

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

**CITY OF MIDWAY, KENTUCKY  
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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 Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midway (hereinafter called the "City") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

#### **Required Supplementary Information**

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison – general fund and economic development fund, pension schedules, and OPEB schedules on pages 37-45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

***SK LEE CPAs, P.S.C.***

Berea, Kentucky  
April 10, 2023

**CITY OF MIDWAY, KENTUCKY  
STATEMENT OF NET POSITION  
JUNE 30, 2022**

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,222,449	\$ 102,325	\$ 1,324,774
Receivables, net			
Taxes, licenses and fees, net	343,950	102,287	446,237
<b>Total Current Assets</b>	<u>1,566,399</u>	<u>204,612</u>	<u>1,771,011</u>
<b>Non-Current Assets</b>			
Certificates of deposit	63,848	-	63,848
Capital assets:			
Non-depreciable	74,544	50,000	124,544
Depreciable, net	1,291,816	4,045,667	5,337,483
<b>Total Non-Current Assets</b>	<u>1,430,208</u>	<u>4,095,667</u>	<u>5,525,875</u>
<b>Total Assets</b>	<u>2,996,607</u>	<u>4,300,279</u>	<u>7,296,886</u>
<b>Deferred Outflows of Resources</b>			
Deferred amounts related to pension	71,482	27,798	99,280
Deferred amounts related to OPEB	85,290	33,168	118,458
<b>Total Deferred Outflows of Resources</b>	<u>156,772</u>	<u>60,966</u>	<u>217,738</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	93,370	55,458	148,828
Accrued expenses	17,245	5,786	23,031
Customer deposits payable	-	8,712	8,712
Compensated absences	-	4,140	4,140
Capital lease	71,120	-	71,120
Deferred revenues	-	6,601	6,601
<b>Total Current Liabilities</b>	<u>181,735</u>	<u>80,697</u>	<u>262,432</u>
<b>Non-Current Liabilities</b>			
Net pension liability	435,690	169,436	605,126
Net OPEB liability	130,796	50,866	181,662
<b>Total Non-Current Liabilities</b>	<u>566,486</u>	<u>220,302</u>	<u>786,788</u>
<b>Total Liabilities</b>	<u>748,221</u>	<u>300,999</u>	<u>1,049,220</u>
<b>Deferred Inflows of Resources</b>			
Deferred amounts related to pension	129,475	50,352	179,827
Deferred amounts related to OPEB	84,454	32,844	117,298
<b>Total Deferred Inflows of Resources</b>	<u>213,929</u>	<u>83,196</u>	<u>297,125</u>
<b>Net Position</b>			
Net investment in capital assets	1,295,240	4,095,667	5,390,907
Restricted for:			
Municipal Aid Road Fund	121,138	-	121,138
Unrestricted	774,851	(118,617)	656,234
<b>Total Net Position</b>	<u>\$ 2,191,229</u>	<u>\$ 3,977,050</u>	<u>\$ 6,168,279</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, 2022**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Government Activities</b>							
General	\$ 494,689	\$ -	\$ 6,000	\$ 512,191	\$ 23,502	\$ -	\$ 23,502
Police	190,025	-	-	-	(190,025)	-	(190,025)
Fire	222,449	-	11,000	21,252	(190,197)	-	(190,197)
Parks and recreation	54,184	-	12,000	-	(42,184)	-	(42,184)
Sanitation	143,777	141,001	-	-	(2,776)	-	(2,776)
Streets	354,626	-	33,555	-	(321,071)	-	(321,071)
Cemetery	234,199	43,122	-	-	(191,077)	-	(191,077)
Economic development	558,934	-	-	419,200	(139,734)	-	(139,734)
<b>Total Governmental Activities</b>	<b>2,252,883</b>	<b>184,123</b>	<b>62,555</b>	<b>952,643</b>	<b>(1,053,562)</b>	<b>-</b>	<b>(1,053,562)</b>
<b>Business-Type Activities</b>							
Water and sewer utilities	1,140,244	694,863	-	-	-	(445,381)	(445,381)
<b>Total Business-Type Activities</b>	<b>1,140,244</b>	<b>694,863</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(445,381)</b>	<b>(445,381)</b>
<b>Total Activities</b>	<b>\$ 3,393,127</b>	<b>\$ 878,986</b>	<b>\$ 62,555</b>	<b>\$ 952,643</b>	<b>\$ (1,053,562)</b>	<b>\$ (445,381)</b>	<b>\$ (1,498,943)</b>
<b>General Revenues</b>							
Property taxes					97,781	-	97,781
Franchise taxes					94,431	-	94,431
Utility taxes					44,260	-	44,260
Occupational taxes					1,010,368	-	1,010,368
Insurance premium taxes					258,473	-	258,473
Licenses, fees and permits					22,810	-	22,810
Miscellaneous					220,912	1,122	222,034
Transfers, net					(258,782)	258,782	-
<b>Total General Revenues and Transfers</b>					<b>1,490,253</b>	<b>259,904</b>	<b>1,750,157</b>
<b>Change in Net Position</b>					<b>436,691</b>	<b>(185,477)</b>	<b>251,214</b>
<b>Net Position, Beginning</b>					<b>1,754,538</b>	<b>4,162,527</b>	<b>5,917,065</b>
<b>Net Position, Ending</b>					<b>\$ 2,191,229</b>	<b>\$ 3,977,050</b>	<b>\$ 6,168,279</b>

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

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

	<u>General</u>	<u>Economic Development Fund</u>	<u>Municipal Aid Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,101,311	\$ -	\$ 121,138	\$ 1,222,449
Cash and cash equivalents - restricted	-	-	-	-
Certificates of deposit	63,848	-	-	63,848
Accounts receivable				
Customers	19,548	-	-	19,548
Other	324,402	-	-	324,402
<b>Total Assets</b>	<u><u>\$ 1,509,109</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 121,138</u></u>	<u><u>\$ 1,630,247</u></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 93,370	\$ -	\$ -	\$ 93,370
Accrued expenses	17,245	-	-	17,245
Capital lease	71,120	-	-	71,120
<b>Total Liabilities</b>	<u><u>181,735</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>181,735</u></u>
<b>Fund Balances</b>				
Restricted	-	-	121,138	121,138
Committed	63,848	-	-	63,848
Unassigned	1,263,526	-	-	1,263,526
<b>Total Fund Balances</b>	<u><u>1,327,374</u></u>	<u><u>-</u></u>	<u><u>121,138</u></u>	<u><u>1,448,512</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 1,509,109</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 121,138</u></u>	<u><u>\$ 1,630,247</u></u>

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

Fund balances reported above **\$ 1,448,512**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,366,360

Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds. (57,157)

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	(435,690)
Net OPEB liability	<u>(130,796)</u>

**Net Position of Governmental Activities** **\$ 2,191,229**

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

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

	General Fund	Economic Development Fund	Municipal Road Aid Fund	Total Governmental Funds
<b>Revenues</b>				
Taxes				
Property taxes	\$ 97,781	\$ -	\$ -	\$ 97,781
Franchise taxes	94,431	-	-	94,431
Utility taxes	44,260	-	-	44,260
Occupational taxes	1,010,368	-	-	1,010,368
Insurance premium taxes	258,473	-	-	258,473
Licenses, fees and permits	22,810	-	-	22,810
Intergovernmental revenues	50,252	419,200	33,555	503,007
Grants and contributions	512,191	-	-	512,191
Charges for services and others	184,123	-	-	184,123
Interest income	4,275	-	13	4,288
Miscellaneous	216,624	-	-	216,624
<b>Total Revenues</b>	<b>2,495,588</b>	<b>419,200</b>	<b>33,568</b>	<b>2,948,356</b>
<b>Expenditures</b>				
General government	466,351	-	-	466,351
Police department	190,025	-	-	190,025
Fire department	208,100	-	-	208,100
Sanitation	143,777	-	-	143,777
Parks and recreation	51,554	-	-	51,554
Streets	301,722	-	-	301,722
Cemetery	220,110	-	-	220,110
Economic development	-	558,934	-	558,934
Capital outlay	274,910	-	-	274,910
<b>Total Expenditures</b>	<b>1,856,549</b>	<b>558,934</b>	<b>-</b>	<b>2,415,483</b>
<b>Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses</b>	<b>639,039</b>	<b>(139,734)</b>	<b>33,568</b>	<b>532,873</b>
<b>Other Financing Sources (uses)</b>				
Transfer in	-	139,734	-	139,734
Transfer out	(398,516)	-	-	(398,516)
Net other financing sources (uses)	(398,516)	139,734	-	(258,782)
<b>Net Change in Fund Balance</b>	<b>240,523</b>	<b>-</b>	<b>33,568</b>	<b>274,091</b>
<b>Fund Balance, Beginning</b>	<b>1,086,851</b>	<b>-</b>	<b>87,570</b>	<b>1,174,421</b>
<b>Fund Balance, Ending</b>	<b>\$ 1,327,374</b>	<b>\$ -</b>	<b>\$ 121,138</b>	<b>\$ 1,448,512</b>

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, 2022**

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ 274,091</b>
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 \$274,910 is more than depreciation expense of \$103,856 in the current period.	171,054
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	(8,454)
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 436,691</u></b>

**CITY OF MIDWAY, KENTUCKY**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**JUNE 30, 2022**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 66,455	\$ 35,870	\$ 102,325
Receivables, net	34,834	67,453	102,287
<b>Total Current Assets</b>	<u>101,289</u>	<u>103,323</u>	<u>204,612</u>
<b>Non-Current Assets</b>			
Capital assets:			
Non-depreciable	50,000	-	50,000
Depreciable, net	3,207,988	837,679	4,045,667
<b>Total Non-Current Assets</b>	<u>3,257,988</u>	<u>837,679</u>	<u>4,095,667</u>
<b>Total Assets</b>	<u>3,359,277</u>	<u>941,002</u>	<u>4,300,279</u>
<b>Deferred Outflows of Resources</b>			
Deferred amounts related to pension	13,899	13,899	27,798
Deferred amounts related to OPEB	16,584	16,584	33,168
<b>Total Deferred Outflows of Resources</b>	<u>30,483</u>	<u>30,483</u>	<u>60,966</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	2,891	52,567	55,458
Accrued expenses	1,036	4,750	5,786
Customer deposits payable	-	8,712	8,712
Compensated absences	2,070	2,070	4,140
Deferred revenue	6,601	-	6,601
<b>Total Current Liabilities</b>	<u>12,598</u>	<u>68,099</u>	<u>80,697</u>
<b>Non-Current Liabilities</b>			
Net pension liability	84,718	84,718	169,436
Net OPEB liability	25,433	25,433	50,866
<b>Total Non-Current Liabilities</b>	<u>110,151</u>	<u>110,151</u>	<u>220,302</u>
<b>Total Liabilities</b>	<u>122,749</u>	<u>178,250</u>	<u>300,999</u>
<b>Deferred Inflows of Resources</b>			
Deferred amounts related to pension	25,176	25,176	50,352
Deferred amounts related to OPEB	16,422	16,422	32,844
<b>Total Deferred Inflows of Resources</b>	<u>41,598</u>	<u>41,598</u>	<u>83,196</u>
<b>Net Position</b>			
Net investment in capital assets	3,257,988	837,679	4,095,667
Unrestricted (deficit)	(32,575)	(86,042)	(118,617)
<b>Total Net Position</b>	<u>\$ 3,225,413</u>	<u>\$ 751,637</u>	<u>\$ 3,977,050</u>

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

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for services	\$ 232,627	\$ 462,236	\$ 694,863
Miscellaneous	262	850	1,112
<b>Total Operating Revenues</b>	<u>232,889</u>	<u>463,086</u>	<u>695,975</u>
<b>Operating Expenses</b>			
Salaries	43,450	40,700	84,150
Employee benefits	62,587	52,319	114,906
Purchases of water	-	338,552	338,552
Contractual services	9,598	14,786	24,384
Materials and supplies	285,749	32,770	318,519
Insurance	7,972	7,948	15,920
Utilities and telephone	54,036	1,575	55,611
Depreciation	144,493	33,246	177,739
Bad debt provision	1,163	2,311	3,474
Miscellaneous	4,195	2,794	6,989
<b>Total Operating Expenses</b>	<u>613,243</u>	<u>527,001</u>	<u>1,140,244</u>
<b>Operating Loss</b>	<u>(380,354)</u>	<u>(63,915)</u>	<u>(444,269)</u>
<b>Non-Operating Revenues</b>			
Interest income	8	2	10
<b>Total Non-Operating Revenues</b>	<u>8</u>	<u>2</u>	<u>10</u>
<b>Loss before transfers</b>	<u>(380,346)</u>	<u>(63,913)</u>	<u>(444,259)</u>
Equity transfers in (out)	232,418	26,364	258,782
<b>Change in Net Position</b>	<u>(147,928)</u>	<u>(37,549)</u>	<u>(185,477)</u>
<b>Total Net Position, Beginning</b>	<u>3,373,341</u>	<u>789,186</u>	<u>4,162,527</u>
<b>Total Net Position, Ending</b>	<u>\$ 3,225,413</u>	<u>\$ 751,637</u>	<u>\$ 3,977,050</u>

**CITY OF MIDWAY, KENTUCKY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 221,529	\$ 450,286	\$ 671,815
Cash received from other sources	262	850	1,112
Cash payments to suppliers for goods and services	(396,126)	(404,732)	(800,858)
Cash payments to employees for services	(43,450)	(40,700)	(84,150)
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(217,785)</b>	<b>5,704</b>	<b>(212,081)</b>
<b>Cash Flows from Noncapital and Related Financing Activities</b>			
Transfers in(out)	232,418	26,364	258,782
<b>Net Cash Provided by Noncapital and Related Financing Activities</b>	<b>232,418</b>	<b>26,364</b>	<b>258,782</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	-	(11,772)	(11,772)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>-</b>	<b>(11,772)</b>	<b>(11,772)</b>
<b>Cash Flows from Investing Activities</b>			
Cash received from interest income	8	2	10
<b>Net Cash Provided by Investing Activities</b>	<b>8</b>	<b>2</b>	<b>10</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>14,641</b>	<b>20,298</b>	<b>34,939</b>
<b>Cash and Cash Equivalents at July 1, 2021</b>	<b>51,814</b>	<b>15,572</b>	<b>67,386</b>
<b>Cash and Cash Equivalents at June 30, 2022</b>	<b>\$ 66,455</b>	<b>\$ 35,870</b>	<b>\$ 102,325</b>
<b>Reconciliation of Operating Loss to Net Cash (Used in) Provided by Operating Activities</b>			
<b>Operating Loss</b>	<b>\$ (380,354)</b>	<b>\$ (63,915)</b>	<b>\$ (444,269)</b>
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation	144,493	33,246	177,739
Bad debt	1,163	2,311	3,474
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(11,177)	(20,662)	(31,839)
(Increase) decrease in deferred outflows of resources	4,151	7,299	11,450
Increase (decrease) in accounts payable	(5,352)	20,977	15,625
Increase (decrease) in accrued expenses	467	209	676
Increase (decrease) in customer deposits	-	8,712	8,712
Increase (decrease) in compensated absences	404	404	808
Increase (decrease) in deferred revenue	79	-	79
Increase (decrease) in deferred inflows of resources	34,693	34,066	68,759
Increase (decrease) in net pension liability	(3,895)	(11,951)	(15,846)
Increase (decrease) in net OPEB liability	(2,457)	(4,992)	(7,449)
<b>Total adjustments</b>	<b>162,569</b>	<b>69,619</b>	<b>232,188</b>
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>\$ (217,785)</b>	<b>\$ 5,704</b>	<b>\$ (212,081)</b>

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

**CITY OF MIDWAY, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2022**

	<b>Cemetery-Perpetual Care and Maintenance Fund</b>
<b>ASSETS</b>	
Investments	\$ 196,843
Total Assets	\$ 196,843
<b>NET POSITION HELD IN TRUST</b>	<b>\$ 196,843</b>

**CITY OF MIDWAY, KENTUCKY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**JUNE 30, 2022**

	<b>Cemetery-Perpetual Care and Maintenance Fund</b>
<b>Additions</b>	
Investment income	2,026
Realized gain on investments	15,986
Net change in unrealized gains (losses)	(49,740)
<b>Total Additions</b>	<b>(31,728)</b>
<b>Deductions</b>	
Distribution to the General Fund	720
Investment fees	3,861
<b>Total Deductions</b>	<b>4,581</b>
Change in Net Position	(36,309)
Net Position, beginning of year	233,152
<b>Net Position, end of year</b>	<b>\$ 196,843</b>

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

**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, 2022

**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, 2022

**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, 2022

**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, 2022**

**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 2022, the original budget was approved in June 2021. The budget for the General and Special Revenue Funds is presented in the Statements of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

**Cash and 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, 2022**

**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, 2022**

**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, 2022**

**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, 2022**

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

**Pensions and Other Postemployment Benefits**

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

**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, 2022**

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

As of June 30, 2022, the City's cash and cash equivalents balances include deposits held in checking accounts, savings accounts, and certificates of deposit.

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, 2022, the City's net carrying balance of \$1,388,622 was covered either by FDIC or 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, 2022 are as follows:

Governmental Funds:

Governmental Funds:

Certificates of deposit	<u>\$ 63,848</u>
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Fiduciary Funds:

Money Market Mutual Funds	<u>\$ 196,843</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, 2022**

**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, 2022, 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	\$ 23,550	\$ 119,119	\$ 142,669
Other	1,006,065	-	1,006,065
Gross receivables	1,029,615	119,119	1,148,734
Less allowance for bad debt	685,666	16,832	702,498
<b>Net total receivables</b>	<b>\$ 343,949</b>	<b>\$ 102,287</b>	<b>\$ 446,236</b>

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

**NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS**

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

	Beginning Balance 7/1/2021	Increases	Decreases	Ending Balance 6/30/2022
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 6,300	\$ -	\$ -	\$ 6,300
Construction in process	68,244	71,120	68,244	71,120
<b>Total capital assets, not being depreciated:</b>	<b>74,544</b>	<b>71,120</b>	<b>68,244</b>	<b>77,420</b>
<b>Capital assets, being depreciated:</b>				
<b>General Government</b>				
Buildings	348,381	-	-	348,381
Office furnishings and equipment	41,944	-	-	41,944
Fixtures	60,765	-	-	60,765
Vehicles	74,958	-	-	74,958
Equipment	104,487	-	-	104,487
<b>Cemetery</b>				
Buildings	105,596	62,244	-	167,840
Equipment	60,898	-	-	60,898
Improvements	32,330	-	-	32,330
<b>Fire Department</b>				
Buildings	162,176	-	-	162,176
Equipment	140,411	16,298	-	156,709
Fire trucks	317,997	-	-	317,997
Hydrants	12,992	-	-	12,992
<b>Park</b>				
Buildings	10,000	6,000	-	16,000
Equipment	64,472	-	-	64,472
<b>Municipal Streets</b>				
Equipment	90,674	26,908	-	117,582
Signs	6,116	-	-	6,116
Infrastructure	4,169,316	160,584	-	4,329,900
<b>Total capital assets, being depreciated:</b>	<b>5,803,513</b>	<b>272,034</b>	<b>-</b>	<b>6,075,547</b>
<b>Less accumulated depreciation for</b>				
<b>Governmental Activities</b>				
Depreciation expense	4,682,751	103,856	-	4,786,607
<b>Total accumulated depreciation</b>	<b>4,682,751</b>	<b>103,856</b>	<b>-</b>	<b>4,786,607</b>
<b>Total capital assets, being depreciated, net</b>	<b>1,120,762</b>			<b>1,288,940</b>
<b>Government activities capital assets, net</b>	<b>\$ 1,195,306</b>			<b>\$ 1,366,360</b>

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

**NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED**

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

General government	\$ 26,140
Public safety - Fire	14,349
Streets	49,776
Cemetery	10,961
Parks	2,630
Total depreciation	<u>\$ 103,856</u>

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

	Beginning Balance 7/1/2021	Increases	Decreases	Ending Balance 6/30/2022
<b>Business-Type Activities</b>				
<b>Capital assets, not being depreciated:</b>				
CIP	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in Process	177,092	-	177,092	-
<b>Total capital assets, not being depreciated:</b>	<u>227,092</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
<b>Capital assets, being depreciated:</b>				
Sewer Operations:				
Lines	842,153	-	-	842,152
Equipment	465,296	-	-	465,295
Sewer plant	4,617,801	177,092	-	4,794,893
Water Operations				
Lines	578,364	-	-	578,364
Equipment	302,463	11,772	-	314,237
Water tower	695,867	-	-	695,868
<b>Total capital assets, being depreciated:</b>	<u>7,501,943</u>	<u>188,864</u>	<u>-</u>	<u>7,690,807</u>
<b>Less accumulated depreciation for</b>				
Lines	852,181	40,412	-	892,593
Equipment	563,285	30,291	-	593,576
Sewer plant	1,800,381	93,038	-	1,893,419
Water tower	251,553	13,999	-	265,552
<b>Total accumulated depreciation</b>	<u>3,467,400</u>	<u>177,740</u>	<u>-</u>	<u>3,645,140</u>
<b>Total capital assets, being depreciated, net</b>	<u>4,034,543</u>			<u>4,045,667</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 4,261,635</u>			<u>\$ 4,095,667</u>

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

**NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED**

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

Sewer	\$ 144,493
Water	33,247
Total depreciation	<u>\$ 177,740</u>

**NOTE 6 – LONG-TERM DEBT**

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

	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</u>	<u>Due Within One Year</u>
<b>Governmental-type</b>					
Lease	\$ -	\$ 71,120	\$ -	\$ 71,120	\$ 184,766
Net Pension Liability	620,290	-	184,600	435,690	-
Net OPEB Liability	195,228	-	64,432	130,796	-
<b>Business-type</b>					
Net Pension Liability	185,281	-	15,845	169,436	-
Net OPEB Liability	58,315	-	7,449	50,866	-
<b>Total</b>	<u><b>\$ 1,059,114</b></u>	<u><b>\$ 71,120</b></u>	<u><b>\$ 272,326</b></u>	<u><b>\$ 857,908</b></u>	<u><b>\$ 184,766</b></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, 2022**

**NOTE 6 – LONG-TERM DEBT - CONTINUED**

**Capital Lease**

On June 8, 2022, the City of Midway entered into a lease agreement of \$2,860,000, with Kentucky Bond Corporation for construction of a new EMS/Fire Station. As of June 30, 2022, the City had drew down a balance of \$71,120 on the loan. The note bears interest at a rate of approximately 0.40% and payments are monthly with amounts that change annually. The note matures in 2052.

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

2023	\$ 184,766
2024	178,908
2025	178,867
2026	179,570
2027	179,316
2028-2032	898,790
2033-2037	902,349
2038-2042	907,830
2043-2047	901,984
2048-2052	823,004
Total minimum lease payments	<u>5,335,383</u>
Less amount representing interest	<u>2,475,383</u>
Present value of minimum lease payments	<u>\$ 2,860,000</u>

**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, 2022, the City had \$121,138 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, 2022 of \$63,848 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, 2022. 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, 2022, 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.

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

**NOTE 7 – FUND BALANCES - CONTINUED**

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.

*Contributions* – Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2022, participating employers contributed 26.95% (non-hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution. For the year ended June 30, 2022, began contributing to the hazardous job classifications. Therefore, the City contributed \$68,600 or 100% of the required contribution for non-hazardous job classifications to the same pension trust.

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

**NOTE 8 – RETIREMENT PLAN – CONTINUED**

*Benefits* – CERS provides retirement, health insurance, death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

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

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

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2021, was .009 percent for non-hazardous.

For the year ended June 30, 2022, the City recognized pension expenses of \$67,213. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflow of Resources</b>
Differences between expected and actual results	\$ 6,949	\$ 5,873
Changes of assumptions	8,122	-
Net difference between projected and actual earnings on plan investments	-	127,604
Changes in proportion and difference between City contributions and proportionate share of contributions	15,609	46,350
City contributions subsequent to the measurement date	68,600	-
<b>Total</b>	<b>\$ 99,280</b>	<b>\$ 179,827</b>

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

**NOTE 8 – RETIREMENT PLAN – CONTINUED**

The \$68,600 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending</b>	
<b>June 30,</b>	
2022	\$ (16,368)
2023	(40,866)
2024	(19,706)
2025	(25,255)
2026	-
Thereafter	-

*Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability* – For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted actuarial principles. The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2021:

**Non-Hazardous**

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

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2020. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.



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

**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 nominal real rates of return for each major asset class are summarized in the following table:

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

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

*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:

	<b>Discount Rate</b>	<b>City's Proportionate Share of Net Pension Liability</b>
1% Decrease	5.25%	\$ 776,102
Current discount rate	6.25%	\$ 605,126
1% Increase	7.25%	\$ 463,646

*Payable to the Pension Plan* – At June 30, 2022, the City reported no payable to the pension and OPEB plans required for the year ended June 30, 2022. The payable includes both the pension and insurance contribution allocation.

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

**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* – Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2022 was 5.78% (non-hazardous) of covered payroll. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). For the year ended June 30, 2022, began contributing to the hazardous job classifications. For the year ended June 30, 2022, the City contributed \$18,730, or 100% of the required contribution for non-hazardous job classifications.

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – The net OPEB liability was measured as of June 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2021, was .009 percent for non-hazardous.

For the year ended June 30, 2021, the City recognized OPEB expenses of \$24,965. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflow of Resources</b>
Differences between expected and actual results	\$ 28,566	\$ 54,238
Implicit subsidy	5,977	-
Changes of assumptions	48,162	169
Net difference between projected and actual earnings on plan investments	-	46,725
Changes in proportion and difference between City contributions and proportionate share of contributions	17,023	16,166
City contributions subsequent to the measurement date	18,730	-
<b>Total</b>	<b>\$ 118,458</b>	<b>\$ 117,298</b>

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

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

The \$18,730 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2022	\$ 6,049
2023	1,725
2024	419
2025	(13,433)
2026	-
Thereafter	-

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

**Non-Hazardous**

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

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

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

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

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

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

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

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.20% and 5.05% for non-hazardous and hazardous classifications, respectively. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20- Year Municipal GO AA Index" as of June 30, 2021. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate* – The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.20%) or one percentage point higher (6.20%) follows:

	<b>Discount Rate</b>	<b>City's proportionate Share of Net OPEB Liability</b>
1% Decrease	4.20%	\$ 249,421
Current discount rate	5.20%	\$ 181,662
1% Increase	6.20%	\$ 126,055

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

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

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates* – The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.20%) or one percentage point higher (6.20%) than current healthcare cost trend rates follows:

City's Net OPEB Liability (Asset)		
Healthcare Cost		
Trend Rate 1% Decrease 4.20%	Current Discount Rate 5.20%	Trend Rate 1% Increase 6.20%
<u>\$ 130,775</u>	<u>\$ 181,662</u>	<u>\$ 243,084</u>

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

**NOTE 10 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and workers' compensation claims.

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

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

**NOTE 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 \$419,200 from the state during fiscal year 2022 and matched \$139,734 from the City's general funds. The total \$558,934 was submitted to the private Company.

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

**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.

<b>From fund</b>	<b>To fund</b>	<b>Amount</b>
General Fund	Economic Development Fund	\$ 139,734
General Fund	Sewer Fund	\$ 232,418
General Fund	Water Fund	\$ 26,364

**NOTE 13 – DATE OF MANAGEMENT'S REVIEW**

Subsequent events were evaluated through April 10, 2023, which is the date the financial statements were available to be issued.

**CITY OF MIDWAY, KENTUCKY  
REQUIRED SUPPLEMENTAL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET-TO-ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2022**

	<b>Budget</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Property taxes, levied for general purposes	\$ 97,500	\$ 102,500	\$ 97,781	\$ (4,719)
Franchise tax	85,000	84,000	94,431	10,431
Utility tax	-	-	44,260	44,260
Occupational	737,500	900,000	1,010,368	110,368
Insurance premium	190,000	225,000	258,473	33,473
Licenses, fees, and permits	60,000	49,000	22,810	(26,190)
Intergovernmental revenues	325,100	904,200	562,443	(341,757)
Charges for services and others	150,000	161,000	184,123	23,123
Interest income	30,050	25,020	4,275	(20,745)
Other	83,500	273,800	216,624	(57,176)
<b>Total Revenues</b>	<b>1,758,650</b>	<b>2,724,520</b>	<b>2,495,588</b>	<b>(228,932)</b>
<b>Expenditures</b>				
General	750,033	1,414,134	466,351	947,783
Police	180,000	190,000	190,025	(25)
Fire	88,300	125,500	208,100	(82,600)
Sanitation	141,000	141,000	143,777	(2,777)
Parks and recreation	9,500	51,500	51,554	(54)
Streets	372,100	658,600	301,722	356,878
Cemetery	251,100	229,100	220,110	8,990
Capital outlay	22,500	20,500	274,910	(254,410)
<b>Total Expenditures</b>	<b>1,814,533</b>	<b>2,830,334</b>	<b>1,856,549</b>	<b>973,785</b>
<b>Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses</b>	<b>(55,883)</b>	<b>(105,814)</b>	<b>639,039</b>	<b>744,853</b>
<b>Other Financing Sources (uses)</b>				
Transfer in	-	-	-	-
Transfer out	-	-	(398,516)	(398,516)
Net other financing sources (uses)	-	-	(398,516)	(398,516)
<b>Net Change in Fund Balance</b>	<b>(55,883)</b>	<b>(105,814)</b>	<b>240,523</b>	<b>346,337</b>
<b>Fund Balance, Beginning</b>			<b>1,086,851</b>	
<b>Fund Balance, Ending</b>			<b>\$ 1,327,374</b>	

**CITY OF MIDWAY, KENTUCKY  
REQUIRED SUPPLEMENTAL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET-TO-ACTUAL - ECONOMIC DEVELOPMENT FUND  
FOR THE YEAR ENDED JUNE 30, 2022**

	<b>Budget</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Intergovernmental revenues	\$ 280,000	\$ 419,200	\$ 419,200	\$ -
<b>Total Revenues</b>	<b>280,000</b>	<b>419,200</b>	<b>419,200</b>	<b>-</b>
<b>Expenditures</b>				
Economic development grants	373,333	279,466	279,466	-
<b>Total Expenditures</b>	<b>373,333</b>	<b>279,466</b>	<b>279,466</b>	<b>-</b>
<b>Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses</b>	<b>(93,333)</b>	<b>139,734</b>	<b>139,734</b>	<b>-</b>
<b>Other Financing Sources (uses)</b>				
Transfer in (out)	93,333	(139,734)	(139,734)	-
Net other financing sources (uses)	93,333	(139,734)	(139,734)	-
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance, Beginning</b>			<b>-</b>	<b>-</b>
<b>Fund Balance, Ending</b>			<b>\$ -</b>	<b>\$ -</b>



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

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
City's proportion of the net pension liability	0.009290%	0.009510%	0.008013%	0.008405%	0.008868%	0.010247%	0.010503%	0.009491%
City's proportionate share of the net pension liability	\$ 301,000	\$ 408,868	\$ 394,547	\$ 491,969	\$ 540,087	\$ 720,676	\$ 805,571	\$ 605,126
City's covered-employee payroll	\$ 213,043	\$ 222,682	\$ 191,159	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047
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%	186.74%
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%	57.33%

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

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

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Contractually required contribution	\$ 28,392	\$ 23,742	\$ 28,422	\$ 31,807	\$ 41,922	\$ 51,928	\$ 47,100	\$ 68,601
Contributions in relation to the contractually required contribution	28,392	23,742	28,422	31,807	41,922	51,928	47,100	68,601
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 213,043	\$ 222,682	\$ 191,159	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047
Contributions as a percentage of covered-employee payroll	13.33%	10.66%	14.87%	15.61%	16.22%	19.30%	19.30%	21.17%

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

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

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
City's proportion of the net OPEB liability	0.008405%	0.008868%	0.010244%	0.010500%	0.009489%
City's proportionate share of the net OPEB liability	\$ 168,970	\$ 157,450	\$ 172,299	\$ 253,543	\$ 181,662
City's covered-employee payroll	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047
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%	56.06%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	58.84%	62.91%

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

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

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Contractually required contribution	<u>\$ 10,324</u>	<u>\$ 13,595</u>	<u>\$ 12,804</u>	<u>\$ 11,616</u>	<u>\$ 18,730</u>
Contributions in relation to the contractually required contribution	<u>10,324</u>	<u>13,595</u>	<u>12,804</u>	<u>11,616</u>	<u>18,730</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047
Contributions as a percentage of covered-employee payroll	5.07%	5.26%	4.76%	4.76%	5.78%

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

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

**NOTE 1 – BUDGETARY ACCOUNTING AND CONTROL**

**Budget Law**

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

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

**Budgetary Accounting**

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

**NOTE 2 – CERS**

**General Information**

**Contributions**

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

**Payroll**

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

*June 30, 2021 – Pension and OPEB Hazardous and Nonhazardous*

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension.

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

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

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

**NOTE 2 – CERS – CONTINUED**

**Changes of Assumptions- Continued**

*June 30, 2020 – Pension and OPEB Hazardous and Nonhazardous*

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

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

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

*June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous*

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

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

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

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

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

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

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

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

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

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

**NOTE 2 – CERS – CONTINUED**

**Changes of Assumptions- Continued**

*June 30, 2015 – Pension – Hazardous and Nonhazardous*

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

*June 30, 2014 – Pension – Hazardous and Nonhazardous*

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

*June 30, 2013 – Pension – Hazardous and Nonhazardous*

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members

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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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 10, 2023.

**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 questioned costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

**Report on Compliance and Other Matters**

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



### **The City's Response to Findings**

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

### **Purpose of this Report**

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

***SK LEE CPAs, P.S.C.***

Berea, Kentucky  
April 10, 2023

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

**MATERIAL WEAKNESS**

**2022-001 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 QUESTIONED COSTS – CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2022**

**MATERIAL WEAKNESS**

**2022-002 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.