

CITY OF MULDRAUGH, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018



**CITY OF MULDRAUGH, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky, as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Note O to the financial statements, during this fiscal year the City adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that budgetary comparison information, pension schedules, and OPEB schedules on pages 44 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2019, on our consideration of the City of Muldraugh, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Muldraugh, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Muldraugh, Kentucky's internal control over financial reporting on compliance.

*Stephens & Lawson, CPAs*

Louisville, Kentucky  
March 11, 2019

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 122,123	\$ 11,760	\$ 133,883
Cash and Cash Equivalents (restricted)	100,205	70,227	170,432
Receivables	52,508	89,859	142,367
Reserve Deposit	7,650	-	7,650
Internal Balances	4,641	(4,641)	-
Total Current Assets	<u>287,127</u>	<u>167,205</u>	<u>454,332</u>
Non-current Assets:			
Non-depreciable Fixed Assets	76,164	-	76,164
Depreciable Fixed Assets, Net	1,413,011	2,765,406	4,178,417
Total Non-current Assets	<u>1,489,175</u>	<u>2,765,406</u>	<u>4,254,581</u>
Total Assets	1,776,302	2,932,611	4,708,913
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Amounts Related to Pensions/OPEB	<u>182,328</u>	<u>117,009</u>	<u>299,337</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1,958,630</u>	<u>\$ 3,049,620</u>	<u>\$ 5,008,250</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 2,270	\$ 17,548	\$ 19,818
Accounts Payable (restricted)	400	-	400
Payroll Taxes and Withholdings Payable	1,354	-	1,354
Customer Deposits	-	30,275	30,275
Accrued Interest	1,615	1,132	2,747
Bonds Payable Due Within One Year	-	8,000	8,000
Notes Payable Due Within One Year	29,643	12,216	41,859
Capital Lease Obligations Due Within One Year	10,000	6,556	16,556
Total Current Liabilities	<u>45,282</u>	<u>75,727</u>	<u>121,009</u>
Noncurrent Liabilities:			
Bonds Payable	-	37,273	37,273
Notes Payable	146,201	-	146,201
Capital Lease Obligations	205,833	11,632	217,465
Accrued Compensated Absences	4,553	9,812	14,365
OPEB Obligation	141,902	96,645	238,547
Pension Obligation	429,573	264,980	694,553
Total Long-Term Liabilities	<u>928,062</u>	<u>420,342</u>	<u>1,348,404</u>
Total Liabilities	973,344	496,069	1,469,413
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Amounts Related to Pensions/OPEB	80,280	53,023	133,303
<b>NET POSITION</b>			
Net Investment in Capital Assets	1,097,498	2,689,729	3,787,227
Restricted	107,854	70,228	178,082
Unrestricted	<u>(300,346)</u>	<u>(259,429)</u>	<u>(559,775)</u>
Total Net Position	<u>905,006</u>	<u>2,500,528</u>	<u>3,405,534</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 1,958,630</u>	<u>\$ 3,049,620</u>	<u>\$ 5,008,250</u>

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

**CITY OF MULDRAUGH, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>	
					<u>Governmental Activities</u>	<u>Business-type Activities</u>
Primary Government:						
Governmental Activities:						
General Government	\$ 282,375	\$ 39,014	\$ -	\$ -	\$ (243,361)	\$ -
Police Department	253,136	30,110	18,796	-	(204,230)	-
Fire Department	35,413	8,348	8,000	-	(19,065)	-
Parks and Recreation	9,646	10,290	-	-	644	-
Public Works	4,326	14,401	509	-	10,584	-
Streets and Roads	7,553	-	17,584	-	10,031	-
Total Governmental Activities	<u>592,449</u>	<u>102,163</u>	<u>44,889</u>	<u>-</u>	<u>(445,397)</u>	<u>-</u>
Business-type Activities:						
Water and Sewer System	<u>657,158</u>	<u>582,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74,887)</u>
<b>Total Primary Government</b>	<b><u>\$ 1,249,607</u></b>	<b><u>\$ 684,434</u></b>	<b><u>\$ 44,889</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (445,397)</u></b>	<b><u>\$ (74,887)</u></b>
			<b>General Revenues:</b>			
			Property Tax		\$ 56,897	\$ -
			Automobile Tax		6,670	-
			Insurance Tax		138,038	-
			Occupational Tax		92,290	-
			Bank Deposit Tax		943	-
			Franchise Fees		37,212	-
			Business License/Gross Profit Tax		57,281	-
			Intergovernmental		10,915	-
			Interest Income		147	75
			Gain (Loss) on Disposal of Assets		9,538	-
			Other Income		461	-
			Transfers In/Out		<u>41,269</u>	<u>(41,269)</u>
			Total General Revenues		<u>451,661</u>	<u>(41,194)</u>
			Change in Net Position		6,264	(116,081)
			Net Position - July 1, 2017 - before restatement		1,004,716	2,687,086
			Restatement of Prior Year Balance - OPEB			
			Adjustments (see Note O)		<u>(101,500)</u>	<u>(70,447)</u>
			Net Position - July 1, 2017 - as restated		903,216	2,616,639
			Prior Period Adjustment		<u>(4,474)</u>	<u>(30)</u>
			Net Position - June 30, 2018		<u>\$ 905,006</u>	<u>\$ 2,500,528</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	GOVERNMENTAL FUND TYPES			Total Governmental Funds
	General Fund	Road Fund	Storm Water Management	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 122,123	\$ -	\$ -	\$ 122,123
Cash and Cash Equivalents (restricted)	50,276	31,265	18,664	100,205
Receivables	52,508	-	-	52,508
Reserve Deposit	7,650	-	-	7,650
Due from Other Funds	4,641	-	-	4,641
Total Assets	237,198	31,265	18,664	287,127
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	2,270	400	-	2,670
Payroll Taxes and Withholdings Payable	1,354	-	-	1,354
Total Liabilities	3,624	400	-	4,024
<b>Fund Balances:</b>				
Restricted	57,925	30,865	18,664	107,454
Committed	50,000	-	-	50,000
Unassigned	125,649	-	-	125,649
Total Fund Balances	233,574	30,865	18,664	283,103
Total Liabilities and Fund Balances	\$ 237,198	\$ 31,265	\$ 18,664	\$ 287,127

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



**CITY OF MULDRAUGH, KENTUCKY**  
**RECONCILIATION OF TOTAL FUND BALANCE, GOVERNMENTAL FUNDS**  
**TO NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2018**

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

Total Fund Balances, Governmental Funds		\$ 283,103
Amounts reported for governmental activities in the statement of net position are different because of the following:		
Fixed assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation		1,489,175
Interest costs on long-term debt are reported as an expenditure in the fund financial statements at the time the payment is made; however, those costs are accrued at year end in the government-wide financial statements.		(1,615)
Deferred outflows/inflows of resources related to pensions/opeb are not reported in the fund financial statements		
Deferred outflows of resources related to pensions	\$ 140,316	
Deferred outflows of resources related to opeb	42,012	
Deferred inflows of resources related to pensions	(72,703)	
Deferred inflows of resources related to opeb	<u>(7,577)</u>	102,048
Long-term obligations are not due and payable in the current period and therefore are not reported in the fund financial statements.		<u>(967,705)</u>
Net Position of Governmental Activities		<u><u>\$ 905,006</u></u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	GOVERNMENTAL FUND TYPES			Totals Governmental Funds
	General Fund	Road Fund	Storm Water Management	
<b>REVENUE</b>				
Property Tax	\$ 56,897	\$ -	\$ -	\$ 56,897
Motor Vehicle Tax	6,670	-	-	6,670
Insurance Tax	138,038	-	-	138,038
Occupational Tax	92,290	-	-	92,290
Bank Deposit Tax	943	-	-	943
Gross Profit Tax	29,181	-	-	29,181
Franchise Fees	37,212	-	-	37,212
License and Permits	28,265	-	-	28,265
Intergovernmental Revenue	38,219	17,584	-	55,803
Charges for Services	49,127	-	14,401	63,528
Rental Income	38,469	-	-	38,469
Interest Income	102	29	17	148
Other Income	461	-	-	461
Total Revenue	515,874	17,613	14,418	547,905
<b>EXPENDITURES</b>				
General Government	209,944	-	-	209,944
Police Department	211,057	-	-	211,057
Fire Department	27,175	-	-	27,175
Parks and Recreation	8,794	-	-	8,794
Public Works	-	-	4,328	4,328
Streets and Roads	-	7,553	-	7,553
Capital Outlay	50,340	-	-	50,340
Debt Service	35,592	-	-	35,592
Total Expenditures	542,902	7,553	4,328	554,783
Excess of Revenues over Expenditures	(27,028)	10,060	10,090	(6,878)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Surplus Property	9,538	-	-	9,538
Transfer In	41,269	-	-	41,269
Total Other Financing Sources (Uses)	50,807	-	-	50,807
Net Change in Fund Balances	23,779	10,060	10,090	43,929
Fund Balances Beginning of Year	209,270	20,805	8,574	238,649
Prior Period Adjustment	525	-	-	525
Fund Balances End of Year	\$ 233,574	\$ 30,865	\$ 18,664	\$ 283,103

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

**CITY OF MULDRAUGH KENTUCKY  
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL  
GOVERNMENTAL FUNDS TO THE CHANGE IN NET POSITION OF  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

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

Net Change in Fund Balances - Total Governmental Funds	\$	43,929
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized	\$ 50,339	
Depreciation expense	<u>(75,510)</u>	(25,171)
Debt proceeds are reported as other financing sources in the fund financial statements and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the fund financials, but reduces the liability in the statement of net position.		
Repayment of principal on long-term obligations		22,811
Interest costs associated with long-term debt obligations are accrued at year end in the government-wide financial statements, whereas that cost is not recognized in the fund financials until the amount comes due and payable.		
Net increase in accrued interest		(903)
Compensated absences are shown as a long-term obligation in the government-wide financial statements, but are not recognized as a liability in the fund financial statements, as such the change in the liability from year to year is recognized only in the statement of activities.		
Net decrease in compensated absence balance		550
Pension/opeb expense in the fund financial statements are based on amounts paid into the retirement plan during the current fiscal year. Pension/opeb expense in the government-wide financial statements are based on the measurement date of the net pension/opeb liability which was June 30, 2017.		
Net increase in pension expense	(28,986)	
Net increase in opeb expense	<u>(5,966)</u>	<u>(34,952)</u>
Change in Net Position of Governmental Activities	\$	<u><u>6,264</u></u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2018**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 11,760	
Cash and Cash Equivalents (restricted)	70,227	
Receivables	<u>89,859</u>	
Total Current Assets		\$ 171,846

Non-current Assets:

Depreciable Fixed Assets, Net	<u>2,765,406</u>	
Total Non-current Assets		<u>2,765,406</u>

<b>Total Assets</b>		<b>2,937,252</b>
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Amounts Related to Pensions/OPEB		<u>117,009</u>
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<b>Total Assets and Deferred Outflows of Resources</b>		<b><u><u>\$3,054,261</u></u></b>
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**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 17,548	
Customer Deposits	30,275	
Accrued Interest	1,132	
Due to Other Funds	4,641	
Bonds Payable Due Within One Year	8,000	
Notes Payable Due Within One Year	12,216	
Capital Lease Obligations Due Within One Year	<u>6,556</u>	
Total Current Liabilities		\$ 80,368

Noncurrent Liabilities:

Bonds Payable	37,273	
Capital Lease Obligations	11,632	
Accrued Compensated Absences	9,812	
OPEB Obligation	96,645	
Pension Obligation	<u>264,980</u>	
Total Long-Term Liabilities		<u>420,342</u>

<b>Total Liabilities</b>		<b>500,710</b>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Amounts Related to Pensions/OPEB		53,023
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**NET POSITION**

Net Investment in Capital Assets	2,689,729	
Restricted	70,228	
Unrestricted	<u>(259,429)</u>	
Total Net Position		<u>2,500,528</u>

<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>		<b><u><u>\$3,054,261</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**OPERATING REVENUE**

Garbage Revenue	\$ 132,034	
Sewer Revenue	209,876	
Water Revenue	170,235	
Sewer Surcharge	30,370	
Infiltration Fees	25,135	
Meter Deposit Revenue	1,182	
Miscellaneous Revenue	13,439	
Total Operating Revenues	\$ 582,271	\$ 582,271

**OPERATING EXPENSES**

Employee Insurance	25,326	
Garbage Collection	69,292	
Gas and Oil	12,514	
Insurance	10,160	
Miscellaneous Expense	7,902	
Office Expense	6,653	
Payroll Taxes	8,628	
Professional Fees	6,402	
Repairs and Maintenance	56,863	
Retirement	45,834	
Salaries	124,486	
Sales and Utility Tax	15,521	
Telephone	3,115	
Uniforms	170	
Utilities	21,634	
Water/Sewer Purchase	97,243	
Depreciation Expense	141,289	
Total Operating Expenses	653,032	653,032
Operating Income (Loss)		(70,761)

**NON-OPERATING REVENUE AND EXPENSES**

Interest Income	75	
Transfer Out	(41,269)	
Interest on Bonds and Leases	(4,126)	
Total Non-Operating Revenue and Expenses	(45,320)	(45,320)

**Change in Net Position** (116,081)

**Net Position - July 1, 2017 - before restatement** 2,687,086

Restatement of Prior Year Balance - OPEB

Adjustments (see Note O) (70,447)

**Net Position - July 1, 2017 - as restated** 2,616,639

Prior Period Adjustment (30)

**Net Position - June 30, 2018** \$ 2,500,528

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

**CITY OF MULDRAUGH, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Users	\$ 570,048	
Other Receipts	13,439	
Payments to Suppliers	(389,644)	
Payments to Employees	(98,681)	
Net Cash Provided by Operating Activities		\$ 95,162
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to Other Funds	(42,986)	
Net Cash Used by Noncapital Financing Activities		(42,986)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	(18,404)	
Principal Paid on Capital Debt	(35,642)	
Interest Paid on Capital Debt	(4,326)	
Net Cash Used by Capital and Related Financing Activities		(58,372)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	75	
Net Cash Provided by Investing Activities		75
Net Decrease in Cash and Cash Equivalents		(6,121)
Cash and Cash Equivalents - beginning of year		88,108
Cash and Cash Equivalents - end of year		<u>\$ 81,987</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income		\$ (70,761)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense		141,289
Changes in Assets and Liabilities:		
Receivables	798	
Accounts Payable	(2,387)	
User Deposits and Refunds Payable	418	
Payroll and Related Withholdings Payable	3,137	
Net Pension Liability and Related Deferred Outflows/Inflows	22,668	
		<u>24,634</u>
		<u>\$ 95,162</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Financial Reporting Entity***

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

All significant activities and organizations on which the City of Muldraugh, Kentucky exercises oversight responsibility have been included in the City's financial statements, for the year ended June 30, 2018. The following criteria regarding manifestation of oversight were considered by the City in its evaluation of City organizations and activities:

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

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

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

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

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

***Basic Financial Statements***

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

**Government-wide Financial Statements:**

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

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Basic Financial Statements – Continued*

Government-wide Financial Statements – Continued

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

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

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

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

Fund Financial Statements:

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

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

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

The funds of the financial reporting entity are described below:



**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

***Basic Financial Statements – Continued***

**Fund Financial Statements – Continued**

**Governmental Type Funds**

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

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

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

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

**Proprietary Type Funds**

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

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

***Measurement Focus and Basis of Accounting***

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Measurement Focus and Basis of Accounting - Continued*

**Measurement Focus**

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

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

**Basis of Accounting**

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

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

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

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

***Encumbrances***

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Cash and Cash Equivalents*

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

*Inventories*

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

*Receivables*

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

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

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

*Fixed Assets*

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

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

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

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

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

***Due to and Due From Other Funds***

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

***Deferred Outflow/Inflow of Resources***

**Deferred Outflows:**

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

**Deferred Inflows:**

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

***Accounts Payable***

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

***Long-term Debt***

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

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

*Equity Classifications*

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

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

*Property Tax Revenue*

The City assesses property taxes at the rate of .192 per \$100 of assessed real property value, .2747 per \$100 of assessed personal property value, and .153 per \$100 of assessed value on motor vehicles as assessed on January 1<sup>st</sup> of each calendar year. Property taxes are due and payable by December 31<sup>st</sup> of the same year. Taxes on real property are mailed and collected by the Meade County Sheriff who charges the City a fee of 4% of the gross amount collected. Personal property taxes (on automobiles) is collected by the Meade County Clerk and remitted to the City on a monthly basis net of collection fees of 4%.

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -CONTINUED**

***Local Deposit Tax***

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

***Business License/Gross Profits Tax***

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

***Occupational Privilege Fee***

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

***Insurance Premium Tax***

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

***Expenditures/Expenses***

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

***Compensated Absences***

The City allows all employees occupying permanent positions annual vacation and sick leave at their current salary rate. Accrued vacation and sick leave is limited to 120 hours and 480 hours, respectively, at any time. Any employee who terminates employment with the City shall have used all accrued vacation leave time prior to the date of official termination. However, employees who terminate employment with the City shall not be compensated for unused sick leave credit. Vacation leave is accrued at the rate of 1/12<sup>th</sup> of the annual rate per month of employment. In accordance with current accounting standards, the City has accrued a liability for accrued vacation pay which has been earned but not taken by City employees.

***Estimates***

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE B - DEPOSITS AND INVESTMENTS**

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

*Custodial Credit Risk* – this is the risk that in the event of the failure of a counterparty (e.g., a bank) the City will not be able to recover the full value of its deposits or investments. The City does not have a formal investment policy to deal with this risk, but the City considers this risk to be immaterial. As of June 30, 2018 all deposits of the City were fully covered by FDIC insurance.

The City had no investments as of June 30, 2018.

**NOTE C – ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2018 consisted of the following:

Receivable Type	Statement of Net Position		Balance Sheet - Governmental Funds	
	Governmental Activities	Business-type Activities	General Fund	Road Fund
Property Tax	\$ 1,158	\$ -	\$ 1,158	\$ -
Occupational Tax	22,771	-	22,771	-
Insurance Tax	25,961	-	25,961	-
KLEFPF (Police Incentive)	1,192	-	1,192	-
Local Law Enforcement (HB 413)	1,426	-	1,426	-
User Fees - Water	-	23,263	-	-
User Fees - Sewer	-	40,737	-	-
User Fees - Sanitation	-	19,467	-	-
User Fees - Infiltration	-	6,392	-	-
<b>Total Receivables</b>	<b>\$ 52,508</b>	<b>\$ 89,859</b>	<b>\$ 52,508</b>	<b>\$ -</b>

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE D – FIXED ASSETS**

Fixed asset activity for governmental activities for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental Activities</b>				
<b>Non-depreciable Assets:</b>				
Land	\$ 76,164	\$ -	\$ -	\$ 76,164
Total non-depreciable assets	<u>76,164</u>	<u>-</u>	<u>-</u>	<u>76,164</u>
<b>Depreciable Assets:</b>				
Buildings and Improvements	1,560,263	6,800	-	1,567,063
Vehicles	305,018	31,132	-	336,150
Equipment	147,132	7,003	-	154,135
Parks and Recreation	20,734	5,404	-	26,138
Total depreciable assets	<u>2,033,147</u>	<u>50,339</u>	<u>-</u>	<u>2,083,486</u>
Total fixed assets	<u>2,109,311</u>	<u>50,339</u>	<u>-</u>	<u>2,159,650</u>
<b>Accumulated Depreciation:</b>				
Buildings and Improvements	223,876	44,210	-	268,086
Vehicles	245,374	20,298	-	265,672
Equipment	110,715	10,150	-	120,865
Parks and Recreation	15,000	852	-	15,852
Total accumulated depreciation	<u>594,965</u>	<u>75,510</u>	<u>-</u>	<u>670,475</u>
Governmental activities fixed assets, net	<u>\$ 1,514,346</u>	<u>\$ (25,171)</u>	<u>\$ -</u>	<u>\$ 1,489,175</u>

Depreciation expense of \$75,510 was allocated to the various functions on the statement of activities as follows:

Governmental Activities	
General Government	\$ 50,025
Police	17,298
Fire	7,335
Parks & Recreation	852
Total	<u>\$ 75,510</u>



**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE D – FIXED ASSETS - CONTINUED**

Fixed asset activity for business-type activities for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Business-type Activities</b>				
<b>Depreciable Assets:</b>				
Machinery and Equipment	115,713	-	-	115,713
Office Equipment	52,597	2,004	-	54,601
Vehicles	42,567	-	-	42,567
Sewer System	3,248,281	16,400	-	3,264,681
Water System	971,386	-	-	971,386
Total depreciable assets	<u>4,430,544</u>	<u>18,404</u>	<u>-</u>	<u>4,448,948</u>
Total fixed assets	4,430,544	18,404	-	4,448,948
<b>Accumulated Depreciation:</b>				
Machinery and Equipment	114,931	347	-	115,278
Office Equipment	47,383	1,232	-	48,615
Vehicles	18,231	6,713	-	24,944
Sewer System	752,037	91,932	-	843,969
Water System	609,671	41,065	-	650,736
Total accumulated depreciation	<u>1,542,253</u>	<u>141,289</u>	<u>-</u>	<u>1,683,542</u>
Business-type activities fixed assets, net	<u>\$ 2,888,291</u>	<u>\$ (122,885)</u>	<u>\$ -</u>	<u>\$ 2,765,406</u>

**NOTE E – INTERFUND BALANCES**

Interfund balances at June 30, 2018 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>		<u>Purpose</u>
	<u>General Fund</u>	<u>Proprietary Fund</u>	
General Fund	\$ -	\$ 4,641	Funds advanced on behalf of
	<u>\$ -</u>	<u>\$ 4,641</u>	

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE F – LONG-TERM LIABILITIES**

A summary of long-term liabilities of governmental activities and the corresponding activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Notes Payable	\$ 188,655	\$ -	\$ 12,811	\$ 175,844	\$ 29,643
Capital Lease Obligations	225,833	-	10,000	215,833	10,000
Compensated Absences	5,103	-	550	4,553	-
Total Governmental Activities	<u>\$ 419,591</u>	<u>\$ -</u>	<u>\$ 23,361</u>	<u>\$ 396,230</u>	<u>\$ 39,643</u>

**Notes Payable:**

The City has a note payable secured by a building financed in December 2012 from Meade County Bank in the amount of \$165,599, payable in 240 monthly installments of \$1,000 including interest of 3.96%. The balance owed on this note at June 30, 2018 was \$132,325.

The City had an unsecured note payable for a HVAC system financed in October 2015 from Meade County Bank in the amount of \$14,166 payable in 60 monthly installments of \$262 including interest of 4.14%. The City paid this note off early during this fiscal year.

The City has a note payable secured by a vehicle financed in March 2017 from Meade County Bank in the amount of \$20,410, payable in 48 monthly installments of \$451 including interest of 2.75%. The balance owed on this note at June 30, 2018 was \$14,247.

The City has a note payable secured by fire equipment financed in September 2016 from the Kentucky Community and Technical College System in the amount of \$29,272, payable in 7 annual installments, starting on November 30, 2018, of \$4,730 including interest of 3.00%. The balance owed on this note at June 30, 2018 was \$29,272.

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

Fiscal Year Ending	Notes Payable	
	Principal	Interest
2019	\$ 29,643	\$ 7,227
2020	17,043	5,461
2021	17,628	4,876
2022	8,469	4,270
2023	8,068	3,936
2024-2028	45,490	14,529
2029-2033	49,503	4,633
Totals	<u>\$ 175,844</u>	<u>\$ 44,932</u>

**CITY OF MULDRAUGH, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018**

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

**Capital Lease Obligations:**

The City entered into a lease agreement in the amount of \$255,000 for the purpose of refinancing an agreement dated August 30, 2012 that was used for the acquisition, construction, equipping and installation of a community safe room. This lease is payable in 248 monthly installments of varying amounts ranging from \$1,370 to \$1,782 per month. Total future minimum payments under this agreement are \$294,607 at June 30, 2018.

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

Fiscal Year Ending	Capital Lease Obligations	
	Principal	Interest
2019	\$ 10,000	\$ 7,769
2020	10,000	7,544
2021	10,000	7,277
2022	10,000	6,952
2023	10,000	6,627
2024-2028	72,083	27,006
2029-2033	77,083	14,152
2034-2038	16,667	1,447
Totals (1)	\$ 215,833	\$ 78,774

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

A building with a cost of \$1,219,073 and accumulated depreciation of \$140,662 was financed in part with proceeds from this capital lease. This building is shown as a fixed asset in the statement of net position.

Interest expense under both the notes payable and capital lease obligations as shown in the statement of activities for governmental activities was \$13,684 and in the statement of revenues, expenditures, and changes in fund balance – governmental funds for the general fund was \$12,781.

**Compensated Absences:**

Compensated absences represent the amounts due to employees of the City for unused vacation time. As further discussed in Note A, the City calculates this amount in accordance with current accounting standards. Due to the nature of this obligation and the unpredictability as to when an employee may use this vacation time the City records the entire amount of this obligation (\$4,553) as long-term.

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

A summary of long-term liabilities of business-type activities and the corresponding activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-Type Activities:</b>					
Bonds Payable	\$ 53,273	\$ -	\$ 8,000	\$ 45,273	\$ 8,000
Notes Payable	33,240	-	21,024	12,216	12,216
Capital Lease Obligations	24,806	-	6,618	18,188	6,556
Compensated Absences	6,675	3,137	-	9,812	-
Total Governmental Activities	<u>\$ 117,994</u>	<u>\$ 3,137</u>	<u>\$ 35,642</u>	<u>\$ 85,489</u>	<u>\$ 26,772</u>

**Bonds Payable:**

The City entered into a bonded debt agreement with the United States Department of Agriculture in June 1987 to issue \$213,000 in water system revenue bonds. This agreement requires semi-annual payments on January 1<sup>st</sup> and July 1<sup>st</sup> of each year, including interest at 5.00%, until 2026. The bonds are secured by a pledge of a fixed portion of the income and revenues that are derived from the operations of the City’s municipal water system. The balance owed on these bonds at June 30, 2018 was \$45,273.

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

Fiscal Year Ending	Bond Obligations	
	Principal	Interest
2019	\$ 8,000	\$ 2,264
2020	9,000	1,864
2021	9,000	1,414
2022	10,000	964
2023	9,273	464
Totals	<u>\$ 45,273</u>	<u>\$ 6,970</u>

**Notes Payable:**

The City has an unsecured note payable for the Sunset Street Sewer water and sewer expansion project financed in February 2014 from Meade County Bank in the amount of \$98,000 payable in 60 monthly installments of \$1,828 including interest of 4.52%. The balance owed on this note at June 30, 2018 was \$12,216.

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

Fiscal Year Ending	Notes Payable	
	Principal	Interest
2019	\$ 12,216	\$ 180
Totals	<u>\$ 12,216</u>	<u>\$ 180</u>

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

**Capital Lease Obligations:**

The City entered into a lease agreement with Meade County Bank in the amount of \$33,567 for the purpose of purchasing a vehicle in February 2016 payable in 60 monthly installments of \$614 including interest of 3.2%. Total future minimum payments under this agreement are \$19,037 at June 30, 2018.

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

Fiscal Year Ending	Capital Lease Obligations	
	Principal	Interest
2019	\$ 6,850	\$ 519
2020	7,088	281
2021	4,250	49
Totals (1)	\$ 18,188	\$ 849

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

A vehicle with a cost of \$33,567 and accumulated depreciation of \$15,943 was financed with proceeds from this capital lease. This vehicle is shown as a fixed asset in the statement of net position.

Interest expense under the bonds payable, notes payable and capital lease obligations as shown in the statement of activities for business type activities and in the statement of revenues, expenses, and changes in net position – proprietary fund was \$4,126.

**Compensated Absences:**

Compensated absences represent the amounts due to employees of the City for unused vacation time. As further discussed in Note A, the City calculates this amount in accordance with current accounting standards. Due to the nature of this obligation and the unpredictability as to when an employee may use this vacation time the City records the entire amount of this obligation (\$9,812) as long-term.

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

At June 30, 2018, net position in the government-wide financial statements was composed of the following:

	Governmental Activities	Business-type Activities
<b>Net Investment in Capital Assets:</b>		
Fixed Assets, Net	\$ 1,489,175	\$ 2,765,406
Less:		
Bonds Payable	-	(45,273)
Notes Payable	(175,844)	(12,216)
Capital Lease Obligations	(215,833)	(18,188)
Net Investment in Capital Assets	1,097,498	2,689,729

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
<b>Restricted:</b>		
Festival	4,723	-
Land Development	42,628	-
Police Special Account	2,421	-
Roads	31,265	-
Safe Room	8,153	-
Storm Water Management	18,664	-
System Expansion	-	51,490
Debt Service and Debt Covenants	-	18,738
Restricted Net Position	<u>107,854</u>	<u>70,228</u>
<b>Unrestricted</b>	<u>(300,346)</u>	<u>(259,429)</u>
<b>Total Net Position</b>	<u><u>\$ 905,006</u></u>	<u><u>\$ 2,500,528</u></u>

At June 30, 2018, fund balances, as shown in the fund financial statements, was composed of the following:

<u>Classification</u>	<u>General Fund</u>	<u>Road Fund</u>	<u>Storm Water Management</u>
<b>Restricted:</b>			
By enabling legislation for roads	\$ -	\$ 30,865	\$ -
By agreement with the EPA	-	-	18,664
By agreement for festival activities	4,723	-	-
By agreement for land development	42,628	-	-
By agreement for police	2,421	-	-
By agreement for Safe Room debt service	8,153	-	-
<b>Assigned:</b>			
By passage of next year's budget	50,000	-	-
<b>Unassigned</b>	<u>125,649</u>	<u>-</u>	<u>-</u>
<b>Total Fund Balances</b>	<u><u>\$ 233,574</u></u>	<u><u>\$ 30,865</u></u>	<u><u>\$ 18,664</u></u>

**NOTE H - INTERGOVERNMENTAL REVENUE**

Under the provisions of state law, the Commonwealth of Kentucky reimbursed the City for coal and mineral severance and costs associated with road maintenance and repair during the year ended June 30, 2018.

**CITY OF MULDRAUGH, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018**

**NOTE I- OPERATING LEASES**

***Rental Income***

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

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

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

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

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

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

Rental income in the amount of \$38,469 was recognized for the fiscal year ending June 30, 2018. Future payments to be received under these agreements for the years ending June 30<sup>th</sup> are as follows:

Fiscal Year Ending	Amount
2019	\$ 15,538
2020	10,665
2021	11,544
2022	11,544
2023	11,544
2024-2025	18,277

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE J – INTERFUND TRANSFERS**

The following interfund transfers took place during this fiscal year:

Fund Transferred From	Transferred To General Fund	Purpose
Water & Sewer	\$ 5,066	Debt Service
Water & Sewer	36,203	Budgetary Transfer
	\$ 41,269	

**NOTE K - EMPLOYEE RETIREMENT SYSTEM**

The City has elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, or by calling (502) 696-8800, or at <https://kyret.ky.gov>. Detailed information about the plan’s fiduciary net position can be found here.

**Plan Description**

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

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

**Non-hazardous Contributions**

For the year ending June 30, 2018, all covered employees who began participating before September 1, 2008, Tier I members, are required to contribute 5 percent of their annual creditable compensation to the plan. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in



**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

**Non-hazardous Contributions - Continued**

accordance with actuarial bases adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% (allocated 14.48% for pension and 4.70% for insurance) of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, covered employees who began participating on, or after, September 1, 2008, Tier 2 members, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 102 KAR 1:420E). Interest is paid each June 30<sup>th</sup> on covered employees' accounts at a rate of 2.5%. If a covered employee terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of the annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, covered employees who began participating on, or after, January 1, 2014, Tier 3 members, were required to participate in the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Covered employees in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous covered employees contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the covered employee's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributions a set percentage of the covered employee's compensation. Each month, when employer contributions are received, an employer pay credit is deposited to the covered employee's account. A covered employee's account is credited with a 4% employer pay credit for non-hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2018, the City contributed \$25,172, or 100% of the required contribution for non-hazardous members, which was allocated \$19,004 to the CERS pension fund and \$6,168 to the CERS insurance fund.

**Non-hazardous Benefits**

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

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

**CITY OF MULDRAUGH, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018**

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

**Non-hazardous Benefits – Continued**

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

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

Death benefits after retirement are \$5,000 in lump sum and require 48 months of service and to be in receipt of retirement benefits. Pre-retirement death benefits require a minimum of 60 months of service, under the age of 55, and still working or at least 144 months of service if no longer actively working. The spouse of the deceased member will receive the member's retirement benefit calculated in the same manner as if the member had retired on the day of the member's death and elected a 100% joint and survivor benefit. The benefit is actuarially reduced if the member dies prior to their normal retirement age. In the case of a death in the line of duty only one month service credit is required for eligibility. The decedent's spouse will receive a \$10,000 lump sum payment plus a monthly payment of 25% of the deceased member's final monthly rate of pay.

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

**Non-hazardous Benefits – Continued**

A spouse may also elect the non-line of duty death benefit. Each eligible dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children.

Disability benefits require 60 months of service except in the case of line of duty disability in which case the requirement is waived.

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

**Pension Liabilities**

At June 30, 2018 the City recognized a liability of \$694,553 (\$429,573 for governmental activities and \$264,980 for business-type activities) for its proportionate share of the CERS net pension liability related to non-hazardous duty employees. The City's net pension liability was measured as of June 30, 2017, as allowed by standards, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan (\$40,302 non-hazardous) relative to the total contributions of all participants in the non-hazardous retirement plan. At June 30, 2017 the City's share of the non-hazardous net pension liability was .0011866% which a decrease of .001215% from the figure of .013081% in the prior period.

**Pension Payable/Expense**

At June 30, 2018 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous pension withholdings and the City's required matching contribution for the month of June 2018

For the year ended June 30, 2018, the City recognized pension expense of \$92,646 (\$56,358 for governmental activities and \$36,288 for business-type activities) for non-hazardous covered employees in the statement of activities.

**Deferred Outflows/Inflows of Resources**

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

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

	<u>Non-Hazardous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 861	\$ 17,631
Change of assumptions	128,164	-
Net difference between projected and actual earnings on plan investments	55,008	46,417
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,588	56,764
City's contributions to the plan subsequent to the measurement date	<u>44,463</u>	<u>-</u>
Totals	\$ 230,084	\$ 120,812

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

If the amounts serve to reduce pension expense in the future they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows.

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows / inflows will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
Year 1	\$ 25,474
Year 2	32,105
Year 3	16,149
Year 4	(8,919)
Year 5	-
Thereafter	-
Total	<u>\$ 64,809</u>

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

**Actuarial Assumptions**

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

Inflation	2.30%
Salary Increase	3.30% to 11.55%
Investment Rate of Return	6.25% net of pension plan investment expense

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. These mortality assumptions assume a margin for future mortality improvement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year end, June 30, 2017. Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (see chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

**CITY OF MULDRAGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

**Actuarial Assumptions - Continued**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

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

**Discount Rate**

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

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

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Non-Hazardous	\$ 875,982	\$ 694,553	\$ 542,790

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

**NOTE L – POST-EMPLOYMENT BENEFITS**

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

**Plan Description**

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

As more fully described in Note K, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2018 the employer's contribution was 4.70% to the insurance trust for non-hazardous job classifications. The City had no employees classified as hazardous duty. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Per Kentucky Revised Statue Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board: For the year ended June 30, 2018, participating employers contributed 19.18% (allocated 14.48% for pension and 4.70% for insurance) of each employee's creditable compensation, which was the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2018, the City contributed \$25,172, or 100% of the required contribution for non-hazardous members, which was allocated \$6,168 to the CERS insurance fund and \$19,004 to the CERS pension fund.

**Non-Hazardous Insurance Benefits**

For insurance purposes, employees are grouped into three tiers based on hire date, those tiers are as follows:

**CITY OF MULDRAGH, KENTUCKY  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 JUNE 30, 2018**

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

Tier 1	Participation Date	Before July 1, 2003
	Benefit Eligibility	Recipient of a retirement allowance
	Benefit	Set percentage of single coverage health insurance based on service credit accrued at retirement.
	Duty Disability Retirement	100% of maximum contribution for member and dependents.
	Duty Death in Service	Spouse & children receive 100% of the maximum contribution.
Tier 2	Participation Date	After July 1, 2003 but before September 1, 2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement.
	Benefit	Monthly contribution of \$10 for each year of earned service increasing by 1.5% each July 1st (\$12.99 per year of service as of July 1, 2016) Surviving spouse may continue coverage (if in receipt of a retirement allowance) but is 100% responsible for premiums.
	Duty Disability Retirement	Benefit equal to 20 times the non-hazardous monthly contribution.
	Duty Death in Service	Spouse & children receive 20 times the non-hazardous monthly contribution.
Tier 3	Participation Date	On or after September 1, 2008
	Benefit Eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement.
	Benefit	Same as tier 2

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

At June 30, 2018 the City recognized a liability of \$238,547 (\$141,902 for governmental activities and \$96,645 for business-type activities) for its proportionate share of the CERS net OPEB liability related to non-hazardous duty employees. The City's net OPEB liability was measured as of June 30, 2017, as allowed by standards, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's contributions to the OPEB plan (\$15,162 non-hazardous) relative to the total contributions of all participants in the non-hazardous retirement plan. At June 30, 2017 the City's share of the non-hazardous net OPEB liability was .011866%.



**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

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

OPEB Payable/Expense

At June 30, 2018 the City had paid all of its obligations owed to Kentucky Retirement Systems for non-hazardous OPEB withholdings and the City's required matching contribution for the month of June 2018

For the year ended June 30, 2018, the City recognized OPEB expense of \$24,267 (\$14,721 for governmental activities and \$9,546 for business-type activities) for non-hazardous covered employees in the statement of activities.

Deferred Outflows/Inflows of Resources

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Non-Hazardous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 663
Change of assumptions	51,906	-
Net difference between projected and actual earnings on plan investments	-	11,274
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	553
City's contributions to the plan subsequent to the measurement date	17,347	-
Totals	\$ 69,253	\$ 12,490

If the amounts serve to reduce OPEB expense in the future they are labeled as deferred inflows. If they will increase OPEB expense they are labeled deferred outflows.

The amounts reported in the table as deferred outflows of resources related to plan contributions made subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2018. This amount includes adjustments of \$2,915 for the non-hazardous implicit subsidy. Other amounts reported as deferred outflows / inflows will be recognized in OPEB expense as follows:

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

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

Deferred Outflows/Inflows of Resources - Continued

	<u>Non-Hazardous</u>
Year 1	\$ 6,782
Year 2	6,782
Year 3	6,782
Year 4	6,782
Year 5	9,600
Thereafter	<u>2,688</u>
Total	\$ 39,416

Actuarial Assumptions

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

Inflation	2.30%
Salary Increase	4.00%
Investment Rate of Return	6.25% net of pension plan investment expense
Healthcare Trend:	
	Pre-65: Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
	Post-65: Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The mortality table used for pre-retirement members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For non-disabled retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled retired members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. These mortality assumptions assume a margin for future mortality improvement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year end, June 30, 2017. Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017.

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

**Actuarial Assumptions - Continued**

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (see chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	6.56%

**Discount Rate**

The discount rate used to measure the total OPEB liability was 5.84%. For the non-hazardous group, 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 3.56% as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**CITY OF MULDRAUGH, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018**

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

**Discount Rate - Continued**

The following table presents the City's net OPEB liability, calculated using the discount rate of 5.84%, as well as what the liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.84%) and 1 percentage point higher (6.84%) than the current rate.

	<u>1% Decrease (4.84%)</u>	<u>Current Discount Rate (5.84%)</u>	<u>1% Increase (6.84%)</u>
Non-Hazardous	\$ 303,538	\$ 238,547	\$ 184,465

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Non-Hazardous	\$ 182,978	\$ 238,547	\$ 310,784

**NOTE M - LITIGATION**

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

**NOTE N - RISK MANAGEMENT**

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

**NOTE O – IMPLEMENTATION OF GASB PRONOUNCEMENTS**

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

*Pronouncements Scheduled to be Adopted in this Fiscal Year:*

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

The provisions of this statement are effective for fiscal years beginning after June 15, 2017 with earlier adoption encouraged. This standard is intended to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions as well as improving information provided by state and local governmental employers about financial support for such benefits that is provided by other entities and is more fully discussed in Note K. This standard necessitated retroactive prior period adjustment to the City's financial statement in the amount of \$171,947 (\$101,500 for governmental activities and \$70,447 for business-type activities) to record the opening OPEB liability. Restatement of prior year amounts impacted by this standard is not possible as amounts are derived from actuarial valuations performed for Kentucky Retirement System and they only provided figures for the year of implementation.

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

The provisions of this statement are effective for fiscal years beginning after December 15, 2016 with earlier adoption encouraged. This standard is meant to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

***GASB Statement No. 85, Omnibus 2017***

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

***GASB Statement No. 86, Certain Debt Extinguishment Issues***

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

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

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

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

***GASB Statement No. 84, Fiduciary Activities***

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2018**

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

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

**GASB Statement No. 87, Leases**

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

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

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

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

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

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

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

**NOTE P – PRIOR PERIOD ADJUSTMENT**

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

Reason	Statement of Net Position		Balance Sheet - Governmental Funds		
	Governmental Activities	Business-type Activities	General Fund	Road Fund	Storm Water Management
Restate receivables	\$ 525	\$ -	\$ 525	\$ -	\$ -
Restate accumulated depreciation	(4,999)	(30)	-	-	-
	\$ (4,474)	\$ (30)	\$ 525	\$ -	\$ -

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND**  
**JUNE 30, 2018**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b>REVENUES</b>					
Property Tax	\$ 49,580	\$ 7,170	\$ 56,750	\$ 56,897	\$ 147
Motor Vehicle Tax	6,200	-	6,200	6,670	470
Insurance Tax	130,000	7,000	137,000	138,038	1,038
Occupational Tax	83,900	7,250	91,150	92,290	1,140
Bank Deposit Tax	1,000	(60)	940	943	3
Franchise Fees:					
Cable Franchise Fees	4,800	-	4,800	4,806	6
Utilities Franchise Fees	28,000	4,400	32,400	32,406	6
License and Permits:					
Building Permits	300	(165)	135	165	30
Business License/Gross Receipts	33,000	22,380	55,380	57,281	1,901
Intergovernmental Revenue:					
Area Development Funds	1,500	(1,500)	-	-	-
Fire Department State Aid	5,000	(5,000)	-	-	-
Fire Department County Aid	8,000	-	8,000	8,000	-
Litter Abatement Grant	-	-	-	509	509
HB413 Revenue	5,600	(2,800)	2,800	5,320	2,520
Police Incentive Pay	7,000	5,500	12,500	13,476	976
LGEA Funds	7,300	3,600	10,900	10,914	14
Charges for Services:					
Accident Reports	-	-	-	370	370
Arrest Fees	-	-	-	1,358	1,358
Copies	-	-	-	2	2
Fax Fees	-	-	-	8	8
Fire Dept. Runs	2,300	5,900	8,200	8,348	148
Impound Fees	15,000	10,500	25,500	28,106	2,606
Police Forfeitures	1,000	-	1,000	-	(1,000)
Police Runs	500	140	640	646	6
Festival Income/Donations	8,500	-	8,500	10,289	1,789
Donations and Fundraisers:					
Fire Department	1,000	-	1,000	-	(1,000)
Rents:					
Cell Tower Land Lease	20,000	-	20,000	19,239	(761)
Wendell Street Property Lease	6,000	-	6,000	6,000	-
702 Dixie Rent	9,600	-	9,600	9,600	-
Outdoor System Rental	-	-	-	750	750
Safe Room	1,000	-	1,000	2,880	1,880
Interest	40	70	110	102	(8)
Other Income	8,000	(2,410)	5,590	461	(5,129)
Total General Fund Revenues	<u>444,120</u>	<u>61,975</u>	<u>506,095</u>	<u>515,874</u>	<u>9,779</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -**  
**GENERAL FUND - CONTINUED**  
**JUNE 30, 2018**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b><u>REVENUES - Continued</u></b>					
Prior Year Fund Balance:					
Appropriated for Current Year Budget	91,600	54,800	146,400	-	(146,400)
Total Revenues and Prior Year Fund Balance	<u>535,720</u>	<u>116,775</u>	<u>652,495</u>	<u>515,874</u>	<u>(136,621)</u>
<b><u>EXPENDITURES</u></b>					
General Government:					
Salaries	62,280	720	63,000	64,675	(1,675)
FICA and Medicare	4,770	30	4,800	5,086	(286)
Retirement	10,230	2,370	12,600	10,779	1,821
Insurance	9,970	(470)	9,500	9,477	23
Advertising	-	-	-	1,157	(1,157)
Code Enforcement	-	-	-	74	(74)
Office Expense	8,000	-	8,000	6,094	1,906
Training and Expenses	3,000	(1,000)	2,000	-	2,000
Telephone	4,800	-	4,800	4,473	327
Utilities	38,500	1,800	40,300	41,235	(935)
Mayor and Council Expenses	1,000	-	1,000	-	1,000
Legal and Advertising	4,000	(2,000)	2,000	-	2,000
Audit	4,000	2,000	6,000	6,500	(500)
Liability and Property Insurance	33,800	200	34,000	34,372	(372)
Maintenance - Other	-	-	-	205	(205)
Park Renovations	23,704	-	23,704	-	23,704
Land Development	8,596	-	8,596	-	8,596
Demo Debris Dump	10,000	(10,000)	-	-	-
Safe Room Loan	17,100	1,000	18,100	17,994	106
Building Maintenance	10,000	2,000	12,000	-	12,000
Maintenance - Safe Room	1,400	-	1,400	-	1,400
Wendell Street Property Loan	6,200	-	6,200	11,078	(4,878)
HVAC System Payment	2,900	(800)	2,100	2,015	85
Miscellaneous	12,000	5,000	17,000	34,620	(17,620)
Total Administration	<u>276,250</u>	<u>850</u>	<u>277,100</u>	<u>249,834</u>	<u>27,266</u>
Police Department:					
Salaries	128,600	1,400	130,000	130,080	(80)
FICA and Medicare	9,840	110	9,950	9,886	64
Retirement	24,670	1,330	26,000	25,344	656
Insurance	14,700	(1,200)	13,500	13,247	253
Training Expenses	2,000	(1,000)	1,000	-	1,000
Maintenance	6,000	(2,500)	3,500	2,509	991
Uniforms	5,000	(3,000)	2,000	367	1,633
Towing and Other Impound Expense	6,000	1,000	7,000	8,300	(1,300)

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



**CITY OF MULdraUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -**  
**GENERAL FUND - CONTINUED**  
**JUNE 30, 2018**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b>EXPENDITURES - Continued</b>					
Police Department (Continued):					
Computers	3,000	-	3,000	747	2,253
Equipment and Supplies	5,000	(1,000)	4,000	-	4,000
Dispatch	1,800	-	1,800	1,800	-
Gas and Oil	11,000	500	11,500	11,420	80
Police Vehicle Purchase and Payments	7,000	29,100	36,100	35,638	462
Miscellaneous	6,000	(1,000)	5,000	7,357	(2,357)
Total Police Department	<u>230,610</u>	<u>23,740</u>	<u>254,350</u>	<u>246,695</u>	<u>7,655</u>
Fire Department:					
Salaries	-	-	-	4,480	(4,480)
FICA and Medicare	-	-	-	343	(343)
Utilities	3,800	700	4,500	-	4,500
Fuels	1,000	100	1,100	-	1,100
Maintenance	10,000	-	10,000	-	10,000
Fire Runs	9,000	500	9,500	-	9,500
Equipment and Supplies	11,500	1,000	12,500	27,352	(14,852)
Equipment Loan Payment	4,200	(4,200)	-	-	-
Miscellaneous	2,000	1,900	3,900	-	3,900
Total Fire Department	<u>41,500</u>	<u>-</u>	<u>41,500</u>	<u>32,175</u>	<u>9,325</u>
Parks and Recreation:					
Muldraugh Festival Days	13,000	-	13,000	7,646	5,354
Park	7,000	-	7,000	3,788	3,212
Playground	3,000	-	3,000	2,764	236
Total Parks and Recreation	<u>23,000</u>	<u>-</u>	<u>23,000</u>	<u>14,198</u>	<u>8,802</u>
Total Expenditures	<u>571,360</u>	<u>24,590</u>	<u>595,950</u>	<u>542,902</u>	<u>53,048</u>
Excess of Revenue over Expenditures	(35,640)	92,185	56,545	(27,028)	(83,573)
OTHER FINANCING SOURCES (USES)					
Transfer In	68,000	(45,500)	22,500	41,269	18,769
Sale of Surplus Property	5,000	4,500	9,500	9,538	38
Total Other Financing Sources (Uses)	<u>73,000</u>	<u>(41,000)</u>	<u>32,000</u>	<u>50,807</u>	<u>18,807</u>
Net Change in Fund Balances	37,360	51,185	88,545	23,779	(64,766)
Fund Balance, Beginning	-	-	-	209,270	209,270
Prior Period Adjustment	-	-	-	525	525
Fund Balance, Ending	<u>\$ 37,360</u>	<u>\$ 51,185</u>	<u>\$ 88,545</u>	<u>\$ 233,574</u>	<u>\$ 145,029</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL - ROAD FUND**  
**JUNE 30, 2018**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>					
Road Aid					
Intergovernmental Revenue	\$ 19,000	\$ -	\$ 19,000	\$ 17,584	\$ (1,416)
Interest Income	20	-	20	29	9
Total Road Fund Revenues	<u>19,020</u>	<u>-</u>	<u>19,020</u>	<u>17,613</u>	<u>(1,407)</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>18,000</u>	<u>4,500</u>	<u>18,000</u>	<u>-</u>	<u>(18,000)</u>
Total Revenues and Prior Year Fund Balance	<u>37,020</u>	<u>4,500</u>	<u>37,020</u>	<u>17,613</u>	<u>(19,407)</u>
<b><u>EXPENDITURES</u></b>					
Road Aid					
General Expense-Streets	<u>37,020</u>	<u>4,500</u>	<u>37,020</u>	<u>7,553</u>	<u>29,467</u>
Total Road Aid	<u>37,020</u>	<u>4,500</u>	<u>37,020</u>	<u>7,553</u>	<u>29,467</u>
Net Change in Fund Balances	-	-	-	10,060	10,060
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,805</u>	<u>20,805</u>
Fund Balance, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,865</u>	<u>\$ 30,865</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL - STORM WATER MANAGEMENT**  
**JUNE 30, 2018**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>					
Storm Water Management					
Charges for Services	\$ 10,000	\$ (10,000)	\$ -	\$ 14,401	\$ 14,401
Interest Income	-	-	-	17	17
Total Storm Water Fund Revenues	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>	<u>14,418</u>	<u>14,418</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Total Revenues and Prior Year Fund Balance	<u>20,000</u>	<u>(10,000)</u>	<u>10,000</u>	<u>14,418</u>	<u>4,418</u>
<b><u>EXPENDITURES</u></b>					
Storm Water Management					
Maintenance and Repairs	<u>16,000</u>	<u>(16,000)</u>	<u>-</u>	<u>4,328</u>	<u>(4,328)</u>
Total Storm Water Management	<u>16,000</u>	<u>(16,000)</u>	<u>-</u>	<u>4,328</u>	<u>(4,328)</u>
Net Change in Fund Balances	4,000	6,000	10,000	10,090	90
Fund Balance, Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,574</u>	<u>8,574</u>
Fund Balance, Ending	<u>\$ 4,000</u>	<u>\$ 6,000</u>	<u>\$ 10,000</u>	<u>\$ 18,664</u>	<u>\$ 8,664</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - BUDGET TO ACTUAL - PROPRIETARY FUND**  
**JUNE 30, 2018**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b><u>REVENUES</u></b>					
Charges for Services	\$ 555,301	\$ 10,699	\$ 566,000	\$ 512,145	\$ (53,855)
Miscellaneous Labor and Tap Fees	4,000	3,600	7,600	-	(7,600)
Reconnect Fees	1,000	(600)	400	-	(400)
Online Meter Deposits	3,000	-	3,000	-	(3,000)
Meter Deposits	9,300	-	9,300	1,182	(8,118)
Sewer Surcharge	-	-	-	30,370	30,370
Infiltration Fees	-	-	-	25,135	25,135
Interest Income	50	20	70	75	5
Miscellaneous Revenue	-	-	-	13,439	13,439
Total Proprietary Fund Revenues	<u>572,651</u>	<u>13,719</u>	<u>586,370</u>	<u>582,346</u>	<u>(4,024)</u>
Prior Year Fund Balance:					
Appropriated for Current Year Budget	<u>81,900</u>	<u>3,000</u>	<u>84,900</u>	<u>-</u>	<u>(84,900)</u>
Total Revenues and Prior Year Fund Balance	<u>654,551</u>	<u>16,719</u>	<u>671,270</u>	<u>582,346</u>	<u>(88,924)</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -**  
**PROPRIETARY FUND - CONTINUED**  
**JUNE 30, 2018**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance
<b>EXPENSES</b>					
Water and Sewer System					
Salaries	112,400	7,800	120,200	124,486	(4,286)
FICA and Medicare	8,600	600	9,200	8,628	572
Retirement	21,250	2,750	24,000	45,833	(21,833)
Insurance	24,300	(1,300)	23,000	25,326	(2,326)
Waste Management	67,200	3,700	70,900	69,292	1,608
Telephone	2,900	300	3,200	3,115	85
Repair and Maintenance - Equipment	10,000	(4,000)	6,000	7,025	(1,025)
Repair and Maintenance - Water	10,000	(2,000)	8,000	8,018	(18)
Repair and Maintenance - Sewer	37,401	20,599	58,000	41,819	16,181
Uniforms	1,000	(500)	500	170	330
Water and Sewer Purchased	86,000	16,000	102,000	97,243	4,757
Utilities	20,000	1,900	21,900	21,634	266
Office Supplies	5,000	(3,000)	2,000	6,653	(4,653)
Office Equipment	10,000	-	10,000	-	10,000
Building Maintenance	2,000	(2,000)	-	-	-
Advertising and Legal Fees	4,000	(3,000)	1,000	219	781
Insurance - Property and Liability	11,500	-	11,500	10,160	1,340
Insurance - Workers Compensation	2,800	200	3,000	-	3,000
Gas and Oil	7,000	5,300	12,300	12,514	(214)
Sales and Utility Tax	14,000	1,600	15,600	15,521	79
Audit	4,000	2,000	6,000	6,402	(402)
Truck Payment	7,370	-	7,370	750	6,620
Rural Development Loan Payment	14,000	-	14,000	2,464	11,536
South Lift Station Loan Payment	22,000	-	22,000	912	21,088
Customer Deposit Refunds	12,000	-	12,000	-	12,000
Miscellaneous - Water and Sewer	4,740	570	5,310	7,685	(2,375)
Depreciation	-	-	-	141,289	(141,289)
Total Water & Sewer System	<u>521,461</u>	<u>47,519</u>	<u>568,980</u>	<u>657,158</u>	<u>(88,178)</u>
<b>Total Expenses</b>	<u>521,461</u>	<u>47,519</u>	<u>568,980</u>	<u>657,158</u>	<u>(88,178)</u>
Excess of Revenue over Expenses	133,090	(30,800)	102,290	(74,812)	(177,102)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	-	-	-	-	-
Transfers Out	(71,200)	-	(39,700)	(41,269)	(1,569)
Total Other Financing Sources (Uses)	<u>(71,200)</u>	<u>-</u>	<u>(39,700)</u>	<u>(41,269)</u>	<u>(1,569)</u>
Change in Net Position	61,890	(30,800)	62,590	(116,081)	(178,671)

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

**CITY OF MULDRAUGH, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -  
PROPRIETARY FUND - CONTINUED  
JUNE 30, 2018**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
Net Position, Beginning	-	-	-	2,687,086	2,687,086
Restatement of Prior Year Balances					
OPEB Adjustments - Note O	-	-	-	(70,447)	-
Net Position, Beginning - as restated	-	-	-	2,616,639	2,687,086
Prior Period Adjustment	-	-	-	(30)	(30)
Net Position, Ending	<u>\$ 61,890</u>	<u>\$ (30,800)</u>	<u>\$ 62,590</u>	<u>\$ 2,500,528</u>	<u>\$ 5,195,471</u>

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION ON**  
**BUDGETARY REPORTING**  
**JUNE 30, 2018**

***Budgets and the Budgetary Process***

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

***Encumbrances***

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

***Reconciliation***

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

<u>Budgetary Fund/Department/Line Item</u>	<u>Reported As Capital Outlay in the Fund Financials</u>	<u>Reported As Debt Service in the Fund Financials</u>
<b>General Fund:</b>		
General Government:		
Miscellaneous	\$ 6,800	\$ -
Office Expense	2,004	-
City Hall Mortgage	-	11,078
HVAC Payment	-	2,015
Safe Room Payment	-	17,993
Police Department:		
Police Car Payment	3,160	4,506
Miscellaneous Police	27,972	-
Fire Department:		
Fire Department Supplies	5,000	-
Parks and Recreation:		
Park Expense	2,640	-
Playground	2,764	-
	<u>\$ 50,340</u>	<u>\$ 35,592</u>

***Stewardship***

Expenditures exceeded budget in the following departments:

<u>Department</u>	<u>Amount Over Budget</u>
Storm Water Management	\$ 4,328
Water and Sewer System	\$88,178

**CITY OF MULDRAGH, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2018**

<u>Year Ended June 30th</u>	<u>City's proportion of the net pension liability</u>	<u>City's proportionate share of the net pension liability (asset)</u>	<u>City's covered employee payroll</u>	<u>City's share of the net pension liability (asset) as a percentage of its covered employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<b>Non-Hazardous:</b>					
2018	Not Available	Not Available	\$ 307,064	Not Available	Not Available
2017	0.011866%	\$ 694,553	\$ 288,906	240.41%	53.30%
2016	0.013081%	\$ 644,072	\$ 312,053	206.40%	55.50%
2015	0.014421%	\$ 620,048	\$ 336,469	184.28%	59.97%
2014	0.014118%	\$ 458,050	Not Available	Not Available	66.80%
2013-2009	Not Available	Not Available	Not Available	Not Available	Not Available

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

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



**CITY OF MULDRAUGH, KENTUCKY  
SCHEDULE OF THE CITY'S CONTRIBUTIONS TO THE COUNTY  
EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>Year Ended June 30th</b>	<b>Contractually required contribution</b>	<b>Contribution relative to contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>City's covered employee payroll</b>	<b>Contributions as a percentage of covered employee payroll</b>
<b>Non-Hazardous:</b>					
2018	\$ 44,463	\$ 44,463	\$ -	\$ 307,064	14.48%
2017	\$ 40,303	\$ 40,303	\$ -	\$ 288,906	13.95%
2016	\$ 38,758	\$ 38,758	\$ -	\$ 312,053	12.42%
2015	\$ 42,900	\$ 42,900	\$ -	\$ 336,469	12.75%
2014	Not Available	Not Available	Not Available	Not Available	Not Available
2013-2009	Not Available	Not Available	Not Available	Not Available	Not Available

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

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

**CITY OF MULDRAUGH, KENTUCKY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**ON PENSION REPORTING**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE A – ACCOUNTING POLICIES**

For purposes of determining net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to the City by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE B – CHANGES OF BENEFIT TERMS**

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

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

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

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

**NOTE C – CHANGES OF ASSUMPTIONS**

**2015**

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

**2017**

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

**CITY OF MULDRAGH, KENTUCKY  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
ON PENSION REPORTING  
FOR THE YEAR ENDED JUNE 30, 2018**

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

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

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Inflation	3.25 percent
Salary increase	4.00, average including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

**NOTE E – MEASUREMENT DATE**

As allowed by current audit standards, CERS has used a measurement date of June 30, 2017 for reporting information to the City.

**CITY OF MULDRAUGH, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB**  
**LIABILITY OF THE COUNTY EMPLOYEES RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED JUNE 30, 2018**

<b>Year Ended June 30th</b>	<b>City's proportion of the net OPEB liability</b>	<b>City's proportionate share of the net OPEB liability (asset)</b>	<b>City's covered employee payroll</b>	<b>City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll</b>	<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>
<b>Non-Hazardous:</b>					
2018	Not Available	Not Available	\$ 307,064	Not Available	Not Available
2017	0.011866%	\$ 238,547	\$ 288,906	82.57%	52.40%
2016	Not Available	\$ 187,109	\$ 312,053	59.96%	Not Available
2015-2009	Not Available	Not Available	Not Available	Not Available	Not Available

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

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

**CITY OF MULDRAUGH, KENTUCKY  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
ON OPEB REPORTING  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE A – ACCOUNTING POLICIES**

For purposes of determining net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEBs, OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported to the City by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE B – CHANGES OF BENEFIT TERMS**

There were no changes in benefit terms during this period.

**NOTE C – CHANGES OF ASSUMPTIONS**

2017

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

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

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

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary increase	2.00% average including inflation
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

**Healthcare Trend Rates:**

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

**NOTE E – MEASUREMENT DATE**

As allowed by current audit standards, CERS has used a measurement date of June 30, 2017 for reporting information to the City.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Muldraugh, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Muldraugh, Kentucky's basic financial statements, and have issued our report thereon dated March 11, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-1 that we consider to be a material weakness.

**Compliance and Other Matters**

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

**City of Muldraugh, Kentucky's Response to Findings**

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

**Purpose of this Report**

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

*Stephens & Lawson CPAs*

Louisville, Kentucky  
March 11, 2019



**CITY OF MULDRAUGH, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2018**

**Findings:**

2018-1 *Condition:* The City does not have internal controls in place that enable it to prepare complete financial statements, including footnote disclosures, in compliance with generally accepted accounting principles

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

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

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

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

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