess (Deficiency) of Revenues Over Expenditures				
Other Financing Sources (Uses)				
Transfers in (out)	2,154	-	3,906	6,060
Loan proceeds	40,762	-	-	40,762
Total Other Financing Sources (Uses)	42,916	-	3,906	46,822
Net Change in Fund Balance	(39,616)	(1,353)	3,814	(37,155)
Fund Balance, Beginning of Year	186,070	2,743	166,394	355,207
Fund Balance, Ending	\$ 146,454	\$ 1,390	\$ 170,208	\$ 318,052

CITY OF MULDRAUGH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022

Net Changes in Fund Balances - Total Governmental Funds	\$ (37,155)
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Amounts reported for *government activities* in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$49,462 is less than depreciaton expense of \$82,287 in the current period.	(32,825)
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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 \$40,762 is more than repayments of \$34,798	(5,964)
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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	(615)
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Change in Net Position of Governmental Activities	<u>\$ (76,559)</u>
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CITY OF MULDRAGH, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2022

	Operations & Maintenance	Revenue Fund	Non-Major Proprietary Funds	Total Proprietary Funds
Assets				
Current Assets				
Cash and cash equivalents	\$ 24,655	\$ 1,541	\$ 18,992	\$ 45,188
Receivables, net				
Customers	-	115,520	-	115,520
Due from other funds	-	-	-	-
Total Current Assets	24,655	117,061	18,992	160,708
Non-Current Assets				
Restricted cash	-	-	151,848	151,848
Capital assets:				
Non-depreciable	2,262,727	-	-	2,262,727
Depreciable, net	2,482,248	-	-	2,482,248
Total Non-Current Assets	4,744,975	-	151,848	4,896,823
Total Assets	4,769,630	117,061	170,840	5,057,531
Deferred Outflows of Resources				
Deferred amounts related to pension	31,587	-	-	31,587
Deferred amounts related to OPEB	33,407	-	-	33,407
Total Deferred Outflows of Resources	64,994	-	-	64,994
Liabilities				
Current Liabilities				
Accounts payable	13,984	-	-	13,984
Accrued expenses	12,749	-	-	12,749
Customer deposits payable	-	-	40,200	40,200
Due to other funds	4,641	-	-	4,641
Notes payable	14,194	-	-	14,194
Revenue bonds payable	9,273	-	-	9,273
Total Current Liabilities	54,841	-	40,200	95,041
Non-Current Liabilities				
Notes payable	1,182,919	-	-	1,182,919
Revenue bonds payable	-	-	-	-
Net pension liability	217,459	-	-	217,459
Net OPEB liability	65,279	-	-	65,279
Total Non-Current Liabilities	1,465,657	-	-	1,465,657
Total Liabilities	1,520,498	-	40,200	1,560,698
Deferred Inflows of Resources				
Deferred amounts related to pension	40,030	-	-	40,030
Deferred amounts related to OPEB	36,327	-	-	36,327
Total Deferred Inflows of Resources	76,357	-	-	76,357
Net Position				
Net investment in capital assets	3,538,589	-	-	3,538,589
Restricted	-	-	111,648	111,648
Unrestricted (deficit)	(300,820)	117,061	18,992	(164,767)
Total Net Position	\$ 3,237,769	\$ 117,061	\$ 130,640	\$ 3,485,470

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

CITY OF MULDRAGH, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Operations & Maintenance	Revenue Fund	Non-Major Proprietary Funds	Total Proprietary Funds
Operating Revenues				
Water	\$ -	\$ 168,760	\$ -	\$ 168,760
Sanitation	-	129,199	-	129,199
Sewer	-	252,370	-	252,370
Sewer Surcharge	-	28,349	-	28,349
Infiltrate	-	23,045	-	23,045
Grant	-	127,667	1,144,332	1,271,999
Miscellaneous	18,852	32,515	45,390	96,757
Total Operating Revenues	18,852	761,905	1,189,722	1,970,479
Operating Expenses				
Salaries	115,276	-	-	115,276
Employee benefits	41,380	-	-	41,380
Payroll taxes	8,125	-	-	8,125
Garbage collection	121,023	-	-	121,023
Water Purchases	98,924	-	-	98,924
Repairs and maintenance	45,095	-	-	45,095
Utilities	28,495	-	-	28,495
Miscellaneous expense	4,339	2,705	10,000	17,044
Insurance	34,866	-	-	34,866
Sales and utility tax	16,890	-	-	16,890
Gas and oil	11,409	-	-	11,409
Office expense	6,444	-	-	6,444
Telephone	1,405	-	-	1,405
Advertising	1,393	-	-	1,393
Uniforms	456	-	-	456
Refunds	-	-	12,565	12,565
Bank charges	-	-	150	150
Depreciation	159,431	-	-	159,431
Total Operating Expenses	694,951	2,705	22,715	720,371
Operating Loss	(676,099)	759,200	1,167,007	1,250,108
Non-Operating Revenues (Expenses)				
Interest income	29	115	62	206
Interest expense	(14,189)	-	-	(14,189)
Total Non-Operating Revenue (Expenses)	(14,160)	115	62	(13,983)
Income (loss) before transfers	(690,259)	759,315	1,167,069	1,236,125
Transfers (out) in	1,852,232	(755,881)	(1,102,411)	(6,060)
Change in Net Position	1,161,973	3,434	64,658	1,230,065
Total Net Position, Beginning,	2,075,796	113,627	65,982	2,255,405
Total Net Position, Ending	\$ 3,237,769	\$ 117,061	\$ 130,640	\$ 3,485,470

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, 2022

	Operations & Maintenance	Revenue Fund	Non-Major Proprietary Funds	Total Proprietary Funds
Cash Flows from Operating Activities				
Cash received from customers	\$ -	\$ 592,222	\$ 4,150	\$ 596,372
Cash received from other sources	18,852	160,182	1,189,722	1,368,756
Cash payments to suppliers for goods and services	(182,771)	(3,673)	(22,715)	(209,159)
Cash payments to employees	(344,828)	-	-	(344,828)
Net Cash (Used in) Provided by Operating Activities	(508,747)	748,731	1,171,157	1,411,141
Cash Flows from Non-Capital and Related Financing Activities				
Transfers in(out)	1,852,232	(755,881)	(1,102,411)	(6,060)
Net Cash (Used in) Provided by Capital and Related Financing	1,852,232	(755,881)	(1,102,411)	(6,060)
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of long-term debt	1,609,000	-	-	1,609,000
Principal, interest, and related fees paid on long-term debt	(538,876)	-	-	(538,876)
Net Cash Provided by Capital and Related Financing Activities	1,070,124	-	-	1,070,124
Cash Flows from Investing Activities				
Capital expenditures	(2,393,495)	-	-	(2,393,495)
Cash received from interest income	29	115	62	206
Net Cash (Used in) Provided by Investing Activities	(2,393,466)	115	62	(2,393,289)
Net Increase (Decrease) in Cash and Cash Equivalents	20,143	(7,035)	68,808	81,916
Cash and Cash Equivalents at July 1, 2021	4,512	8,576	102,032	115,120
Cash and Cash Equivalents at June 30, 2022	\$ 24,655	\$ 1,541	\$ 170,840	\$ 197,036
⁽¹⁾ Cash and cash equivalents are reflected in the Statement of Net Position as follows:				
Cash and cash equivalents	\$ 24,655	\$ 1,541	\$ 18,992	\$ 45,188
Restricted cash and cash equivalents	-	-	151,848	151,848
Subtotal	\$ 24,655	\$ 1,541	\$ 170,840	\$ 197,036
Reconciliation of Operating Income (Loss) to Net Cash (Used in) Provided by Operating Activities				
Operating Income (Loss)	\$ (676,099)	\$ 759,200	\$ 1,167,007	\$ 1,250,108
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:				
Depreciation	159,431	-	-	159,431
Changes in assets and liabilities:				
(Increase) decrease in customer accounts receivable	-	(9,501)	-	(9,501)
(Increase) decrease in outflows of resources	20,229	-	-	20,229
Increase (decrease) in accounts payable	4,331	(968)	-	3,363
Increase (decrease) in accrued expenses	3,324	-	-	3,324
Increase (decrease) in due to other funds	-	-	-	-
Increase (decrease) in customer deposit payables	-	-	-	-
Increase (decrease) in net pension liability	(38,455)	-	4,150	(34,305)
Increase (decrease) in net OPEB liability	(15,268)	-	-	(15,268)
Increase (decrease) in inflows of resources	33,760	-	-	33,760
Total adjustments	167,352	(10,469)	4,150	161,033
Net Cash (Used in) Provided by Operating Activities	\$ (508,747)	\$ 748,731	\$ 1,171,157	\$ 1,411,141

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

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022. 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 MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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, 2022

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 MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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 2022, the original budget was approved in June 14, 2021 and amended June 13, 2022. 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, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Tax Calendar

Property taxes for fiscal year 2022 were levied in November 2021, respectively, on the assessed property located in the City of Muldraugh as of the preceding January 1. The rate for real estate was 20.3 cents per one hundred dollars of assessed value. The rate for auto and boats was 15.3 cents and other tangible property was 20.1 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:

<u>Description</u>	<u>Estimated Lives</u>
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, 2022

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, 2022

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, 2022, 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, 2022

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, 2022, 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	\$ -	\$ 55,268	\$ 60,252	\$ 115,520
Other	93,286	-	-	93,286
Gross receivables	93,286	55,268	60,252	208,806
Less allowance for bad debt	-	-	-	-
Net total receivables	\$ 93,286	\$ 55,268	\$ 60,252	\$ 208,806

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, 2022 were as follows:

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

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

Capital assets for the governmental activities during the year ended June 30, 2022 are as follows:

	Beginning Balance 7/1/2021	Increases	Decreases	Ending Balance 6/30/2022
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 76,164	\$ -	\$ -	\$ 76,164
Total capital assets, not being depreciated:	<u>76,164</u>	<u>-</u>	<u>-</u>	<u>76,164</u>
Capital assets, being depreciated:				
Buildings and Improvements	1,677,063	-	-	1,677,063
Equipment	258,861	8,700	-	267,561
Vehicles	390,098	40,762	-	430,860
Total capital assets, being depreciated:	<u>2,326,022</u>	<u>49,462</u>	<u>-</u>	<u>2,375,484</u>
Less accumulated depreciation for:				
General	480,994	43,539	-	524,533
Park	21,774	3,536	-	25,310
Police	116,517	21,473	-	137,990
Fire	283,974	13,739	-	297,713
Total accumulated depreciation:	<u>903,259</u>	<u>82,287</u>	<u>-</u>	<u>985,546</u>
Total capital assets, being depreciated, net:	<u>1,422,763</u>			<u>1,389,938</u>
Government activities capital assets, net:	<u>\$ 1,498,927</u>			<u>\$ 1,466,102</u>

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

	2022
General	\$ 43,539
Police	21,473
Fire	13,739
Park	3,536
Total	<u>\$ 82,287</u>

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

Capital assets for the business-type activities during the year ended June 30, 2022 are as follows:

	Beginning Balance 7/1/2021	Increases	Decreases	Ending Balance 6/30/2022
<u>Business-Type Activities</u>				
Capital assets, not being depreciated:				
Construction in Process	10,300	2,252,427	-	2,262,727
Total capital assets, not being depreciated:	<u>10,300</u>	<u>2,252,427</u>	<u>-</u>	<u>2,262,727</u>
Capital assets, being depreciated:				
Equipment	205,484	-	-	205,484
Vehicles	162,622	-	-	162,622
Sewer	3,264,682	-	-	3,264,682
Water	971,389	141,068	-	1,112,457
Total capital assets, being depreciated:	<u>4,604,177</u>	<u>141,068</u>	<u>-</u>	<u>4,745,245</u>
Less accumulated depreciation for:				
Accumulated Decreciation	2,103,566	159,430	-	2,262,996
Total accumulated depreciation:	<u>2,103,566</u>	<u>159,430</u>	<u>-</u>	<u>2,262,996</u>
Total capital assets, being depreciated, net:	<u>2,500,611</u>			<u>2,482,249</u>
Business-type activities capital assets, net:	<u>\$ 2,510,911</u>			<u>\$ 4,744,976</u>

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

	2022
Water & Sewer	\$ 159,430
Total	<u>\$ 159,430</u>

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 6 – LONG-TERM DEBT

The following is a summary of long-term debt of the City for the year ended June 30, 2022:

	Balance 7/1/2021	Additions	Deletions	Balance 6/30/2022	Due Within One Year
Governmental-type					
Notes Payable	\$ 132,998	\$ 40,762	\$ 24,799	\$ 148,961	\$ 26,303
Capital Leases	185,834	-	10,000	175,834	10,000
Net Pension Liability	597,134	-	89,730	507,404	-
Net OPEB Liability	187,943	-	35,626	152,317	-
Business-type					
Notes Payable	102,800	1,609,000	514,687	1,197,113	14,194
Capital Leases	-	-	-	-	-
Revenue Bonds	19,273	-	10,000	9,273	9,273
Net Pension Liability	255,914	-	38,455	217,459	-
Net OPEB Liability	80,547	-	15,268	65,279	-
Total	\$ 1,562,443	\$ 1,649,762	\$ 738,565	\$ 2,473,640	\$ 59,770

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, 2022:

Bond Series	Issue Date	Interest Rates	Bond Maturity	Original Issue	Outstanding Balance
1986A	6/5/87	5%	1/1/23	\$ 213,000	\$ 9,273
Total				\$ 213,000	\$ 9,273

The following are the principal and interest maturities for the bonds outstanding as of June 30, 2022:

Fiscal Year	Annual Requirements of Principal	Interest	Total Annual Requirements
2023	9,273	464	9,737
Total	\$ 9,273	\$ 464	\$ 9,737

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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, 2022, the City had a balance of \$104,018 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, 2022, the City had a balance of \$6,469 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, 2022, the City had a balance of \$10,902 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 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, 2022, the City had a balance of \$89,015 on the loan. The note bears an interest rate of 2.95%. The note matures on April 22, 2028.

On July 2, 2021, The City of Muldraugh entered into a loan agreement of \$40,762 with the Meade County Bank for a 2020 Dodge Durango. As of June 30, 2022, the City had a balance of \$34,460 on the loan. The note bears an interest rate of 2.95%. The note matures on July 2, 2027.

On February 22, 2022, The City entered into a loan agreement of \$1,609,000 with Rural Water Financing Agency for a sewer rehabilitation project. As of June 30, 2022 the City had drawn down \$1,609,000. The Agency granted the City a loan forgiveness of \$500,905. As of June 30, 2022, the City had a balance of \$1,101,264. No payments have been made on this loan.

The minimum obligations of the City at June 30, 2022 for the payment of loan principal and interest are as follows:

Year Ending June 30,	Principal	Interest	Total Annual Requirements
2023	1,141,229	5,709	1,146,938
2024	35,602	5,086	40,688
2025	30,620	3,446	34,066
2026	31,684	4,255	35,939
2027-2031	89,139	1,822	90,961
2032-2033	17,800	1,081	18,881
Total	\$ 1,346,074	\$ 21,399	\$ 1,367,473

CITY OF MULDRAUGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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 \$216,389 at June 30, 2022. 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.

As of June 30, 2022, the City has a capital lease obligations through Kentucky Bond Corporation for a safe room. Total minimum lease payments are as follows:

2023	15,737
2024	17,521
2025	20,075
2026	19,625
2027-2031	91,109
2032-2035	\$ 52,322
Total minimum lease payments	216,389
Less amount representing interest	(40,556)
Present value of minimum lease payments	<u><u>\$ 175,833</u></u>

NOTE 8 – RETIREMENT PLAN

The City of Muldraugh is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 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.

Contributions – 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, 2022, participating employers contributed 26.95% (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.

**CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022**

NOTE 8 – RETIREMENT PLAN

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 for non-hazardous job classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. 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 member's account is credited with a 4% employer pay credit for non-hazardous members. The employer pay credit represents a portion of the employer contribution. Therefore, the City contributed \$73,321 or 100% of the required contribution for non-hazardous job classifications to the same pension trust.

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' 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.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 8 – RETIREMENT PLAN – CONTINUED

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. 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 pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2021, was .011369 percent for non-hazardous.

For the year ended June 30, 2022, the City recognized pension expenses of \$55,141. At June 30, 2022, 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	\$ 8,323	\$ 7,035
Changes of assumptions	9,729	-
Net difference between projected and actual earnings on plan investments	-	96,612
Changes in proportion and difference between City contributions and proportionate share of contributions	13,919	29,786
City contributions subsequent to the measurement date	73,321	-
Total	\$ 105,292	\$ 133,433

The \$73,321 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, 2022. 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,	
2022	\$ (29,563)
2023	(20,364)
2024	(21,281)
2025	(30,253)
2026	-
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, 2021, 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, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2021:

Non-Hazardous	
Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 10.30%, varies by service
Investment rate of return	6.25%

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

NOTE 8 – RETIREMENT PLAN – CONTINUED

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2020. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019.

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of 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	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	11.50%	
Core Bonds	10.00%	-0.25%
Cash	1.50%	-0.75%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.30%
Opportunistic	0.00%	2.25%
Real Return	10.00%	3.95%
Expected Real Return	100.00%	5.00%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		7.30%

Discount Rate – The projection of cash flows used to determine the discount rate of 6.25% for non-hazardous that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

**CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022**

NOTE 8 – RETIREMENT PLAN – CONTINUED

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:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% Decrease	5.25%	\$ 929,671
Current discount rate	6.25%	\$ 724,863
1% Increase	7.25%	\$ 555,389

Payable to the Pension Plan – At June 30, 2022, the City reported no payable for the outstanding amount of contributions to the pension and OPEB plans required.

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.

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, 2022 was 4.17% (non-hazardous) of covered payroll. 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). For the year ended June 30, 2022, the City contributed \$13,422, or 100% of the required contribution for non-hazardous job classifications.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – The net OPEB liability was measured as of June 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2021, was .011366 percent for non-hazardous.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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

For the year ended June 30, 2021, the City recognized OPEB expenses of \$25,168. At June 30, 2022, 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	\$ 34,217	\$ 64,967
Implicit subsidy	7,160	-
Changes of assumptions	57,689	202
Net difference between projected and actual earnings on plan investments	-	34,040
Changes in proportion and difference between City contributions and proportionate share of contributions	6,030	14,720
City contributions subsequent to the measurement date	13,422	-
Total	\$ 118,518	\$ 113,929

The \$13,422 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, 2022. 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,	
2022	\$ 2,510
2023	(2,657)
2024	(3,791)
2025	(12,056)
2026	-
Thereafter	-

Actuarial Assumptions – The total OPEB liability reported at June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-Hazardous

Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

CITY OF MULdraugh, Kentucky
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019.

The actuarial assumption used in the June 30, 2020, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Rate of Return
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Expected Real Return	100.00%	5.00%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		7.30%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.20% for non-hazardous classifications. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20- Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

CITY OF MULDRAGH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2022

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 (4.20%) or one percentage point higher (6.20%) follows:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net OPEB Liability</u>
1% Decrease	4.20%	\$ 298,758
Current discount rate	5.20%	\$ 217,596
1% Increase	6.20%	\$ 150,990

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 (4.20%) or one percentage point higher (6.20%) than current healthcare cost trend rates follows:

City's Net OPEB Liability (Asset)		
Healthcare Cost		
Trend Rate 1% Decrease 4.20%	Current Discount Rate 5.20%	Trend Rate 1% Increase 6.20%
<u>\$ 156,644</u>	<u>\$ 217,596</u>	<u>\$ 291,167</u>

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

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 advise 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, 2022**

NOTE 13 – DATE OF MANAGEMENT’S REVIEW

Subsequent events were evaluated through November 27, 2023, which is the date the financial statements were available to be issued.

**CITY OF MULDRAGH, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 57,000	\$ 64,500	\$ 62,067	\$ (2,433)
Motor vehicle taxes	7,500	7,000	8,268	1,268
Insurance premium taxes	134,600	137,790	139,785	1,995
Occupational taxes	98,000	103,840	101,447	(2,393)
Gross profits	-	-	26,531	26,531
Intergovernmental Revenue	174,750	41,790	44,772	2,982
Franchise taxes	37,990	37,030	41,106	4,076
Licenses & permits	33,900	37,850	12,196	(25,654)
Rental income	-	-	35,387	35,387
Bank deposit taxes	950	1,200	1,208	8
Impounds	23,300	10,000	-	(10,000)
Service charges and fees	59,000	58,420	-	(58,420)
Other	41,350	52,000	81,829	29,829
Total Revenues	668,340	551,420	554,596	3,176
Expenditures				
General	407,400	299,920	239,356	60,564
Police	255,400	307,870	268,941	38,929
Fire	45,540	48,590	20,848	27,742
Parks and recreation	10,000	10,000	10,708	(708)
Capital outlay			49,462	(49,462)
Debt service				
Principal	-	-	34,798	
Interest	-	-	13,015	(13,015)
Total Expenditures	718,340	666,380	637,128	29,252
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(50,000)	(114,960)	(82,532)	32,428
Other Financing Sources (uses)				
Loan proceeds			40,762	40,762
Transfer in	-	-	2,154	2,154
Transfer out	-	-	-	-
Net other financing sources (uses)	-	-	42,916	42,916
Net Change in Fund Balance	(50,000)	(114,960)	(39,616)	16,840
Fund Balance, Beginning	42,440	117,490	186,070	80,256
Fund Balance, Ending	\$ (7,560)	\$ 2,530	\$ 146,454	\$ 97,096

**CITY OF MULdraUGH, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON-GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE A - BASIS OF PRESENTATION

The City prepares its financial statements using accounting principles generally accepted in the United States of America (GAAP), but the budget is prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

The budget and all transactions are presented in accordance with the City's budgetary basis in the Budgetary Comparison Schedule - General Fund to provide a comparison of actual results with the budget. No adjustments have been made to convert the actual data presented on the GAAP basis to the cash basis of accounting for revenues because any differences were deemed to be immaterial.

**CITY OF MULdraUGH, 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 (asset)	0.014118%	0.014421%	0.013081%	0.011866%	0.012389%	0.012461%	0.011122%	0.011369%
City's proportionate share of the net pension liability (asset)	\$458,050	\$620,048	\$644,072	\$694,553	\$754,528	\$876,388	\$853,048	\$724,863
City's covered-employee payroll	N/A	\$336,469	\$312,053	\$288,906	\$307,064	\$284,900	\$290,395	\$321,867
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	N/A	184.28%	206.40%	240.41%	245.72%	307.61%	293.75%	225.21%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%

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

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Contractually required contribution	N/A	\$ 42,900	\$ 38,758	\$ 40,303	\$ 44,463	\$ 54,986	\$ 56,046	\$ 73,321
Contributions in relation to the contractually required contribution	<u>N/A</u>	<u>42,900</u>	<u>38,758</u>	<u>40,303</u>	<u>44,463</u>	<u>54,986</u>	<u>56,046</u>	<u>73,321</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	N/A	\$336,469	\$312,053	\$288,906	\$307,064	\$284,900	\$290,395	\$321,867
Contributions as a percentage of covered-employee payroll	N/A	12.75%	12.42%	13.95%	14.48%	19.30%	19.30%	22.78%

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

**CITY OF MULDRAUGH, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST FIVE FISCAL YEARS**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
City's proportion of the net OPEB liability	0.011866%	0.012389%	0.012458%	0.011119%	0.011366%
City's proportionate share of the net OPEB liability	\$ 238,547	\$ 219,964	\$ 209,538	\$ 268,490	\$ 217,596
City's covered-employee payroll	\$ 288,906	\$ 307,064	\$ 284,900	\$ 290,395	\$ 321,867
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%	67.60%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%	62.91%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Contractually required contribution	\$ 13,665	\$ 14,432	\$ 13,561	\$ 13,823	\$ 13,422
Contributions in relation to the contractually required contribution	<u>13,665</u>	<u>14,432</u>	<u>13,561</u>	<u>13,823</u>	<u>13,422</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 288,906	\$ 307,064	\$ 284,900	\$ 290,395	\$ 321,867
Contributions as a percentage of covered-employee payroll	4.73%	4.70%	4.76%	4.76%	4.17%

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

**CITY OF MULDRAGH, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022**

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, 2021 – 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, 2021, for pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The single discount rate decreased from 5.34% to 5.20% for non-hazardous and from 5.30% to 5.05% for hazardous. The municipal bond rate decreased from 3.13% to 1.92%

CITY OF MULDRUGH, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2022

NOTE 2 – CERS – CONTINUED

Changes of Assumptions- Continued

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.

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.

**CITY OF MULDRAGH, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2022**

NOTE 2 – CERS – CONTINUED

Changes of Assumptions- Continued

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 MULDRAGH, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
Community Development Block Grants	14.228	\$ 643,427
Coronavirus State and Local Fiscal Recovery Funds American Rescue Plan Act	21.027	<u>127,667</u>
Total		<u>\$ 771,094</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Authority under programs of the federal government for the year ended March 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF MULdraUGH, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2022

	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		72,910		48,720	25,915	147,545
Accounts receivable	-	-	-	-	19,538	19,538
Due from other funds	-	-	-	-	-	-
Total Assets	\$ 1,860	\$ 72,910	\$ 1,265	\$ 48,720	\$ 45,453	\$ 170,208
<u>Fund Balance</u>						
Restricted:						
Land development	-	72,910	-	-	-	72,910
Storm water	-	-	-	48,720	-	48,720
Municipal roads	-	-	-	-	45,453	45,453
Assigned:						
Police special	-	-	1,265	-	-	1,265
Unrestricted	1,860	-	-	-	-	1,860
Total Fund Balance	\$ 1,860	\$ 72,910	\$ 1,265	\$ 48,720	\$ 45,453	\$ 170,208

CITY OF MULDRAGH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Festival Fund	Land Development Fund	Police Special Fund	Storm Water Management Fund	Road Fund	Total Non-major Fund
Revenues						
Charges for services	\$ -	\$ -	\$ -	\$ 1,871	\$ -	\$ 1,871
Interest income	-	-	-	47	2	49
Intergovernmental revenues	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,918</u>	<u>2</u>	<u>1,920</u>
Expenditures						
General government	-	-	-	-	-	-
Police	-	-	-	-	-	-
Street and Roads	-	-	-	-	2,012	2,012
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,012</u>	<u>2,012</u>
Excess (Deficiency) of Revenues over Expenditures	-	-	-	1,918	(2,010)	(92)
Other Financing Sources						
Transfers in (out)	-	3,906	-	-	-	3,906
Net Change in Fund Balance	-	3,906	-	1,918	(2,010)	3,814
Fund Balance - Beginning of Year	<u>1,860</u>	<u>69,004</u>	<u>1,265</u>	<u>46,802</u>	<u>47,463</u>	<u>166,394</u>
Fund Balance - End of Year	<u>\$ 1,860</u>	<u>\$ 72,910</u>	<u>\$ 1,265</u>	<u>\$ 48,720</u>	<u>\$ 45,453</u>	<u>\$ 170,208</u>

CITY OF MULDRAGH, KENTUCKY
COMBINING STATMENT OF NET POSITION - NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2022

	Meter Deposit Fund	Sewer Infiltration Fund	Sewer Surcharge Fund	Bond and Interest Fund	Depreciation Fund	Water/Sewer Construction Fund	Construction Fund	Total Non-major Funds
Assets								
Cash and cash equivalents	\$ 18,992	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,992
Cash and cash equivalents- restricted	40,200	1,000	78,161	14,134	16,353	1,000	1,000	151,848
Accounts receivable							-	-
Due from other funds	-	-	-	-	-	-	-	-
Total Assets	\$ 59,192	\$ 1,000	\$ 78,161	\$ 14,134	\$ 16,353	\$ 1,000	\$ 1,000	\$ 170,840
Liabilities								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer deposits	40,200	-	-	-	-	-	-	40,200
Net Position								
Restricted	-	1,000	78,161	14,134	16,353	1,000	1,000	111,648
Unrestricted	18,992	-	-	-	-	-	-	18,992
Total Liabilities and Net Position	\$ 59,192	\$ 1,000	\$ 78,161	\$ 14,134	\$ 16,353	\$ 1,000	\$ 1,000	\$ 170,840

CITY OF MULDRAUGH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Meter Deposit Fund	Sewer Infiltration Fund	Sewer Surcharge Fund	Bond and Interest Fund	Depreciation Fund	Water/Sewer Construction Fund	Construction Fund	Total Non-major Funds
Operating Revenues								
Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500,905	\$ 643,427	\$ 1,144,332
Other income	640	-	44,750	-	-	-	-	45,390
Total Operating Revenues	640	-	44,750	-	-	500,905	643,427	1,189,722
Operating Expenses								
Refunds	12,565	-	-	-	-	-	-	12,565
Bank charges	150	-	-	-	-	-	-	150
Miscellaneous	-	-	10,000	-	-	-	-	10,000
Total Operating Expenses	12,715	-	10,000	-	-	-	-	22,715
Operating Income (Loss)	(12,075)	-	34,750	-	-	500,905	643,427	1,167,007
Non-Operating Revenues (Expenses)								
Interest income	-	-	33	13	16	-	-	62
Total Non-Operating Revenues (Expenses)	-	-	33	13	16	-	-	62
Transfers in	9,900	23,398	29,424	12,000	1,560	-	-	76,282
Transfers out	-	(23,398)	-	(10,963)	-	(500,905)	(643,427)	(1,178,693)
Changes in Net Position	(2,175)	-	64,207	1,050	1,576	-	-	64,658
Net Position - Beginning of Year	21,167	1,000	13,954	13,084	14,777	1,000	1,000	65,982
Net Position - End of Year	\$ 18,992	\$ 1,000	\$ 78,161	\$ 14,134	\$ 16,353	\$ 1,000	\$ 1,000	\$ 130,640

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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, 2022, 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 27, 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 2022-001 and 2022-002 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 2022-003.

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 27, 2023

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Muldraugh's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City of Muldraugh's (hereinafter called the "City") major federal program for the year ended June 30, 2022. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-004. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

SK LEE CPAS, P.S.C.

Berea, Kentucky
November 27, 2023

**CITY OF MULDRAGH, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

MATERIAL WEAKNESS

2022-001 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, 2022**

MATERIAL WEAKNESS

2022-002 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 Muldraugh.

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, 2022**

NON-COMPLIANCE

2022-003 Late Audit Report

Condition:

The City's audit report for the year ended June 30, 2022 was not completed by the due date of March 1, 2023.

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 audits with sufficient time to complete the engagement by the required date.

Views of Responsible Officials:

Management agrees with recommendation.

**CITY OF MULDRAGH, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2022**

NON-COMPLIANCE

2022-004 Late Submission of Data Collection Form

Condition:

The City is required to submit its Data Collection Form by March 31, 2023.

Criteria:

The City did not submit its required report by its due date.

Cause:

The oversight was due to the City not knowing they were single audit.

Effect:

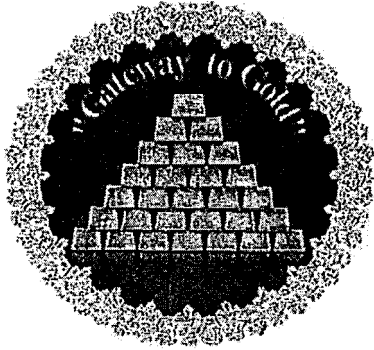
Noncompliance with filing requirements.

Recommendation:

The City should complete their Data Collection Form by the required date.

Views of Responsible Officials:

Management agrees with recommendation.



City of Muldraugh

202 Wendell Street

Muldraugh, Kentucky 40155

Phone: (502) 942-2824 Fax: (502) 942-1320

Email: clerk@muldraugh.org

CORRECTIVE ACTION PLAN December 13, 2023

Department of Local Government

The City of Muldraugh respectfully submits the following corrective action plan for the year ended June 30, 2022.

SK LEE CPAS, P.S.C
P.O. Box 958
Berea, KY 40403

The findings from the June 30, 2022 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2022 - 001 Financial Statement Preparation

Recommendation:

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

Action taken:

Management concurs with the finding, however, due to limited economic resources cannot hire an accountant at this time and will continue to engage the audit firm to draft the financial statements including the notes to the financial statements.

2022- 002 Segregation of Duties

Recommendation:

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

Action taken:

Management concurs with the finding, however, due to limited economic resources cannot hire staff to properly segregate the duties required of the City.

NON - COMPLIANCE

2022 - 003 Late Audit Report

Recommendation:

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

Action taken: Management concurs with the finding and will have the audit completed by the required date.

2022 - 004 Late Submission of Data Collection Form

Recommendation:

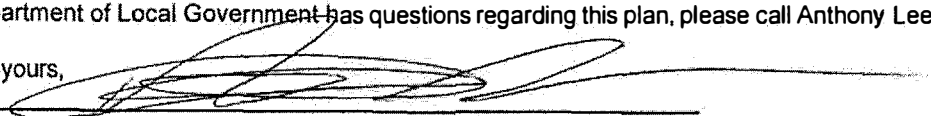
The City should complete their DCF by the required date.

Action taken:

Management concurs with the finding and will have the data collection form completed by the required date.

If the Department of Local Government has questions regarding this plan, please call Anthony Lee at (502) 942-2824.

Sincerely yours,



Anthony Lee, Mayor of Muldraugh, Kentucky