

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

**CITY OF MIDWAY, KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2021**

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

CITY OFFICIALS AND OFFICERS

MAYOR

Grayson Vandegrift

MEMBERS OF COUNCIL

Kaye Nita Gallagher
Sara Hicks
Logan Nance
Mary Raglin
Steve Simoff
Stacy Thurman

OFFICERS

Cindy Foster
City Clerk

Sonya Conner
Assistant City Clerk

Honorable Sharon Gold
City Attorney

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

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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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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. Our opinion on the basic financial statements is not affected by the missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension schedules, and OPEB schedules on pages 42-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

SK LEE CPAS, P.S.C.

Berea, Kentucky
February 28, 2022

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

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 794,709	\$ 67,386	\$ 862,095
Receivables, net			
Taxes, licenses and fees, net	300,683	73,922	374,605
Total Current Assets	<u>1,095,392</u>	<u>141,308</u>	<u>1,236,700</u>
Non-Current Assets			
Certificates of deposit	195,005	-	195,005
Capital assets:			
Non-depreciable	74,544	227,092	301,636
Depreciable, net	1,120,762	4,034,542	5,155,304
Total Non-Current Assets	<u>1,390,311</u>	<u>4,261,634</u>	<u>5,651,945</u>
Total Assets	<u>2,485,703</u>	<u>4,402,942</u>	<u>6,888,645</u>
Deferred Outflows of Resources			
Deferred amounts related to pension	139,012	41,523	180,535
Deferred amounts related to OPEB	109,647	30,893	140,540
Total Deferred Outflows of Resources	<u>248,659</u>	<u>72,416</u>	<u>321,075</u>
Liabilities			
Current Liabilities			
Accounts payable	35,946	39,833	75,779
Accrued expenses	32,901	8,442	41,343
Deferred revenues	-	6,522	6,522
Customer deposits payable	-	-	-
Total Current Liabilities	<u>68,847</u>	<u>54,797</u>	<u>123,644</u>
Non-Current Liabilities			
Net pension liability	620,290	185,282	805,572
Net OPEB liability	195,228	58,315	253,543
Total Non-Current Liabilities	<u>815,518</u>	<u>243,597</u>	<u>1,059,115</u>
Total Liabilities	<u>884,365</u>	<u>298,394</u>	<u>1,182,759</u>
Deferred Inflows of Resources			
Deferred amounts related to pension	11,365	3,395	14,760
Deferred amounts related to OPEB	36,965	11,042	48,007
Total Deferred Inflows of Resources	<u>48,330</u>	<u>14,437</u>	<u>62,767</u>
Net Position			
Net investment in capital assets	1,195,306	4,261,634	5,456,940
Restricted for:			
Municipal Aid Road Fund	87,570	-	87,570
Unrestricted	471,662	(99,107)	372,555
Total Net Position	<u>\$ 1,754,538</u>	<u>\$ 4,162,527</u>	<u>\$ 5,917,065</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, 2021

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Government Activities							
General government	\$ 734,636	\$ -	\$ -	\$ 304,604	\$ (430,032)	\$ -	\$ (430,032)
Police	221,958	-	-	-	(221,958)	-	(221,958)
Fire	101,578	-	11,000	31,816	(58,762)	-	(58,762)
Parks and recreation	10,404	-	-	-	(10,404)	-	(10,404)
Sanitation	143,705	139,685	-	-	(4,020)	-	(4,020)
Streets	466,780	-	31,895	-	(434,885)	-	(434,885)
Cemetery	273,218	58,666	-	-	(214,552)	-	(214,552)
Economic development	373,333	-	-	280,000	(93,333)	-	(93,333)
Total Governmental Activities	2,325,612	198,351	42,895	616,420	(1,467,946)	-	(1,467,946)
Business-Type Activities							
Water and sewer utilities	909,639	680,975	-	-	-	(228,664)	(228,664)
Total Business-Type Activities	909,639	680,975	-	-	-	(228,664)	(228,664)
Total Activities	\$ 3,235,251	\$ 879,326	\$ 42,895	\$ 616,420	\$ (1,467,946)	\$ (228,664)	\$ (1,696,610)
					Governmental Activities	Business-Type Activities	Total
General Revenues							
Property taxes, levied for general purposes					88,512	-	88,512
Franchise tax					90,102	-	90,102
Utility tax					124,974	-	124,974
Occupational					869,581	-	869,581
Insurance premium					231,422	-	231,422
Motor vehicle					10,245	-	10,245
Licenses, fees and permits					28,110	-	28,110
Miscellaneous					78,609	22,220	100,829
Transfers, net					(23,782)	23,782	-
Total General Revenues and Transfers					1,497,773	46,002	1,543,775
Change in Net Position					29,827	(182,662)	(152,835)
Net Position, Beginning					1,724,711	4,345,189	6,069,900
Net Position, Ending					\$ 1,754,538	\$ 4,162,527	\$ 5,917,065

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

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

	<u>General</u>	<u>Economic Development Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 660,010	\$ -	\$ 87,570	\$ 747,580
Certificates of deposit	195,005	-	-	195,005
Taxes, licenses and fees receivable, net	300,683	-	-	300,683
Total Assets	<u>\$ 1,155,698</u>	<u>\$ -</u>	<u>\$ 87,570</u>	<u>\$ 1,243,268</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 35,946	\$ -	\$ -	\$ 35,946
Accrued expenses	32,901	-	-	32,901
Total Liabilities	<u>68,847</u>	<u>-</u>	<u>-</u>	<u>68,847</u>
Fund Balances				
Restricted	-	-	87,570	87,570
Committed	195,005	-	-	195,005
Unassigned	891,846	-	-	891,846
Total Fund Balances	<u>1,086,851</u>	<u>-</u>	<u>87,570</u>	<u>1,174,421</u>
Total Liabilities and Fund Balances	<u>\$ 1,155,698</u>	<u>\$ -</u>	<u>\$ 87,570</u>	<u>\$ 1,243,268</u>

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

Fund balances reported above	\$ 1,174,421
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,195,306
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Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds.	200,329
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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	(620,290)
Net OPEB liability	<u>(195,228)</u>

Net Position of Governmental Activities	<u>\$ 1,754,538</u>
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CITY OF MIDWAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes				
Property taxes, levied for general purposes	\$ 88,512	\$ -	\$ -	\$ 88,512
Franchise tax	90,102	-	-	90,102
Utility tax	124,974	-	-	124,974
Occupational	869,581	-	-	869,581
Insurance premium	231,422	-	-	231,422
Motor vehicle	10,245	-	-	10,245
Licenses, fees and permits	28,110	-	-	28,110
Intergovernmental revenues	11,000	280,000	31,895	322,895
Grants and contributions	336,420	-	-	336,420
Charges for services and others	198,351	-	-	198,351
Interest income	140	-	33	173
Miscellaneous	78,436	-	-	78,436
Total Revenues	<u>2,067,293</u>	<u>280,000</u>	<u>31,928</u>	<u>2,379,221</u>
Expenditures				
General government	750,429	-	-	750,429
Police department	221,958	-	-	221,958
Fire department	85,580	-	-	85,580
Sanitation	143,705	-	-	143,705
Parks and recreation	7,774	-	-	7,774
Streets	462,685	-	-	462,685
Cemetery	306,469	-	-	306,469
Economic development	-	373,333	-	373,333
Capital outlay	86,430	-	-	86,430
Total Expenditures	<u>2,065,030</u>	<u>373,333</u>	<u>-</u>	<u>2,438,363</u>
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	<u>2,263</u>	<u>(93,333)</u>	<u>31,928</u>	<u>(59,142)</u>
Other Financing Sources (uses)				
Transfer in	-	93,333	-	93,333
Transfer out	(117,115)	-	-	(117,115)
Net other financing sources (uses)	<u>(117,115)</u>	<u>93,333</u>	<u>-</u>	<u>(23,782)</u>
Net Change in Fund Balance	(114,852)	-	31,928	(82,924)
Fund Balance, Beginning	<u>1,201,703</u>	<u>-</u>	<u>55,642</u>	<u>1,257,345</u>
Fund Balance, Ending	<u>\$ 1,086,851</u>	<u>\$ -</u>	<u>\$ 87,570</u>	<u>\$ 1,174,421</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, 2021

Net Changes in Fund Balances - Total Governmental Funds	\$ (82,924)
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 capital outlay of \$86,430 is less than depreciation expense of \$108,055 in the current period.	(21,625)
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 related deferrals and OPEB liability and related deferrals of governmental activities	134,376
Change in Net Position of Governmental Activities	<u>\$ 29,827</u>

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

	Sewer Fund	Water Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 51,814	\$ 15,572	\$ 67,386
Receivables, net	24,820	49,102	73,922
Total Current Assets	76,634	64,674	141,308
Non-Current Assets			
Capital assets:			
Non-depreciable	227,092	-	227,092
Depreciable, net	3,175,389	859,153	4,034,542
Total Non-Current Assets	3,402,481	859,153	4,261,634
Total Assets	3,479,115	923,827	4,402,942
Deferred Outflows of Resources			
Deferred amounts related to pension	19,859	21,664	41,523
Deferred amounts related to OPEB	14,775	16,118	30,893
Total Deferred Outflows of Resources	34,634	37,782	72,416
Liabilities			
Current Liabilities			
Accounts payable	8,243	31,590	39,833
Accrued expenses	569	4,541	5,110
Customer deposits payable	-	-	-
Compensated absences	1,666	1,666	3,332
Deferred revenue	6,522	-	6,522
Total Current Liabilities	17,000	37,797	54,797
Non-Current Liabilities			
Net pension liability	88,613	96,669	185,282
Net OPEB liability	27,890	30,425	58,315
Total Non-Current Liabilities	116,503	127,094	243,597
Total Liabilities	133,503	164,891	298,394
Deferred Inflows of Resources			
Deferred amounts related to pension	1,624	1,771	3,395
Deferred amounts related to OPEB	5,281	5,761	11,042
Total Deferred Inflows of Resources	6,905	7,532	14,437
Net Position			
Net investment in capital assets	3,402,481	859,153	4,261,634
Unrestricted (deficit)	(29,140)	(69,967)	(99,107)
Total Net Position	\$ 3,373,341	\$ 789,186	\$ 4,162,527

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, 2021

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 223,234	\$ 457,741	\$ 680,975
Miscellaneous	17,631	4,550	22,181
Total Operating Revenues	<u>240,865</u>	<u>462,291</u>	<u>703,156</u>
Operating Expenses			
Salaries	36,929	31,017	67,946
Employee benefits	42,167	40,865	83,032
Purchases of water	-	363,170	363,170
Contractual services	14,833	15,480	30,313
Materials and supplies	59,412	18,493	77,905
Insurance	12,000	10,000	22,000
Utilities and telephone	63,583	1,842	65,425
Depreciation	163,767	32,400	196,167
Bad debt provision	(125)	(1,539)	(1,664)
Miscellaneous	2,613	2,732	5,345
Total Operating Expenses	<u>395,179</u>	<u>514,460</u>	<u>909,639</u>
Operating Loss	<u>(154,314)</u>	<u>(52,169)</u>	<u>(206,483)</u>
Non-Operating Revenues			
Interest income	29	10	39
Total Non-Operating Revenues	<u>29</u>	<u>10</u>	<u>39</u>
Loss before transfers	<u>(154,285)</u>	<u>(52,159)</u>	<u>(206,444)</u>
Transfers in (out)	60,832	(37,050)	23,782
Change in Net Position	(93,453)	(89,209)	(182,662)
Total Net Position, Beginning	<u>3,466,794</u>	<u>878,395</u>	<u>4,345,189</u>
Total Net Position, Ending	<u>\$ 3,373,341</u>	<u>\$ 789,186</u>	<u>\$ 4,162,527</u>

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

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 223,294	\$ 453,448	\$ 676,742
Cash received from other sources	17,631	4,550	22,181
Cash payments to suppliers for goods and services	(167,766)	(469,703)	(637,469)
Cash payments to employees for services	(36,929)	(31,017)	(67,946)
Net Cash (Used in) Provided by Operating Activities	<u>36,230</u>	<u>(42,722)</u>	<u>(6,492)</u>
Cash Flows from Noncapital and Related Financing Activities			
Transfers in(out)	118,079	3,934	122,013
Net Cash Provided by Noncapital and Related Financing Activities	<u>118,079</u>	<u>3,934</u>	<u>122,013</u>
Cash Flows from Capital and Related Financing Activities			
Principal, interest, and related fees paid on long-term debt	-	-	-
Acquisition and construction of capital assets	(199,538)	(5,250)	(204,788)
Net Cash Used in Capital and Related Financing Activities	<u>(199,538)</u>	<u>(5,250)</u>	<u>(204,788)</u>
Cash Flows from Investing Activities			
Cash received from interest income	29	10	39
Net Cash Provided by Investing Activities	<u>29</u>	<u>10</u>	<u>39</u>
Net Decrease in Cash and Cash Equivalents	<u>(45,200)</u>	<u>(44,028)</u>	<u>(89,228)</u>
Cash and Cash Equivalents at July 1, 2020	<u>97,014</u>	<u>59,600</u>	<u>156,614</u>
Cash and Cash Equivalents at June 30, 2021	<u><u>\$ 51,814</u></u>	<u><u>\$ 15,572</u></u>	<u><u>\$ 67,386</u></u>
Reconciliation of Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities			
Operating (Loss) Income	<u>\$ (154,314)</u>	<u>\$ (52,169)</u>	<u>\$ (206,483)</u>
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:			
Depreciation	163,767	32,400	196,167
Bad debt	(125)	(1,539)	(1,664)
Changes in assets and liabilities:		-	
(Increase) decrease in accounts receivable	60		60
(Increase) decrease in deferred outflows	(239)	(274)	(513)
Increase (decrease) in accounts payable	6,748	4,044	10,792
Increase (decrease) in accrued expenses	72	1,033	1,105
Increase (decrease) in customer deposits	-	(3,238)	(3,238)
Increase (decrease) in compensated absences	209	209	418
Increase (decrease) in deferred revenue	4,756	-	4,756
Increase (decrease) in deferred inflows	(2,980)	(3,251)	(6,231)
Increase (decrease) in net pension liability	9,339	(10,188)	(849)
Increase (decrease) in net OPEB liability	8,937	(9,749)	(812)
Total adjustments	<u>190,544</u>	<u>9,447</u>	<u>199,991</u>
Net Cash (Used in) Provided by Operating Activities	<u><u>\$ 36,230</u></u>	<u><u>\$ (42,722)</u></u>	<u><u>\$ (6,492)</u></u>

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

**CITY OF MIDWAY, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2021**

	Cemetery-Perpetual Care and Maintenance Fund
ASSETS	
Investments	\$ 233,113
Total Assets	\$ 233,113
NET POSITION HELD IN TRUST	\$ 233,113

CITY OF MIDWAY, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2021

	Cemetery-Perpetual Care and Maintenance Fund
Additions	
Investment income	2,015
Realized gain on investments	13,768
Net change in unrealized gains (losses)	35,692
Total Additions	51,475
Deductions	
Distribution to the General Fund	-
Investment fees	3,646
Total Deductions	3,646
Change in Net Position	47,829
Net Position, beginning of year	185,284
Net Position, end of year	\$ 233,113

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

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, 2021

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, 2021

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, 2021

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, 2021

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 2021, the original budget was approved in June 2020. 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, 2021

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, 2021**

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.

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	20-40 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, 2021

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.

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, 2021

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, 2021

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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, 2021, \$1,057,100 of the government's bank balance of \$859,298 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, 2021 are as follows:

Governmental Funds:

Governmental Funds:

Certificates of deposit	<u>\$ 195,005</u>
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Fiduciary Funds:

Money Market Mutual Funds	<u>\$ 233,113</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, 2021

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 – RECEIVABLES

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, 2021, 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.

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

	<u>General</u>	<u>Water and Waste Water</u>	<u>Total</u>
Accounts receivables			
Customers	\$ 17,110	\$ 87,281	\$ 104,391
Other	968,533	-	968,533
	<u>985,643</u>	<u>87,281</u>	<u>1,072,924</u>
Gross receivables			
Less allowance for bad debt	684,960	13,358	698,318
	<u>985,643</u>	<u>87,281</u>	<u>1,072,924</u>
Net total receivables	<u>\$ 300,683</u>	<u>\$ 73,923</u>	<u>\$ 374,607</u>

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

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

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

	Beginning Balance 7/1/2020	Increases	Decreases	Ending Balance 6/30/2021
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 6,300	\$ -	\$ -	\$ 6,300
Construction in process	30,995	37,249	-	68,244
Total capital assets, not being depreciated:	37,295	37,249	-	74,544
Capital assets, being depreciated:				
General Government				
Buildings	348,381	-	-	348,381
Office furnishings and equipment	33,494	8,450	-	41,944
Fixtures	54,374	6,391	-	60,765
Vehicles	74,958	-	-	74,958
Equipment	103,122	1,365	-	104,487
Cemetery				
Buildings	105,596	-	-	105,596
Equipment	59,739	1,159	-	60,898
Improvements	32,330	-	-	32,330
Fire Department				
Buildings	162,176	-	-	162,176
Equipment	108,595	31,816	-	140,411
Fire trucks	317,997	-	-	317,997
Hydrants	12,992	-	-	12,992
Park				
Buildings	10,000	-	-	10,000
Equipment	64,472	-	-	64,472
Municipal Streets				
Equipment	90,674	-	-	90,674
Signs	6,116	-	-	6,116
Infrastructure	4,169,316	-	-	4,169,316
Total capital assets, being depreciated:	5,754,332	49,181	-	5,803,513
Less accumulated depreciation for				
Governmental Activities				
Depreciation expense	4,574,696	108,055	-	4,682,751
Total accumulated depreciation	4,574,696	108,055	-	4,682,751
Total capital assets, being depreciated, net	1,179,636			1,120,762
Government activities capital assets, net	\$ 1,216,931			\$ 1,195,306

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

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

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

General government	\$ 28,999
Public safety - Fire	15,998
Streets	48,887
Cemetery	11,541
Parks	2,630
Total depreciation	<u>\$ 108,055</u>

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

	Beginning Balance 7/1/2020	Increases	Decreases	Ending Balance 6/30/2021
Business-Type Activities				
Capital assets, not being depreciated:				
CIP	-	177,092	-	\$ 177,092
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	17,196	-	842,153
Equipment	501,732	-	36,435	465,296
Sewer plant	4,617,801	-	-	4,617,801
Water Operations				
Lines	573,114	5,250	-	578,364
Equipment	302,461	-	-	302,463
Water tower	695,866	-	-	695,867
Total capital assets, being depreciated:	<u>7,515,932</u>	<u>22,446</u>	<u>36,435</u>	<u>7,501,943</u>
Less accumulated depreciation for				
Lines	794,995	57,186	-	852,181
Equipment	567,513	31,946	36,174	563,285
Sewer plant	1,707,343	93,038	-	1,800,381
Water tower	237,556	13,997	-	251,553
Total accumulated depreciation	<u>3,307,407</u>	<u>196,167</u>	<u>36,174</u>	<u>3,467,400</u>
Total capital assets, being depreciated, net	<u>4,208,525</u>			<u>4,034,543</u>
Business-type activities capital assets, net	<u>\$ 4,258,525</u>			<u>\$ 4,084,543</u>

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

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

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

Sewer	\$ 163,767
Water	32,400
Total depreciation	<u>\$ 196,167</u>

NOTE 6 – LONG-TERM DEBT

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

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
Governmental-type					
Net Pension Liability	\$ 554,921	\$ 65,369	\$ -	\$ 620,290	\$ -
Net OPEB Liability	132,670	62,558	-	195,228	-
Business-type					
Net Pension Liability	165,755	19,526	-	185,281	-
Net OPEB Liability	39,629	18,686	-	58,315	-
Total	<u>\$ 892,975</u>	<u>\$ 166,139</u>	<u>\$ -</u>	<u>\$ 1,059,114</u>	<u>\$ -</u>

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.

The City issued \$35,000,000 in industrial revenue bonds in fiscal year 2020 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.

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

NOTE 7 – FUND BALANCES

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, 2021, the City had \$87,570 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, 2020 of \$195,005 for emergency reserves. The committed funds for the Rau building and for the cemetery were deemed uncommitted and the funds were dissolved and deposited into the general fund operating account.

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, 2021. 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, 2021, the City had unassigned the park fund balance and the funds were dissolved and deposited into the general fund operating account.

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 8 – RETIREMENT PLAN

The City 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.

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

NOTE 8 – RETIREMENT PLAN– CONTINUED

Contributions – Plan members were required to contribute 5% of their annual creditable compensation. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 24.06% (non-hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each month, when employer contribution are received, an employer pay credit is deposited to the 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. For the fiscal year ended June 30, 2021, the contributions were \$47,100.

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

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

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

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

NOTE 8 – RETIREMENT PLAN– CONTINUED

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.

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

At June 30, 2021, the City reported a liability of \$805,572 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021, the City's proportion was .010503 percent.

For the year ended June 30, 2021, the City recognized pension expense of \$160,998.

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

At June 30, 2021, 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	\$ 20,088	\$ -
Changes of assumptions	31,456	-
Net difference between projected and actual earnings on plan investments	34,919	14,760
Changes in proportion and differences between employer contribution and proportionate share of contribution	46,971	-
City contributions subsequent to the measurement date	47,100	-
Total	\$ 180,534	\$ 14,760

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

NOTE 8 – RETIREMENT PLAN– CONTINUED

The \$47,100 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30,	
2021	\$ 63,842
2022	\$ 36,176
2023	\$ 10,559
2024	\$ 8,096
2025	\$ -
Thereafter	\$ -

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report of the KRS website at www.kyret.ky.gov

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

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

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

However, during the 2020 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2020 is determined using these updated benefit provisions.

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

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

NOTE 8 – RETIREMENT PLAN– CONTINUED

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

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.

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

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

Determined by the Actuarial Valuation as of	June 30, 2018
Experience study	July 1, 2013 - June 30, 2018
Actuarial cost method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 11.55% Nonhazardous
Investment rate of return	6.25%

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

NOTE 8 – RETIREMENT PLAN– CONTINUED

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

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

	<u>Discount Rate</u>	<u>Proportionate Share of Net Pension Liability</u>
1% Decrease	5.25%	\$ 993,445
Current discount rate	6.25%	\$ 805,572
1% Increase	7.25%	\$ 650,005

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

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

For the fiscal year ended June 30, 2021, the contributions were \$11,616.

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

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

For retirement purposes, employees are grouped into three tiers based upon hire dates.

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentages of single coverage health insurance Based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, Increased annually
Tier 2	Participation date Insurance eligibility Benefit	September 1, 2008 – December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, Increased annually

OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the City reported a liability of \$253,543 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2021. This method to be reflective of the employers' long-term contribution effort. At June 30, 2021, the City's proportion was .010500 percent.

For the year ended June 30, 2021, the City recognized OPEB expenses of \$39,879. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual results	\$ 42,362	\$ 42,395
Implicit subsidy	6,222	-
Changes of assumptions	44,102	268
Net difference between projected and actual earnings on plan investments	13,601	5,174
Changes in proportion and difference between City contributions and proportionate share of contributions	22,637	170
City contributions subsequent to the measurement date	11,616	-
Total	\$ 140,540	\$ 48,007

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

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

The \$11,616 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows.

Year ending June 30,

2021	\$	19,439
2022	\$	21,933
2023	\$	17,143
2024	\$	15,783
2025	\$	397
Thereafter	\$	-

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

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

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net OPEB Liability</u>
1% Decrease	4.34%	\$ 325,728
Current discount rate	5.34%	\$ 253,543
1% Increase	6.34%	\$ 194,255

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 (4.34%) or one percentage point higher (6.34%) than current healthcare cost trend rates:

<u>City's Net OPEB Liability</u>		
<u>Healthcare Cost</u>		
Trend Rate -1% 4.34%	Trend Rate 5.34%	Trend Rate +1% 6.34%
<u><u>\$ 196,306</u></u>	<u><u>\$ 253,543</u></u>	<u><u>\$ 323,002</u></u>

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

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

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

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020, were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2018 (other than the blended discount rate used to calculate the total OPEB liability). However, the anticipated increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to reflect current expectations relating to the anticipated future increases in medical costs. The June 30, 2020 actuarial information reflects the expected savings from the repeals of the "Cadillac Tax," and the "Health Insurer Fee," which occurred in December of 2019. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions.

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

Actuarial Methods and Assumptions for determining the Total OPEB Liability and Net OPEB Liability- Continued

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%

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

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

Discount Rate

The projection of cash flows used to determine the discount rate of 5.34% for 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 2.45%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

Valuation date	June 30, 2018
Experience study	July 1, 2013 - June 30, 2018
Actuarial cost method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percent of pay
Remaining amortization period	25 years, closed
Payroll growth rate	2.00%
Inflation	2.30%
Salary increase	3.30% to 11.55% Nonhazardous 3.05% to 18.55%, Hazardous
Investment rate of return	6.25%
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

NOTE 10 – 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.

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

NOTE 11 – 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.

Commitments

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.

The following amount is due under the grant agreement:

Year ending June 30,	
2022	<u>\$ 139,734</u>
	<u><u>\$ 139,734</u></u>

Health Savings Account

The City has entered into an agreement with third party administrator, (Febco) to monitor the employer funded health savings account activity. Disbursements are made to employees that incur health care costs subject to the deductible. Febco charges \$66 monthly for their services. The total cost paid for the year ending June 30, 2021 was \$792.

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

NOTE 11 – CONTINGENCIES AND COMMITMENTS – CONTINUED

Pandemic

In December of 2019, a novel strain of coronavirus (COVID-19) surfaced and has rapidly spread throughout the world. The World Health Organization (WHO) has classified COVID-19 as a global pandemic. Due to its uncertainty, international and U.S. financial markets have experienced significant volatility. In addition, travel restrictions, business shutdowns, high levels unemployment, and inventory shortages are several other areas impacted by the pandemic. These impacts have caused multiple jurisdictions within the United States to declare state of emergencies. It is predicted that COVID-19 implications will continue for a long time. Although there has been no immediate impact to the City's operations, certain operational functions such as intakes, recertifications, and maintenance are susceptible to future concerns. Potential economic events are unknown at this time but may include events such as disruptions or restrictions in the City's employee's abilities to work. In addition, revenues could be affected by customers ability to pay their required monthly utility bills and the collection of various taxes imposed by the City. The City waived late payment and cut-off penalties during the month of March 2020. The City was approved to receive additional funds from the Department of Local Government to prevent, respond to, and prepare for COVID-19 related matters.

NOTE 12 – 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	Economic Development Fund	\$	93,333
General Fund	Sewer Fund	\$	60,832
Water Fund	General Fund	\$	37,050

NOTE 13 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through February 28, 2022, 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, 2021**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Property taxes, levied for general purposes	\$ 90,500	\$ 90,500	\$ 88,512	\$ (1,988)
Franchise tax	85,000	85,000	90,102	5,102
Utility tax	-	-	124,974	124,974
Occupational	737,500	737,500	869,581	132,081
Insurance premium	190,000	190,000	231,422	41,422
Motor vehicle	7,000	7,000	10,245	3,245
Licenses, fees, and permits	60,000	60,000	28,110	(31,890)
Intergovernmental revenues	325,100	325,100	11,000	(314,100)
Charges for services and others	150,000	150,000	198,351	48,351
Interest income	30,050	30,050	140	(29,910)
Other	83,500	97,300	414,856	317,556
Total Revenues	1,758,650	1,772,450	2,067,293	294,843
Expenditures				
General and administrative	750,033	750,033	750,429	(396)
Police	205,000	180,000	221,958	(41,958)
Fire	88,300	88,300	85,580	2,720
Sanitation	141,000	141,000	143,705	(2,705)
Parks and recreation	9,500	9,500	7,774	1,726
Streets	372,100	372,100	462,685	(90,585)
Cemetery	251,100	251,100	306,469	(55,369)
Capital outlay	22,500	22,500	86,430	(63,930)
Total Expenditures	1,839,533	1,814,533	2,065,030	(250,497)
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(80,883)	(42,083)	2,263	44,346
Other Financing Sources (uses)				
Transfer in	-	-	-	-
Transfer out	-	-	(117,115)	(117,115)
Net other financing sources (uses)	-	-	(117,115)	(117,115)
Net Change in Fund Balance	(80,883)	(42,083)	(114,852)	(72,769)
Fund Balance, Beginning			1,201,703	
Fund Balance, Ending			\$ 1,086,851	

**CITY OF MIDWAY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental revenues	\$ 256,000	\$ 256,000	\$ 280,000	\$ 24,000
Total Revenues	256,000	256,000	280,000	24,000
Expenditures				
Economic development grants	341,333	341,333	373,333	32,000
Total Expenditures	341,333	341,333	373,333	32,000
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(85,333)	(85,333)	(93,333)	(8,000)
Other Financing Sources (uses)				
Transfer in	85,333	85,333	93,333	-
Net other financing sources (uses)	85,333	85,333	93,333	-
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 SEVEN FISCAL YEARS**

	2015	2016	2017	2018	2019	2020	2021
City's proportion of the net pension liability	0.009290%	0.009510%	0.008013%	0.008405%	0.008868%	0.010247%	0.010503%
City's proportionate share of the net pension liability	\$ 301,000	\$ 408,868	\$ 394,547	\$ 491,969	\$ 540,087	\$ 720,676	\$ 805,571
City's covered-employee payroll	\$ 213,043	\$ 222,682	\$ 191,159	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044
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%	267.87%	330.09%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.50%	53.54%	50.54%	47.81%

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Contractually required contribution	\$ 28,392	\$ 23,742	\$ 28,422	\$ 31,807	\$ 41,922	\$ 51,928	\$ 47,100
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>	<u>51,928</u>	<u>47,100</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<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	\$ 269,044	\$ 269,044
Contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%	14.48%	16.22%	19.30%	17.51%

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

	2018	2019	2020	2021
City's proportion of the net OPEB liability	0.008405%	0.008868%	0.010244%	0.010500%
City's proportionate share of the net OPEB liability	\$ 168,970	\$ 157,450	\$ 172,299	\$ 253,543
City's covered-employee payroll	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	82.93%	60.92%	64.04%	103.89%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	58.84%

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

	2018	2019	2020	2021
Contractually required contribution	\$ 10,324	\$ 13,595	\$ 12,804	\$ 11,616
Contributions in relation to the contractually required contribution	<u>10,324</u>	<u>13,595</u>	<u>12,804</u>	<u>11,616</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 219,668	\$ 258,461	\$ 269,044	\$ 244,044
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%	4.76%

SK LEE CPAS, P.S.C.

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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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midway (hereinafter called "the City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 28, 2022.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

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

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the findings identified in our 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, we express no opinion on it.

Purpose of this Report

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

SK LEE CPAs, P.S.C.

Berea, Kentucky
February 28, 2022

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2021**

MATERIAL WEAKNESS

2021-001 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, 2021**

MATERIAL WEAKNESS

2021-002 Segregation of Duties

Condition:

During our audit, we 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.