

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

**CITY OF MIDWAY, KENTUCKY
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CITY OF MIDWAY
101 EAST MAIN STREET
MIDWAY, KENTUCKY 40347
(859) 846-4413

CITY OFFICIALS AND OFFICERS

MAYOR

Honorable Grayson Vandegrift

MEMBERS OF COUNCIL

Kaye Nita Gallagher
Sara Hicks
John Holloway
Logan Nance
Bruce Southworth
Stacy Thurman

OFFICERS

Cindy Foster
City Clerk

Sonya Conner
Assistant City Clerk

Honorable Phil Maloney
City Attorney

SAMMY K. LEE, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Midway
Midway, Kentucky 40347

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midway (hereinafter called "the City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 City'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 City's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension schedules, and OPEB schedules on pages 41–46 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements on pages 47–48 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 29, 2020, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Sammy K. Lee, P.S.C.

Berea, Kentucky
February 29, 2020

CITY OF MIDWAY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,019,671	\$ 124,660	\$ 1,144,331
Receivables, net			
Taxes, licenses and fees, net	225,957	-	225,957
Accounts receivable, net	14,604	62,155	76,759
Prepaid expenses	60	-	60
Total Current Assets	<u>1,260,292</u>	<u>186,815</u>	<u>1,447,107</u>
Non-Current Assets			
Restricted cash	-	123,487	123,487
Certificates of Deposit	287,044	-	287,044
Capital assets:			
Surplussed asset, sewer plant	-	60,000	60,000
Non-depreciable	6,300	50,000	56,300
Depreciable, net	900,076	4,339,325	5,239,401
Total Non-Current Assets	<u>1,193,420</u>	<u>4,572,812</u>	<u>5,766,232</u>
Total Assets	<u>2,453,712</u>	<u>4,759,627</u>	<u>7,213,339</u>
Deferred Outflows of Resources			
Deferred amounts related to pension	106,054	54,608	160,662
Deferred amounts related to OPEB	34,370	19,122	53,492
Total Deferred Outflows of Resources	<u>140,424</u>	<u>73,730</u>	<u>214,154</u>
Liabilities			
Current Liabilities			
Accounts payable	36,047	27,120	63,167
Accrued expenses	47,089	1,277	48,366
Deferred revenues	-	1,657	1,657
Accrued interest payable	-	394	394
Customer deposits payable	-	52,426	52,426
Compensated absences	21,470	1,161	22,631
Notes payable	16,687	9,137	25,824
Total Current Liabilities	<u>121,293</u>	<u>93,172</u>	<u>214,465</u>
Non-Current Liabilities			
Notes payable	-	171,711	171,711
Net pension liability	361,858	178,229	540,087
Net OPEB liability	105,492	51,958	157,450
Total Non-Current Liabilities	<u>467,350</u>	<u>401,898</u>	<u>869,248</u>
Total Liabilities	<u>588,643</u>	<u>495,070</u>	<u>1,083,713</u>
Deferred Inflows of Resources			
Deferred amounts related to pension	30,992	15,325	46,317
Deferred amounts related to OPEB	20,017	9,859	29,876
Total Deferred Inflows of Resources	<u>51,009</u>	<u>25,184</u>	<u>76,193</u>
Net Position			
Net investment in capital assets	889,689	4,268,477	5,158,166
Restricted for:			
Debt service	-	123,487	123,487
Municipal Aid Road Fund	88,851	-	88,851
Unrestricted	975,944	(78,861)	897,083
Total Net Position	<u>\$ 1,954,484</u>	<u>\$ 4,313,103</u>	<u>\$ 6,267,587</u>

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

CITY OF MIDWAY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Government Activities							
General government	\$ 423,151	\$ -	\$ -	\$ -	\$ (423,151)	\$ -	\$ (423,151)
Police	170,393	-	-	-	(170,393)	-	(170,393)
Fire	115,769	-	11,000	-	(104,769)	-	(104,769)
Parks and recreation	25,318	-	2,638	-	(22,680)	-	(22,680)
Sanitation	143,808	140,684	-	-	(3,124)	-	(3,124)
Streets	250,683	-	31,715	-	(218,968)	-	(218,968)
Cemetery	175,203	28,070	-	-	(147,133)	-	(147,133)
Economic development	266,667	-	-	200,000	(66,667)	-	(66,667)
Total Governmental Activities	1,570,992	168,754	45,353	200,000	(1,156,885)	-	(1,156,885)
Business-Type Activities							
Water and sewer utilities	882,356	722,923	-	-	-	-	(159,433)
Total Business-Type Activities	882,356	722,923	-	-	-	-	(159,433)
Total Activities	\$ 2,453,348	\$ 891,677	\$ 45,353	\$ 200,000	\$ (1,156,885)	\$ -	\$ (1,156,885)
					Governmental Activities	Business-Type Activities	Total
General Revenues							
Property taxes, levied for general purposes					93,662	-	93,662
Franchise tax					71,286	-	71,286
Utility tax					11,521	-	11,521
Occupational					772,834	-	772,834
Insurance premium					204,310	-	204,310
Motor vehicle					14,298	-	14,298
Licenses, fees and permits					26,810	-	26,810
Interest income					350	66	416
Miscellaneous					57,280	7,772	65,052
Transfers					(250,655)	250,655	-
Total General Revenues and Transfers					1,001,696	258,493	1,260,189
Change in Net Position					(155,189)	99,060	(56,129)
Net Position, Beginning					2,109,673	4,214,043	6,323,716
Net Position, Ending					\$ 1,954,484	\$ 4,313,103	\$ 6,267,587

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

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

	<u>General</u>	<u>Economic Development Funds</u>	<u>Total Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 901,656	\$ -	\$ 118,015	\$ 1,019,671
Investments	287,044	-	-	287,044
Taxes, licenses and fees receivable, net	225,957	-	-	225,957
Accounts receivable, net	14,604	-	-	14,604
Prepaid expenses	60	-	-	60
Total Assets	<u>\$ 1,429,321</u>	<u>\$ -</u>	<u>\$ 118,015</u>	<u>\$ 1,547,336</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 36,047	\$ -	\$ -	\$ 36,047
Accrued expenses	47,089	-	-	47,089
Compensated absences	21,470	-	-	21,470
Notes payable	16,687	-	-	16,687
Total Liabilities	<u>121,293</u>	<u>-</u>	<u>-</u>	<u>121,293</u>
Fund Balances				
Non-spendable	60	-	-	60
Restricted	-	-	88,851	88,851
Committed	356,323	-	29,164	385,487
Assigned	7,642	-	-	7,642
Unassigned	944,003	-	-	944,003
Total Fund Balances	<u>1,308,028</u>	<u>-</u>	<u>118,015</u>	<u>1,426,043</u>
Total Liabilities and Fund Balances	<u>\$ 1,429,321</u>	<u>\$ -</u>	<u>\$ 118,015</u>	<u>\$ 1,547,336</u>

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

Fund balances reported above **\$ 1,426,043**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 906,376

Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds. 89,415

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

Net pension liability	(361,858)
Net OPEB liability	<u>(105,492)</u>

Net Position of Governmental Activities **\$ 1,954,484**

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

CITY OF MIDWAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>Economic Development Funds</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes				
Property taxes, levied for general purposes	\$ 93,662	\$ -	\$ -	\$ 93,662
Franchise tax	71,286	-	-	71,286
Utility tax	11,521	-	-	11,521
Occupational	772,834	-	-	772,834
Insurance premium	204,310	-	-	204,310
Motor vehicle	14,298	-	-	14,298
Licenses, fees and permits	26,810	-	-	26,810
Intergovernmental revenues	13,638	200,000	31,709	245,347
Charges for services and others	138,132	-	30,592	168,724
Interest income	350	-	36	386
Miscellaneous	57,280	-	-	57,280
Total Revenues	<u>1,404,121</u>	<u>200,000</u>	<u>62,337</u>	<u>1,666,458</u>
Expenditures				
General government	396,947	-	-	396,947
Police department	170,393	-	-	170,393
Fire department	56,084	-	-	56,084
Sanitation	140,941	-	-	140,941
Parks and recreation	21,808	-	-	21,808
Streets	242,183	-	-	242,183
Cemetery	129,429	-	34,608	164,037
Economic development	-	266,667	-	266,667
Capital outlay	107,321	-	-	107,321
Debt service - principal	-	-	24,671	24,671
Debt service - interest	-	-	592	592
Total Expenditures	<u>1,265,106</u>	<u>266,667</u>	<u>59,871</u>	<u>1,591,644</u>
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	<u>139,015</u>	<u>(66,667)</u>	<u>2,466</u>	<u>74,814</u>
Other Financing Sources (uses)				
Transfer in	-	66,667	25,263	91,930
Transfer out	(342,585)	-	-	(342,585)
Net other financing sources (uses)	<u>(342,585)</u>	<u>66,667</u>	<u>25,263</u>	<u>(250,655)</u>
Net Change in Fund Balance	(203,570)	-	27,729	(175,841)
Fund Balance, Beginning	<u>1,511,598</u>	<u>-</u>	<u>90,286</u>	<u>1,601,884</u>
Fund Balance, Ending	<u>\$ 1,308,028</u>	<u>\$ -</u>	<u>\$ 118,015</u>	<u>\$ 1,426,043</u>

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

CITY OF MIDWAY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS- TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net Changes in Fund Balances - Total Governmental Funds	\$ (175,841)
Amounts reported for <i>government activities</i> in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$138,978 exceeds capital outlay of \$107,321 in the current period.	(31,657)
Proceeds of certain notes payable are reported as financing sources in governmental funds and thus contribute to the increase 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 governmental funds but reduces the liability in the statement of net position. Outstanding loan balance at beginning of the year was \$41,358 compared to \$16,687 at end of year.	24,671
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Change in pension liability and OPEB liability of governmental activities	27,638
Change in Net Position of Governmental Activities	<u>\$ (155,189)</u>

CITY OF MIDWAY, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 31,220	\$ 93,440	\$ 124,660
Receivables, net	21,721	40,434	62,155
Due from sewer fund	-	8,389	8,389
Total Current Assets	52,941	142,263	195,204
Non-Current Assets			
Restricted cash	123,487	-	123,487
Surplused asset, sewer plant	60,000	-	60,000
Capital assets:			
Non-depreciable	50,000	-	50,000
Depreciable, net	3,442,479	896,846	4,339,325
Total Non-Current Assets	3,675,966	896,846	4,572,812
Total Assets	3,728,907	1,039,109	4,768,016
Deferred Outflows of Resources			
Deferred amounts related to pension	26,508	28,100	54,608
Deferred amounts related to OPEB	9,817	9,305	19,122
Total Deferred Outflows of Resources	36,325	37,405	73,730
Liabilities			
Current Liabilities			
Accounts payable	3,838	23,282	27,120
Accrued expenses	92	1,185	1,277
Due to water fund	8,389	-	8,389
Customer deposits payable	-	52,426	52,426
Compensated absences	1,161	-	1,161
Deferred revenue	1,657	-	1,657
Accrued interest payable	394	-	394
Notes payable	-	9,137	9,137
Total Current Liabilities	15,531	86,030	101,561
Non-Current Liabilities			
Notes payable	-	171,711	171,711
Net pension liability	91,815	86,414	178,229
Net OPEB liability	26,766	25,192	51,958
Total Non-Current Liabilities	118,581	283,317	401,898
Total Liabilities	134,112	369,347	503,459
Deferred Inflows of Resources			
Deferred amounts related to pension	7,874	7,451	15,325
Deferred amounts related to OPEB	5,078	4,781	9,859
Total Deferred Inflows of Resources	12,952	12,232	25,184
Net Position			
Net investment in capital assets	3,552,479	715,998	4,268,477
Restricted	123,487	-	123,487
Deficit	(57,798)	(21,063)	(78,861)
Total Net Position	\$ 3,618,168	\$ 694,935	\$ 4,313,103

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

CITY OF MIDWAY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Sewer Fund	Water Fund	Total
Operating Revenues			
Charges for services	\$ 263,925	\$ 458,998	\$ 722,923
Miscellaneous	5,921	1,850	7,771
Total Operating Revenues	269,846	460,848	730,694
Operating Expenses			
Salaries	42,461	40,643	83,104
Employee benefits	43,013	32,522	75,535
Purchases of water	-	325,970	325,970
Contractual services	15,834	17,215	33,049
Materials and supplies	83,557	18,676	102,233
Insurance	1,054	-	1,054
Utilities and telephone	54,301	4,606	58,907
Depreciation	151,638	28,717	180,355
Bad debt provision	6,368	6,523	12,891
Miscellaneous	2,175	674	2,849
Total Operating Expenses	400,401	475,546	875,947
Operating Loss	(130,555)	(14,698)	(145,253)
Non-Operating Revenues (Expenses)			
Interest income	66	-	66
Interest expense	(803)	(5,605)	(6,408)
Total Non-Operating Revenue (Expenses)	(737)	(5,605)	(6,342)
Loss before transfers	(131,292)	(20,303)	(151,595)
Transfers in	214,983	35,672	250,655
Change in Net Position	83,691	15,369	99,060
Total Net Position, Beginning	3,534,477	679,566	4,214,043
Total Net Position, Ending	\$ 3,618,168	\$ 694,935	\$ 4,313,103

CITY OF MIDWAY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 263,002	\$ 456,356	\$ 719,358
Cash payments to suppliers for goods and services	(191,044)	(403,334)	(594,378)
Cash payments to employees for services	(42,461)	(40,643)	(83,104)
Net Cash Provided by Operating Activities	<u>29,497</u>	<u>12,379</u>	<u>41,876</u>
Cash Flows from Noncapital and Related Financing Activities			
Transfers in	214,983	35,672	250,655
Net Cash Provided by Noncapital and Related Financing Activities	<u>214,983</u>	<u>35,672</u>	<u>250,655</u>
Cash Flows from Capital and Related Financing Activities			
Principal, interest, and related fees paid on long-term debt	(197,295)	(14,498)	(211,793)
Acquisition and construction of capital assets	(33,592)	-	(33,592)
Net Cash Used in Capital and Related Financing Activities	<u>(230,887)</u>	<u>(14,498)</u>	<u>(245,385)</u>
Cash Flows from Investing Activities			
Cash received from interest income	66	-	66
Net Cash Provided by Investing Activities	<u>66</u>	<u>-</u>	<u>66</u>
Net Increase in Cash and Cash Equivalents	<u>13,659</u>	<u>33,553</u>	<u>47,212</u>
Cash and Cash Equivalents at July 1, 2018	<u>141,048</u>	<u>59,887</u>	<u>200,935</u>
Cash and Cash Equivalents at June 30, 2019	<u><u>\$ 154,707</u></u>	<u><u>\$ 93,440</u></u>	<u><u>\$ 248,147</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating Loss	<u>\$ (130,555)</u>	<u>\$ (14,698)</u>	<u>\$ (145,253)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	151,638	28,717	180,355
Bad debt	6,368	6,523	12,891
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(5,445)	(11,015)	(16,460)
(Increase) decrease in deferred outflows	302	(1,760)	(1,458)
Increase (decrease) in accounts payable	(2,430)	(9,906)	(12,336)
Increase (decrease) in accrued liabilities	92	(665)	(573)
Increase (decrease) in customer deposits	(1,444)	9,684	8,240
Increase (decrease) in deferred revenue	1,034	-	1,034
Increase (decrease) in deferred inflows	166	(213)	(47)
Increase (decrease) in net pension liability	10,823	7,592	18,415
Increase (decrease) in net OPEB liability	(1,052)	(1,880)	(2,932)
Total adjustments	<u>160,052</u>	<u>27,077</u>	<u>187,129</u>
Net Cash Provided by Operating Activities	<u><u>\$ 29,497</u></u>	<u><u>\$ 12,379</u></u>	<u><u>\$ 41,876</u></u>
Schedule of Non-Cash Transactions			
Cash paid for interest	<u><u>\$ 1,230</u></u>	<u><u>\$ 5,157</u></u>	<u><u>\$ 6,387</u></u>

**CITY OF MIDWAY, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019**

	Cemetery-Perpetual Care and Maintenance Fund
ASSETS	
Investments	\$ 184,490
Total Assets	\$ 184,490
NET POSITION HELD IN TRUST	\$ 184,490

CITY OF MIDWAY, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2019

	Cemetery-Perpetual Care and Maintenance Fund
Additions	
Deposits from sales of graves	\$ 2,994
Investment income	2,676
Realized gain on investments	13,233
Net change in unrealized gains (losses)	(5,223)
Total Additions	13,680
Deductions	
Distribution to the General Fund	364
Investment fees	3,400
Total Deductions	3,764
Change in Net Position	9,916
Net Position, beginning of year	174,574
Net Position, end of year	\$ 184,490

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

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

NOTE 1 – NATURE OF ORGANIZATION AND OPERATIONS

The City of Midway, Kentucky (hereinafter "the City") was incorporated February 17, 1846. The City operates under a Mayor-Council form of government. The City's major operations include fire and police protection, parks and recreation, and general administrative services. In addition, the City operates a water and sewer system, manages the operations of the City cemetery and provides solid waste collection. The citizens of Midway elect a mayor-at-large and six (6) city council members.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for state and local government accounting and financial reporting. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing City, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component unit.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity.

The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Basis of Presentation

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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

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

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

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

The City reports the following funds:

GOVERNMENTAL

- **General Fund** is the City's primary operating fund. It accounts for all financial operations of the City and except for those required to be accounted for in another designated fund.
- **Special Revenue Funds – Economic Development Fund** is used to account for grant funds and grant commitments with the Commonwealth of Kentucky's Economic Development Cabinet (the "Cabinet") and private industries. The primary source of revenue is from the Cabinet. Matching grant commitments are transferred to the fund from the General Fund. The major expenditures include payments to private companies under economic development grants. This is a major fund of the City.
- **Special Revenue – Cemetery Fund** is used to account for cemetery activity. The primary source of revenue for this fund is grave sales. The major expenditures include transfer to the Cemetery Trust Fund (20% of grave sales) and maintenance on the cemetery.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation – Continued

- **Special Revenue – Municipal Aid Fund** is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures to be used to account for and report resources restricted or committed to improvements of the City's roads and sidewalks. The primary sources of revenue are intergovernmental grants.
- **Debt Service Fund** accounts for and reports financial resources that are restricted, committed or assigned to expenditures for the payment of general long-term debt principal, interest and related costs other than enterprise (Water Fund and Sewer Fund) debt.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The City has the following fiduciary fund:

- **Private Purposes Trust Fund:** The City maintains Cemetery – Perpetual Care and Maintenance Fund to account for funds placed in trust for future care and maintenance of the City Cemetery. Fiduciary funds are used to report assets held in a trustee or agency capacity for others. Since by definition these assets are being held for the benefit of a third party and cannot be used to support activities or obligations of the City, these funds are not incorporated in the government-wide financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

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

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

The City reports the following major proprietary funds:

- **Sewer Fund** is used to account for revenues and expenditures related to sewer services.
- **Water Fund** is used to account revenues and expenditures related to water services.

Criteria for determining if other entities are potential component units which should be reported within the City's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards. Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations that the nature and significance of their relationship with the City as such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

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

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

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2019, the original budget was approved in April 2019 and amended June 2019. The budget for the General and Special Revenue Funds is presented in the Statements of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other deposits with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows. The City has restricted cash and or certificates of deposits to satisfy bond issue requirements, including cash restricted for bond payments. Certificates of deposit are reported at cost which approximates fair value. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trend and the periodic aging of accounts receivable. Major receivable balances for the governmental funds consist of occupational taxes. Business-type activities report utilities and interest earnings as of their major receivables.

Receivables are reviewed periodically to establish or update the provisions for uncollectible amounts. These provisions are estimated based on an analysis for the age of the various accounts. The City records the amount of earned but unbilled revenues for the Water and Sewer Utilities System enterprise funds.

Allowance for Doubtful Accounts

Management provides for probable uncollectible amounts of accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to accounts receivable.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories

The City does not maintain inventories for general government operations or the business-type proprietary operations. Materials and goods for the water and sewer operations are purchased and expensed as needed.

Internal Receivables and Payables

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

Property Tax Calendar

Property tax (real property) rolls are prepared by the Woodford County Property Tax Assessors office on property assessed as of the preceding January 1. The assessments are determined in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

<u>Description</u>	<u>Per KRS 134.015</u>
1. Due date for payment of taxes	Upon Receipt
2. 2% discount period	By November 30
3. Face value amount payment period	To December 31
4. Past due date, 10% penalty	January 1
5. Interest charges	1.0% per month effective January 1

Vehicle taxes are collected by the County Clerk of Woodford County. Vehicle taxes due and collected in the birth month of the licensee.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the residual amounts due between governmental and business-type activities, which are presented as internal balances.

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involve entities external to the City are accounted for as revenues, expenditures, or expenses in the funds.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenditures in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Principles

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

Prepaid Expenses

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

Restricted Cash and Cash Equivalents

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

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The City defines capital assets as assets with an individual cost of more than \$500, and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. When assets are retired or otherwise disposed of, the costs are removed from the asset accounts and a gain or loss is recorded. In the fund financial statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 years
Equipment	5-10 years
Water and Sewer System Utility Plants	25-40 years
Infrastructure	15-40 years

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Compensated Absences

It is the policy of the City to permit City employees to accumulate a limited amount of earned but unused leave benefits which will be paid to City employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned. The valuation of accrued leave benefits is calculated in accordance with GASB Statement No. 16, Accounting for Compensated Absences.

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form-prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance: This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance: These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council – the governments highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the Council remove the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance: This classification reflects the amounts constrained by the town's "intent" to be used for specific purposes but are neither restricted nor committed. The City Council and Mayor have the remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted no committed.

Unassigned fund balance: This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use of either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating and Non-Operating Revenues and Expenses

The business-type proprietary fund financial statements distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses are those that result from providing services associated with the principal activities of the respective fund. Primary examples of operating revenues are charges for water and wastewater treatment services of the City's utility system. Operating expenses include the cost of sales and services, administration costs and depreciation expenses. Non-operating revenues and expenses are all those that do not meet the criteria described previously, and include interest and tax revenues, and debt service expenses.

Deferred Outflows/Inflows of Resources

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

Pensions and Other Postemployment Benefits

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

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used to determine depreciation expense and the allowance for doubtful accounts among other accounts. Actual results could differ from those estimates.

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019**

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2019, the City's cash and cash equivalents balances include deposits held in checking accounts, savings accounts, and certificates of deposit.

Custodial Credit Risk: For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. At June 30, 2019, \$1,586,539 of the government's bank balance of \$799,495 was exposed to custodial credit risk. The full amount exposed to custodial credit risk was collateralized by securities held by the pledging financial institution.

Money market funds and participating interest-earning investment contracts (such as negotiable certificates of deposit, certificates of deposit, and repurchase agreements) that at the time of purchase have a maturity of one year or less, and carried at amortized cost which approximates fair value.

The City's investments as of June 30, 2019 are as follows:

Governmental Funds:

Governmental Funds:

Certificates of deposit	<u>\$ 287,044</u>
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Fiduciary Funds:

Money Market Mutual Funds	<u>\$ 184,490</u>
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Credit Risk: Under KRS 66.480, the City is permitted to invest in the following:

- obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United State Government agency.
- obligations of any corporation of the United States Government.
- commercial paper rated in the highest category by a nationally recognized rating agency.
- certificates of deposit issued by, or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity, or which are collateralized, to the extent uninsured by any obligations permitted by KRS 41.240(4).
- uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
- bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities.
- securities issued by a state or local government, or any instrumentality of an agency thereof in the United States, and rated in one of the three highest categories by a nationally recognized rating agency shares of mutual funds (the mutual fund shall be an open and diversified investment company registered under the Federal Investment Company Act of 1940, as amended; the management company of the investment company shall have been in operation for at least five years; and all securities in the mutual funds shall be eligible investments pursuant to the above).

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS – CONTINUED

Concentration of Credit Risk: The amount invested at any time by the City is uncollateralized certificates of deposit issued by any bank or savings and loan institution, bankers' acceptances, commercial paper or securities issued by a state or local government, or any instrumentality of an agency thereof in the United States (as described above), shall not exceed 20% of the total amount invested by the City. With the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 20% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution.

Interest Rate Risk: The City's formal investment policy does not address policies relative to investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 4 – HEALTH INSURANCE ACCOUNT

During 2010, the Council voted to open an account at United Bank in which to deposit a portion of each employee's deductible on health insurance. Disbursements are made out of the account when employees have health care costs subject to the deductible. The City reimburses the plan based on reimbursement activity upon receiving an invoice. The balance of this account at June 30, 2019 was \$19,751. Febco, Inc. is the third-party administrator. Employees request reimbursements from Febco, Inc. Febco, Inc. then sends a monthly report to the City showing all reimbursements made and for which employee. The City then deposits additional monies as needed into the United Bank account.

NOTE 5 – NONCURRENT RECEIVABLE

The City has entered into an agreement with the Versailles-Woodford County Economic Development Authority ("the Authority") whereby the City has agreed to pay one-half of any interest expense incurred by the Authority in the acquisition and development of an industrial park. The City has also agreed to guarantee payment of these loans. The Authority agreed to reimburse any interest or other cost paid by the City with proceeds from sales of industrial park lots. As of June 30, 2019, the Authority owes the City \$681,663, which was recorded as a noncurrent receivable. The last payment received from the Authority was September 2009; therefore, while management maintains that the Authority owes the City the entire amount of the receivable, Management has significant concerns regarding the Authority's ability to pay. Management believes that it is highly unlikely that collection will occur. Also, management of the Economic Development Authority noted, "The agreement requires the EDA will reimburse Midway to the extent that there are any funds remaining after the sale of all lots. Based on the current option agreement and the purchase price in that agreement, it is highly unlikely that there will be any excess funds remaining." Management elected to establish an allowance account for 100% of the balance.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 6 – SUMMARY OF CHANGES IN CAPITAL ASSETS

Capital asset governmental activities during the year ended June 30, 2019 are as follows:

	Beginning Balance 7/1/2018	Increases	Decreases	Ending Balance 6/30/2019
Governmental Activities				
Capital assets, not being depreciated:				
Land, general government	\$ 6,300	\$ -	\$ -	\$ 6,300
Total capital assets, not being depreciated:	<u>6,300</u>	<u>-</u>	<u>-</u>	<u>6,300</u>
Capital assets, being depreciated:				
General Government				
Buildings and improvements	520,082	58,847	50	578,879
Furnishings and equipment	221,905	34,019	13,473	242,451
Infrastructure	3,624,268	-	-	3,624,268
Cemetery				
Equipment	68,611	8,256	3,958	72,909
Improvements	26,130	6,199	-	32,329
Fire Department				
Equipment	145,692	-	40,676	105,016
Fire trucks	317,997	-	-	317,997
Hydrants	12,992	-	-	12,992
Park				
Equipment	63,172	-	-	63,172
Municipal Streets				
Equipment	18,781	-	-	18,781
Signs	6,116	-	-	6,116
Infrastructure	288,501	-	-	288,501
Total capital assets, being depreciated:	<u>5,314,247</u>	<u>107,321</u>	<u>58,157</u>	<u>5,363,411</u>
Less accumulated depreciation for				
Buildings and Improvements	361,535	23,438	50	384,923
Furnishings and equipment	410,697	42,428	58,107	395,018
Infrastructure	3,363,244	25,076	-	3,388,320
Fire trucks	227,930	48,036	-	275,966
Hydrants	12,992	-	-	12,992
Signs	6,116	-	-	6,116
Total accumulated depreciation	<u>4,382,514</u>	<u>138,978</u>	<u>58,157</u>	<u>4,463,335</u>
Total capital assets, being depreciated, net	<u>931,733</u>			<u>900,076</u>
Government activities capital assets, net	<u>\$ 938,033</u>			<u>\$ 906,376</u>

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

General government	\$ 67,347
Public safety - Fire	59,685
Streets	2,885
Cemetery	5,551
Parks	3,510
Total depreciation	<u>\$ 138,978</u>

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 6 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

Capital asset for the business-type activities during the year ended June 30, 2019 are as follows:

	Beginning Balance 7/1/2018	Increases	Decreases	Ending Balance 6/30/2019
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Total capital assets, not being depreciated:	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Capital assets, being depreciated:				
Sewer Operations:				
Lines	824,958	-	-	824,958
Equipment	451,774	33,592	24,153	461,213
Sewer plant	4,617,801	-	-	4,617,801
Water Operations:				
Lines	573,114	-	-	573,114
Equipment	282,010	-	-	282,010
Water tower	695,866	-	-	695,866
Total capital assets, being depreciated:	<u>7,445,523</u>	<u>33,592</u>	<u>24,153</u>	<u>7,454,962</u>
Less accumulated depreciation for				
Lines	683,020	55,987	-	739,007
Equipment	546,225	17,334	24,153	539,406
Sewer plant	1,520,628	93,038	-	1,613,666
Water tower	209,562	13,997	-	223,559
Total accumulated depreciation	<u>2,959,435</u>	<u>180,356</u>	<u>24,153</u>	<u>3,115,638</u>
Total capital assets, being depreciated, net	<u>4,597,528</u>			<u>4,339,324</u>
Business-type activities capital assets, net	<u>\$ 4,647,528</u>			<u>\$ 4,389,324</u>

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

Sewer	\$ 151,639
Water	28,717
Total depreciation	<u>\$ 180,356</u>

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 7 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2019:

	<u>Interest Rate</u>	<u>Original Principal</u>	<u>June 30, 2019 Balance</u>
Governmental Activities			
Fire truck loan	1.980%	\$ 120,089	\$ 16,687
Total Governmental Activities		<u>\$ 120,089</u>	<u>\$ 16,687</u>
Business-Type Activities			
KIA revolving loan	4.375%	843,714	-
KIA F12-052	2.750%	215,000	180,848
Total Business-Type Activities		<u>\$ 1,058,714</u>	<u>\$ 180,848</u>

Annual debt service requirements to maturity are as follows:

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 16,687	\$ 124	\$ 16,811	\$ 9,137	\$ 4,911	\$ 14,048
2021	-	-	-	9,390	4,658	14,048
2022	-	-	-	9,650	4,398	14,048
2023	-	-	-	9,917	4,131	14,048
2024	-	-	-	10,192	3,856	14,048
2025-2029	-	-	-	55,351	14,889	70,240
2030-2034	-	-	-	63,450	6,790	70,240
2035	-	-	-	13,761	285	14,046
	<u>\$ 16,687</u>	<u>\$ 124</u>	<u>\$ 16,811</u>	<u>\$ 180,848</u>	<u>\$ 43,918</u>	<u>\$ 224,766</u>

The total interest incurred for the year ended June 30, 2019 was \$6,334, with \$592 attributable to governmental funds, \$606 for the Sewer Fund and \$5,136 for the Water Fund.

During the year ended June 30, 2019, and in prior years, long-term liabilities were liquidated with revenues from the City's Enterprise Fund – Sewer System with the exception of the fire truck loan that will be liquidated with revenues from the City's General Fund.

The City has a Line of Credit with United Bank and Trust Company for \$100,000. There were no draws on the line of credit during the year ended June 30, 2019. The maturity date of the line of credit is June 30, 2019. There is no balance owed on the line of credit as of June 30, 2019.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 7 – LONG-TERM DEBT – CONTINUED

The loans require depreciation and sinking funds, which are debt reserve funds for the notes payable. The revolving loan required that a repair and maintenance reserve account be established December 1, 2002.

The City must deposit \$7,000 annually in this fund for ten (10) years. These funds are to be used for extraordinary or unbudgeted expenses associated with the project. The balance in the sinking fund cash account as of June 30, 2019 is \$95,230. The balance in the depreciation cash account at June 30, 2019 is \$28,257.

The total \$123,487 is presented as restricted cash on the Sewer Fund's Statement of Net Position.

Long-term Liability activity for the year ending June 30, 2019 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due in one year</u>
Governmental activities					
Fire truck loan	\$ 44,358	\$ -	\$ 24,671	\$ 16,687	\$ 16,687
Total governmental activities	<u>\$ 44,358</u>	<u>\$ -</u>	<u>\$ 24,671</u>	<u>\$ 16,687</u>	<u>\$ 16,687</u>
Business-type activities					
KIA revolving loan	\$ 196,885	-	\$ 196,885	\$ -	\$ -
KIA F14-052	\$ 189,740	-	\$ 8,892	\$ 180,848	\$ 9,137
Total business-type activities	<u>\$ 386,625</u>	<u>\$ -</u>	<u>\$ 205,777</u>	<u>\$ 180,848</u>	<u>\$ 9,137</u>

Loan Covenants

The loan ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue loan overages. Funds are held in the reserve accounts at June 30, 2019, as required by the revenue loan ordinance.

Section 7 of Loan Ordinance 610.11 requires the following series of funds related to 1984 Series A and B Sewer Revenue Loans. Even though the 1984 Series A and B loans have been refinanced, the provision of Section 7 have not been repealed. The City continues to operate the following funds included in the accompanying Statement of Net Position under "Business-type (Proprietary) Funds."

Sewer System Revenue Account

- a. The City, in accordance with Section 7 of Ordinance 610.11, for accumulation of monies into the Loan Sinking Account. Depreciation Account and Operation and Maintenance Account.
- b. Sewer System Bond and Interest Account. Amounts sufficient to pay the current principal and interest requirements of the outstanding revenue loan are to be set aside monthly in this account. The monthly payment is to be equal to one-sixth of the next interest payment, one-twelfth of the next principal payment.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 7 – LONG-TERM DEBT – CONTINUED

Sewer System Revenue Account - Continued

- c. Sewer System Depreciation Account: Monthly deposits of not less than \$455 of the funds remaining in the Revenue Account are to be made into this account so long as (i) any loan remains outstanding and unpaid, and (ii) the unexpended balance of the Depreciation Account is less than \$55,000. The City further agrees to deposit the proceeds from the sale of any equipment no longer needed or usable, all fees or charges collected from potential customers and any proceeds received from property damage insurance. These funds are to be used for paying the cost of unusual or extraordinary maintenance, repairs, renewals, replacements and the cost of constructing additions and improvements to the system, which will either enhance its revenue-producing capacity or provide a higher degree of service.
- d. Sewer System Operation and Maintenance Account. The Loan Ordinance established this account to be used to pay operating expenses, and accordingly, the account is reflected in the statement of net position as unrestricted. The Loan Ordinance provides for monthly deposits from the Revenue Account equal to the anticipated expenses of operating and maintaining the system for the following month, and for accrual of an operation and maintenance reserve equal to the anticipated requirements for a two-month period pursuant to the annual budget.

Conduit Debt

The City issued \$8,000,000 in industrial revenue bonds in fiscal year 2013 to enable a non-profit corporation to construct a 40,300 square foot multi-purpose facility. The bonds do not constitute an indebtedness or pledge of faith and credit of the City; therefore, no obligation is recorded on the City's general-purpose combined financial statements.

The City issued \$10,000,000 in industrial revenue bonds in fiscal year 2017 to enable a non-profit corporation for renovation and expansion of a convention and arena facility. The bonds do not constitute an indebtedness or pledge of faith and credit of the City; therefore, no obligation is recorded on the City's general-purpose combined financial statement.

The City issued \$50,000,000 in industrial revenue bonds in fiscal year 2018 to enable a private company to construct a 500,000 square foot facility on 41 acres located in the City limits. The bonds do not constitute an indebtedness or pledge of faith and credit of the City; therefore, no obligation is recorded on the City's general purpose combined financial statement.

NOTE 8 – FUND BALANCES

Non-spendable fund balances are those that cannot be spent on future obligations. At June 30, 2019, the City had \$60 in non-spendable fund balance related to prepaid expenses.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2019, the City had \$88,851 restricted for the municipal aid fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the City Council. The Council must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The City had total general fund commitments at June 30, 2019 of \$385,487 (\$287,044 for emergency reserves; \$69,279 for the Rau building, and \$29,164 for the cemetery).

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 8 – FUND BALANCES – CONTINUED

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. There were no amounts assigned related to encumbrances at June 30, 2019. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. At June 30, 2019, the City had \$7,642 assigned for parks.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the City has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 9 – RETIREMENT PLAN

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

Plan Description

CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the system. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions

Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2019, participating employers contributed 21.48% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 9 – RETIREMENT PLAN – CONTINUED

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

Benefits-CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years or age 57+ sum of service years plus age equal 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

For the fiscal year ended June 30, 2019 the City's covered payroll was \$258,461.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 9 – RETIREMENT PLAN – CONTINUED

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

At June 30, 2019, the City reported a liability of \$540,087 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the City's proportion was .008868 percent.

For the year ended June 30, 2019, the City recognized pension expense of \$41,662. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 17,616	\$ 7,906
Changes of assumptions	52,782	-
Net difference between projected and actual earnings on plan investments	25,115	31,590
Changes in proportion and differences between employer contribution and proportionate share of contribution	23,227	6,821
City contributions subsequent to the measurement date	41,922	-
Total	<u>\$ 160,662</u>	<u>\$ 46,317</u>

The \$41,662 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,		
2020	\$	48,012
2021	\$	30,588
2022	\$	(3,279)
2023	\$	(2,898)

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 9 – RETIREMENT PLAN – CONTINUED

Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability

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

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation date	June 30, 2016
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00% average
Investment rate of return	7.50% for CERS Non-Hazardous, CERS Hazardous

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement.

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 9 – RETIREMENT PLAN – CONTINUED

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension liability</u>
1% Decrease	5.25%	\$ 540,087
Current discount rate	6.25%	\$ 679,915
1% Increase	7.25%	\$ 422,938

Payable to the Pension Plan – At June 30, 2019, the City did not owe contributions to the pension plan.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

At June 30, 2019, net OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred inflows of resources	<u>\$ 29,876</u>
Deferred outflows of resources	<u>\$ 53,492</u>
Net OPEB liability	<u>\$ 157,450</u>

Plan Description

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

Benefits Provided

The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned services without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2019 was 5.26% of covered payroll. Contributions to the Insurance Fund from the City were \$1,466 for the year ended June 30, 2019. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2019:

Valuation date	June 30, 2016
Experience study	July 1, 2008 - June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent of pay
Remaining amortization period	27 years, closed
Payroll growth rate	4.00%
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary increase	4.00% average
Investment rate of return	7.50%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over 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.

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

Discount Rate

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

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 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 weighing the expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) follows:

	<u>Discount Rate</u>	<u>City's proportionate share of net OPEB liability</u>
1% Decrease	4.85%	\$ 204,502
Current discount rate	5.85%	\$ 157,450
1% Increase	6.85%	\$ 117,370

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the City's proportionate share of the net OPEB liability City's net OPEB liability calculated using healthcare cost trend rates that are one percentage point lower (4.85%) or one percentage point higher (6.85%) than current healthcare cost trend rates:

	City's proportionate share of net OPEB liability
1% Decrease	\$ 204,865
Current discount rate	\$ 157,450
1% Increase	\$ 117,223

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

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expenses of \$13,595. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 18,349
Changes of assumptions	31,445	364
Net difference between projected and actual earnings on plan investments	-	10,845
Changes in proportion and differences between employer contribution and proportionate share of contribution	5,912	318
Implicit subsidy	2,540	-
City contributions subsequent to the measurement date	13,595	-
Total	\$ 53,492	\$ 29,876

The \$13,595 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,		
2020	\$	1,601
2021	\$	1,601
2022	\$	1,601
2023	\$	3,708
2024	\$	(329)
Thereafter	\$	(70)

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

NOTE 11 – 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; injuries to employees; natural disasters; and workers' compensation claims.

The City contracts with the Kentucky League of Cities Insurance Service (KLCIS), a local government risk pool to insure against workers' compensation claims.

The City purchases commercial insurance for various risks of loss due to torts, thefts, property damage, errors and omissions, injuries to employees and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 – CONTINGENCIES AND COMMITMENTS

Litigation

The City is not involved in lawsuits or matters which require disclosure with the ABA Statement policy regarding Lawyer's Responses to Auditor's Request per the opinion of counsel.

Significant losses are covered by commercial insurance with premiums (based on industry information adjustment for any City claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year.

Economic Development Grant

In January 2018, the City committed \$450,000 over five years through a grant agreement with the Kentucky Cabinet of Economic Development, State Property and Buildings Commission. The grant is pursuant to KRS 154.12 to promote economic development and in conjunction with \$50 million Industrial Revenue Bonds.

The amounts due to the City from the Cabinet flow through to the Company contingent upon the employment level for the company over the next five years. The City's commitment over the next five years is contingent upon the employment level of the employer as well. Therefore, no receivable from the state is recorded by the City and no liability is recorded by the City until the Cabinet approves the payment by verifying the company's employment numbers each year. The City received \$200,000 from the state during fiscal year 2019 and matched \$66,667 from the City's general funds. The total \$266,667 was submitted to the private Company.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2019

NOTE 12 – CONTINGENCIES AND COMMITMENTS – CONTINUED

The following amounts are due under the grant agreement:

Year ended June 30,	
2020	85,333
2021	93,333
2022	139,734
	<u>\$ 318,400</u>

NOTE 13 – RELATED PARTY TRANSACTIONS

The City reimbursed a company owned by a member of council in the amount of \$17,371 for materials and supplies in relation to park improvements during the year ending June 30, 2019.

NOTE 14 – TRANSFERS

The following schedule shows the interfund transfers made between funds during the fiscal year. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

From fund	To fund	Amount
General Fund	Debt Service Fund	\$ 25,263
General Fund	Economic Development Fund	\$ 66,667
General Fund	Sewer Fund	\$ 214,983
General Fund	Water Fund	\$ 35,672

NOTE 15 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through February 29, 2020, which is the date the financial statements were available to be issued.

**CITY OF MIDWAY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Property taxes, levied for general purposes	\$ 87,000	\$ 87,000	\$ 93,662	\$ 6,662
Franchise tax	-	-	71,286	71,286
Utility tax	-	-	11,521	11,521
Occupational	1,214,393	1,289,393	772,834	(516,559)
Insurance premium	168,720	168,720	204,310	35,590
Motor vehicle	-	-	14,298	14,298
Licenses, fees, and permits	-	-	26,810	26,810
Intergovernmental revenues	-	-	13,638	13,638
Charges for services and others	139,160	139,160	138,132	(1,028)
Interest income	-	-	350	350
Other	-	-	57,280	57,280
Total Revenues	1,609,273	1,684,273	1,404,121	(280,152)
Expenditures				
General and administrative	501,587	501,587	396,947	104,640
Police	166,000	166,000	170,393	(4,393)
Fire	101,262	101,262	56,084	45,178
Sanitation	113,200	113,200	140,941	(27,741)
Parks and recreation	27,000	27,000	21,808	5,192
Streets	336,528	411,528	242,183	169,345
Cemetery	234,467	234,467	129,429	105,038
Capital outlay	37,300	37,300	107,321	(70,021)
Total Expenditures	1,517,344	1,592,344	1,265,106	327,238
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	91,929	91,929	139,015	47,086
Other Financing Sources (uses)				
Transfer out	(91,929)	(91,929)	(342,585)	(250,656)
Net other financing sources (uses)	(91,929)	(91,929)	(342,585)	(250,656)
Net Change in Fund Balance			(203,570)	(203,570)
Fund Balance, Beginning			1,511,598	1,511,598
Fund Balance, Ending			\$ 1,308,028	\$ 1,308,028

**CITY OF MIDWAY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental revenues	\$ 200,000	\$ 200,000	\$ 200,000	\$ -
Total Revenues	200,000	200,000	200,000	-
Expenditures				
Economic development grants	266,667	266,667	266,667	-
Total Expenditures	266,667	266,667	266,667	-
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(66,667)	(66,667)	(66,667)	-
Other Financing Sources (uses)				
Transfer in	66,667	66,667	66,667	
Net other financing sources (uses)	66,667	66,667	66,667	
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ -	\$ -	\$ -	\$ -

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST FIVE FISCAL YEARS**

	2015	2016	2017	2018	2019
City's proportion of the net pension liability	0.009290%	0.009510%	0.008013%	0.008405%	0.008868%
City's proportionate share of the net pension liability	\$ 301,000	\$ 408,868	\$ 394,547	\$ 491,969	\$ 540,087
City's covered-employee payroll	\$ 213,043	\$ 222,682	\$ 191,159	\$ 203,742	\$ 258,461
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.29%	183.61%	206.40%	241.47%	208.96%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.50%	53.54%

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually required contribution	\$ 28,392	\$ 23,742	\$ 28,422	\$ 31,807	\$ 41,922
Contributions in relation to the contractually required contribution	<u>28,392</u>	<u>23,742</u>	<u>28,422</u>	<u>31,807</u>	<u>41,922</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 222,682	\$ 191,159	\$ 203,742	\$ 219,668	\$ 258,461
Contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%	14.48%	16.22%

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST TWO FISCAL YEARS**

	<u>2018</u>	<u>2019</u>
City's proportion of the net OPEB liability	0.008405%	0.008868%
City's proportionate share of the net OPEB liability	\$ 168,970	\$ 157,450
City's covered-employee payroll	\$ 203,742	\$ 258,461
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	82.93%	60.92%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
LAST TWO FISCAL YEARS**

	<u>2018</u>	<u>2019</u>
Contractually required contribution	\$ 10,324	\$ 13,595
Contributions in relation to the contractually required contribution	<u>10,324</u>	<u>13,595</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 219,668	\$ 258,461
Contributions as a percentage of covered-employee payroll	4.70%	5.26%

CITY OF MIDWAY, KENTUCKY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>Municipal Aid Fund</u>	<u>Cemetery Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 88,851	\$ 29,164	\$ -	\$ 118,015
Total current assets	<u>\$ 88,851</u>	<u>\$ 29,164</u>	<u>\$ -</u>	<u>\$ 118,015</u>
FUND BALANCES				
Restricted	\$ 88,851	\$ -	\$ -	\$ 88,851
Committed	-	29,164	-	29,164
Total fund balances	<u>\$ 88,851</u>	<u>\$ 29,164</u>	<u>\$ -</u>	<u>\$ 118,015</u>

CITY OF MIDWAY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019

	Municipal Aid Fund	Cemetery Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental revenues	\$ 31,709	\$ -	\$ -	\$ 31,709
Charges for services and others	36	30,592	-	30,628
Total revenues	<u>31,745</u>	<u>30,592</u>	<u>-</u>	<u>62,337</u>
EXPENDITURES				
Current:				
Streets	-	-	-	-
Cemetery	-	34,608	-	34,608
Debt service - principal	-	-	24,671	24,671
Debt service - interest	-	-	592	592
Total expenditures	<u>-</u>	<u>34,608</u>	<u>25,263</u>	<u>59,871</u>
Excess (deficiency) of revenues over (under) expenditures	<u>31,745</u>	<u>(4,016)</u>	<u>(25,263)</u>	<u>2,466</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	25,263	25,263
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>25,263</u>	<u>25,263</u>
Net change in fund balances	<u>31,745</u>	<u>(4,016)</u>	<u>-</u>	<u>27,729</u>
Fund balances - beginning of year	57,106	33,180	-	90,286
Fund balances - end of year	<u>\$ 88,851</u>	<u>\$ 29,164</u>	<u>\$ -</u>	<u>\$ 118,015</u>

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

To the Honorable Mayor and Members of the City Council
City of Midway
Midway, Kentucky 40347

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midway (hereinafter called "the City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated February 29, 2020.

Internal Control over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be material weaknesses as items 2019-001 and 2019-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2019-003.

The City's Response to Findings

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

Purpose of this Report

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

Sammy K. Lee, P.S.C.

Berea, Kentucky
February 29, 2020

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

MATERIAL WEAKNESS

2019-001 Financial Statement Preparation

Condition:

The City does not have a system of internal control over financial reporting that would allow it to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures. This is a repeat finding from the prior year.

Criteria:

Internal controls should be in place in order for the City to be able to prevent, detect, and correct potential misstatements in its financial statements, as prescribed by Statement of Auditing Standards No. 115. AU Section 325.05. A system of internal control over financial reporting does not consist solely of controls over the proper recording of accounting transactions. Rather, it includes controls over financial statement preparation, including footnote disclosures.

Cause:

As is common in small organizations, the City has financial restraints that prevent the hiring of accounting personnel with the training required to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures.

Effect:

The likelihood of the City's financial statements containing significant misstatements is not reduced to a low level because the City's internal controls over financial reporting are not effective.

Recommendation:

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

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019**

MATERIAL WEAKNESS

2019-002 Segregation of Duties

Condition:

During my audit, I noted that there was not adequate segregation of duties over receipts, disbursements, and reconciliations at City Hall. The Clerk/Treasurer accepts cash receipts and also records the amounts into the accounting system. The Clerk/Treasurer also enters data into the accounting system, has check signing authority, and performs bank reconciliations without review. This is a repeat finding from the prior year.

Criteria:

Internal controls are designed to safeguard assets and help or detect losses from errors, omissions, or fraud. A fundamental concept in a good system of internal control is the segregation of duties.

Cause:

Limited resources and staff for the City lead to one individual performing incompatible duties related to cash receipts, disbursements, and reconciliations.

Effect:

Improper segregation of duties related to cash receipts, disbursements, and reconciliations could result in undetected errors or missing funds.

Recommendation:

The lack of segregation of duties is a common deficiency in City's the size of Midway. The City Commissioners should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019**

MATERIAL WEAKNESS

2019-003 Sales Tax

Condition:

During my audit, I noted the City had paid sales tax on water purchases during the year.

Criteria:

Local governments are exempt from sales tax.

Cause:

Management inadvertently paid sales tax.

Effect:

The City paid sales tax on water purchases.

Recommendation:

The City should contact the vendor and request a refund for past sales tax paid.

Views of Responsible Officials:

Management agrees with the recommendation.