

**CITY OF MIDDLETOWN, KENTUCKY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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<b>Independent Auditor’s Report</b> .....	<b>1-3</b>	
<b>Management’s Discussion and Analysis</b> .....	<b>4-12</b>	
<b>Basic Financial Statements</b>		
Government-Wide Financial Statements		
Statement of Net Position .....	13	
Statement of Activities.....	14	
Fund Financial Statements		
Balance Sheet – Governmental Funds.....	15	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	16	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	17	
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities .....	18	
Statement of Net Position – Proprietary Fund Balances .....	19	
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund .....	20	
Statement of Cash Flows – Proprietary Fund .....	21	
Notes to the Financial Statements .....	22-32	
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedule – General Fund.....	34	
Budgetary Comparison Schedule – Road Fund .....	35	
Notes to Required Supplementary Information.....	36	
<b>Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on and Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>		<b>37-38</b>
<b>Independent Accountant’s Report for the U.S. Department of Treasury Coronavirus State and Local Fiscal Recovery Funds Program (CSLFRF) Requirement for an Alternative CSLFRF Compliance Examination Engagement .....</b>		<b>39-40</b>



## INDEPENDENT AUDITOR'S REPORT

Members of City Commission  
City of Middletown, Kentucky  
Middletown, Kentucky

### Report on the Audit of the Financial Statements

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Middletown, Kentucky (City) as of and for the year ended June 30, 2023, 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, and each major fund, of the City, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis of Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### ***Responsibilities of Management for the Financial Statements***

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement from fraud is higher than 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 judgement 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 judgement, 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***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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 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**

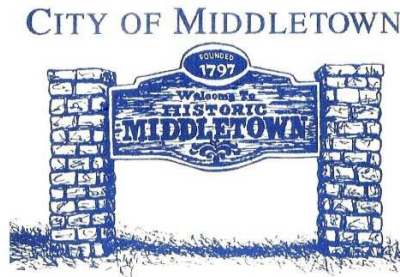
In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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.

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky  
December 11, 2023

Mayor  
J. Byron Chapman

Commissioners  
Paul Hayden  
Amy Oliver  
Mark Stigers  
Ron Wolf



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Middletown, Kentucky 40243  
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As management of the City of Middletown, Kentucky (City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements.

### **FINANCIAL HIGHLIGHTS**

The assets of the City were more than the liabilities by \$14,114,453 at the close of the current fiscal year. The unrestricted net position, which represents the amounts available to meet the City's ongoing obligations to citizens and creditors, was \$4,696,867. The City's total net position decreased \$838,888.

At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$5,653,092, an decrease of \$778,808 from the prior year. Of this amount, \$4,300,011 is available for spending at the City's discretion (unassigned fund balance).

At the close of the current fiscal year, the unassigned fund balance was approximately 87% of total fund expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) the notes to the financial statements. This report also included supplementary information intended to furnish additional detail to support the basic financial statements themselves.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents financial information on all of the City's assets and liabilities with the difference reported as net position.

The statement of activities presents information showing how the City net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and unused vacation leave).

The governmental activities of the City include general government, public safety, sanitation, public works, and community development. The business-type activities are cemetery operations.

The government-wide financial statements can be found on pages 13-14 of this report

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by State law. However, the City may establish other funds to help it control and manage money for particular purposes.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and special revenue fund, which are considered to be major funds.

The City adopts an annual appropriated budget for each of the major funds. A budgetary comparison schedule has been provided for the general fund and special revenue fund to demonstrate compliance with this budget.

Proprietary fund: Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the proprietary fund to account for its cemetery activities.

The fund financial statements can be found on pages 15-21 of this report.

#### **NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-32 of this report.

#### **OTHER INFORMATION**

In addition to the basic financial statements and notes to the financial statements, this report also presents required supplementary information concerning the City's budgets. Required supplementary information can be found on pages 34-36 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

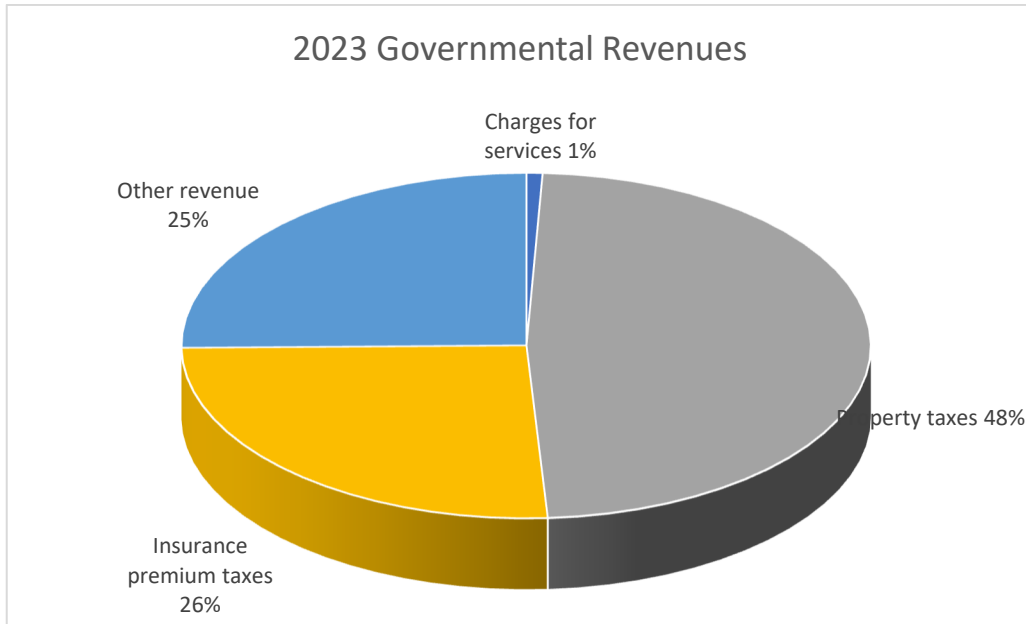
**Net Position**

	Governmental Activities		Business-Type Activities	
	2023	2022	2023	2022
Current and other assets	\$ 5,767,507	\$ 6,536,628	\$ 451,095	\$ 464,421
Capital assets, net of depreciation	8,076,168	8,078,915	9,337	11,863
<b>Total assets</b>	<b>13,843,675</b>	<b>14,615,543</b>	<b>460,432</b>	<b>476,284</b>
Current and other liabilities	189,654	138,486	-	-
<b>Total liabilities</b>	<b>189,654</b>	<b>138,486</b>	<b>-</b>	<b>-</b>
Net investment in capital assets	8,076,168	8,078,915	9,337	11,863
Restricted	1,332,081	-	-	-
Unrestricted	4,245,772	6,398,142	451,095	464,421
<b>Total net position</b>	<b>\$ 13,654,021</b>	<b>\$ 14,477,057</b>	<b>\$ 460,432</b>	<b>\$ 476,284</b>

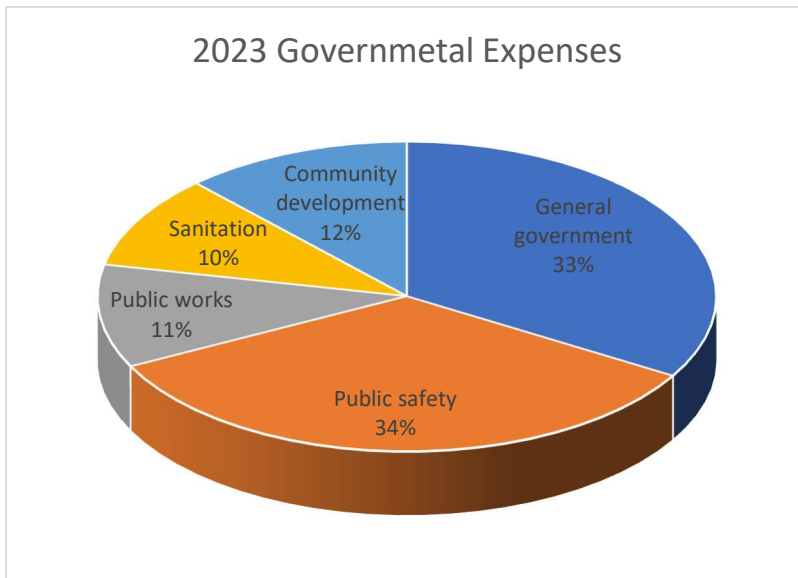
**Statement of Activities**

	Governmental Activities		Business-type Activities	
	2023	2022	2023	2022
<b>Revenues</b>				
Charges for services	\$ 31,035	\$ 75,459	\$ 20,586	\$ 29,500
Grants and contributions	0	2,353,256	-	-
Property taxes	2,001,322	1,564,338	-	-
Insurance premium taxes	1,068,072	1,102,284	-	-
Other revenue	1,045,796	338,145	7,710	1,051
<b>Total revenues</b>	<b>4,146,225</b>	<b>5,433,482</b>	<b>28,296</b>	<b>30,551</b>
<b>Expenditures</b>				
General government	1,668,392	1,668,940	-	-
Public safety	1,687,177	1,349,278	-	-
Public works	534,471	406,268	-	-
Sanitation	485,502	482,690	-	-
Community development	593,719	568,317	-	-
Cemetery	-	-	44,148	35,752
<b>Total expenditures</b>	<b>4,969,261</b>	<b>4,475,493</b>	<b>44,148</b>	<b>35,752</b>
Net change in fund balances	(823,036)	957,989	(15,852)	(5,201)
Fund balances - beginning	14,477,057	13,519,368	476,284	481,485
<b>Fund balances - ending</b>	<b>\$ 13,654,021</b>	<b>\$ 14,477,357</b>	<b>\$ 460,432</b>	<b>\$ 476,284</b>

The major source for governmental revenue is property taxes and insurance premium taxes.

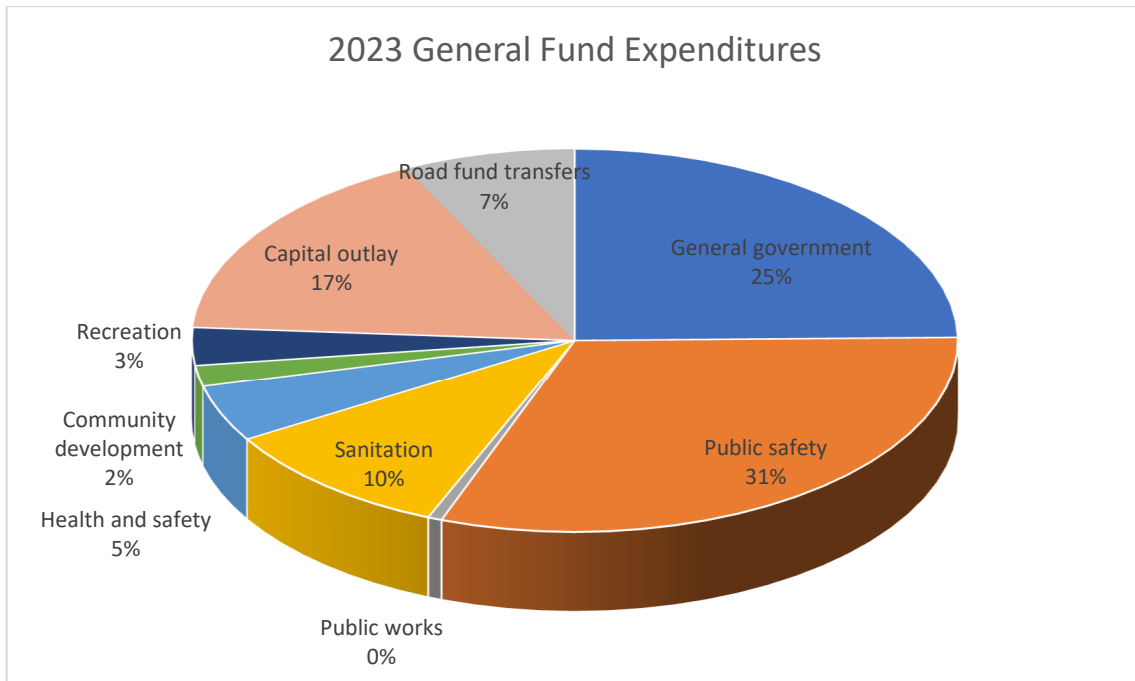
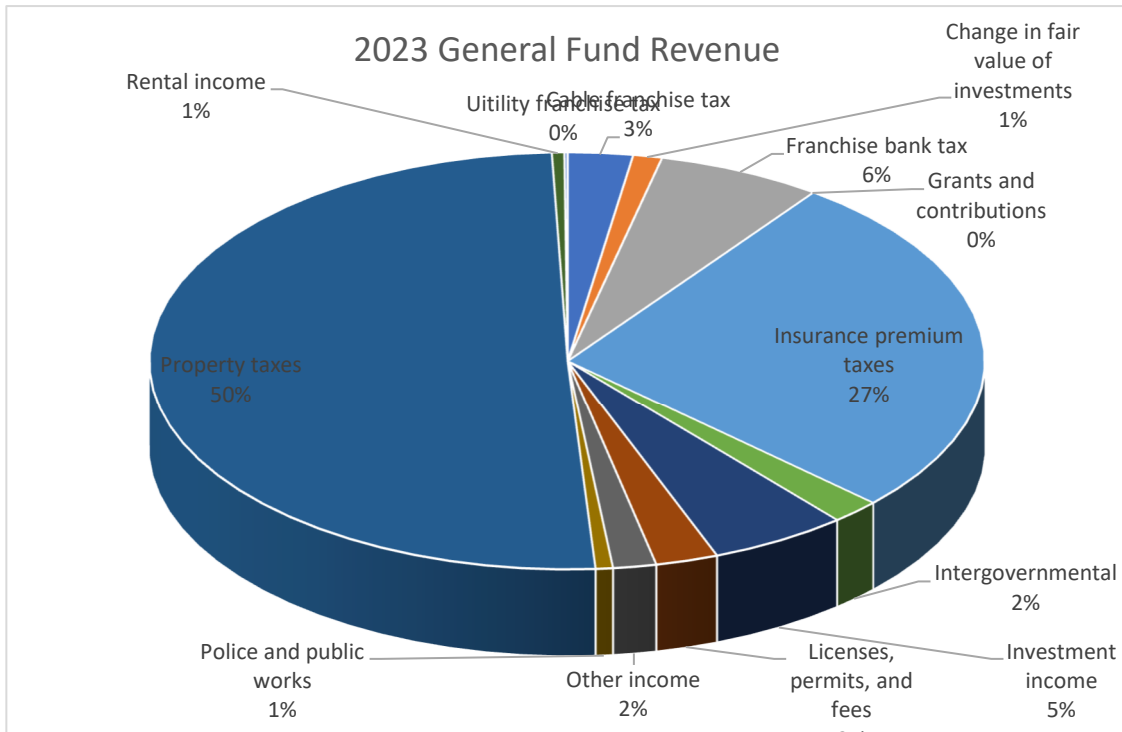


The major expenditures are general government and public safety.



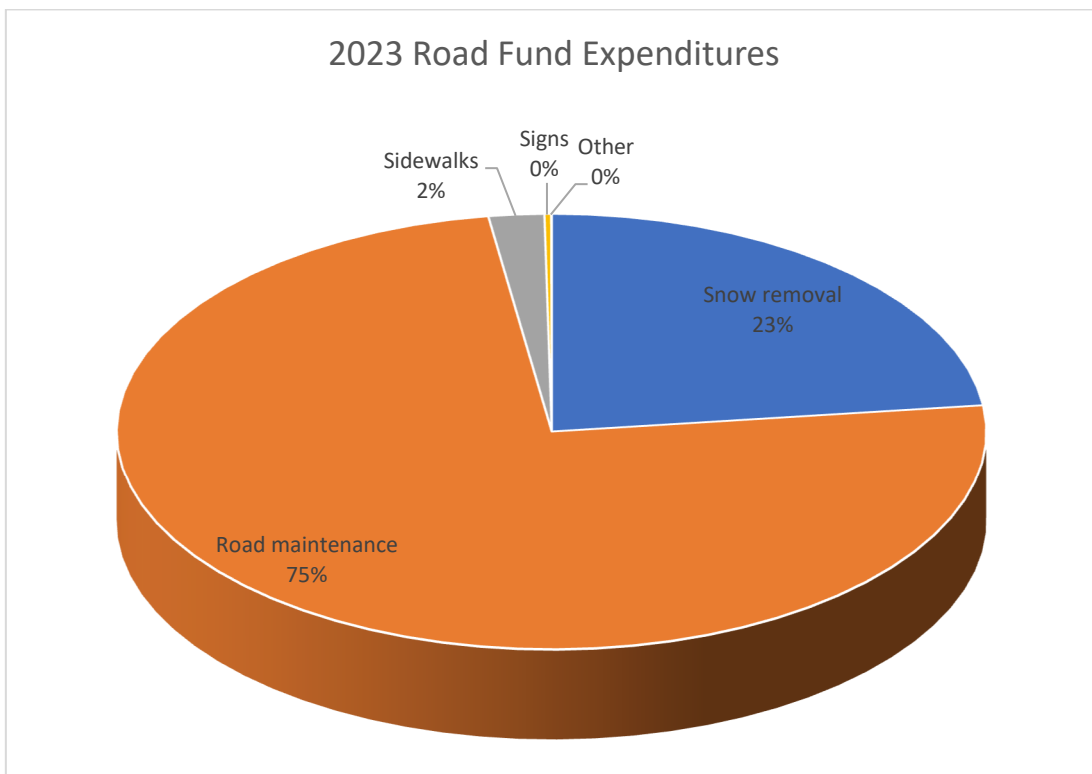
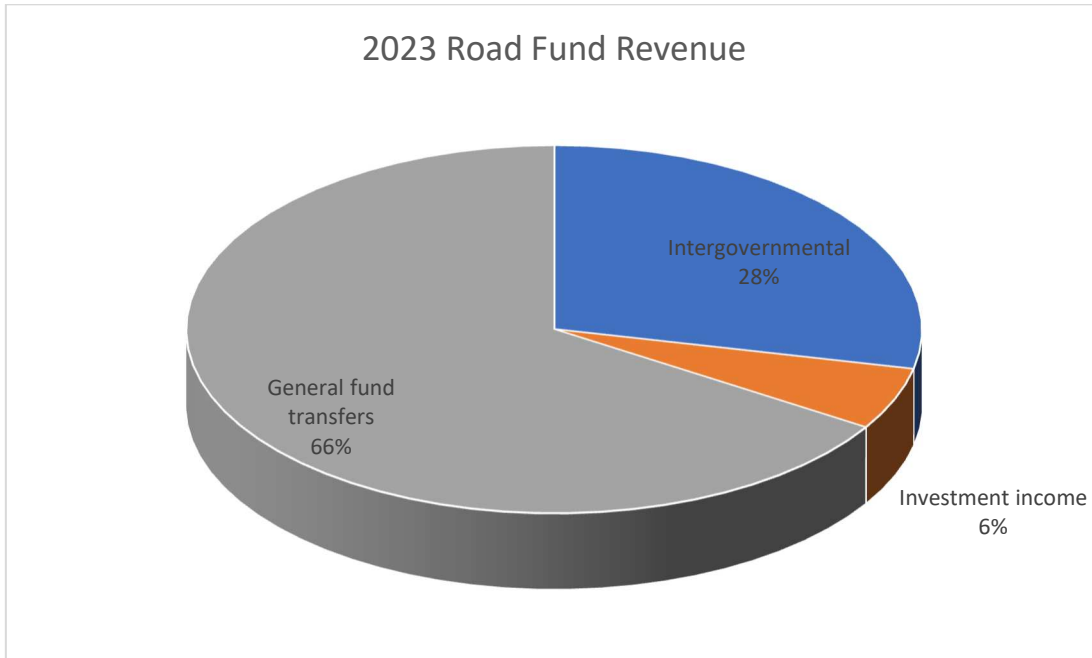
**GENERAL FUND**

The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky. General fund revenues and expenditures are as follows:



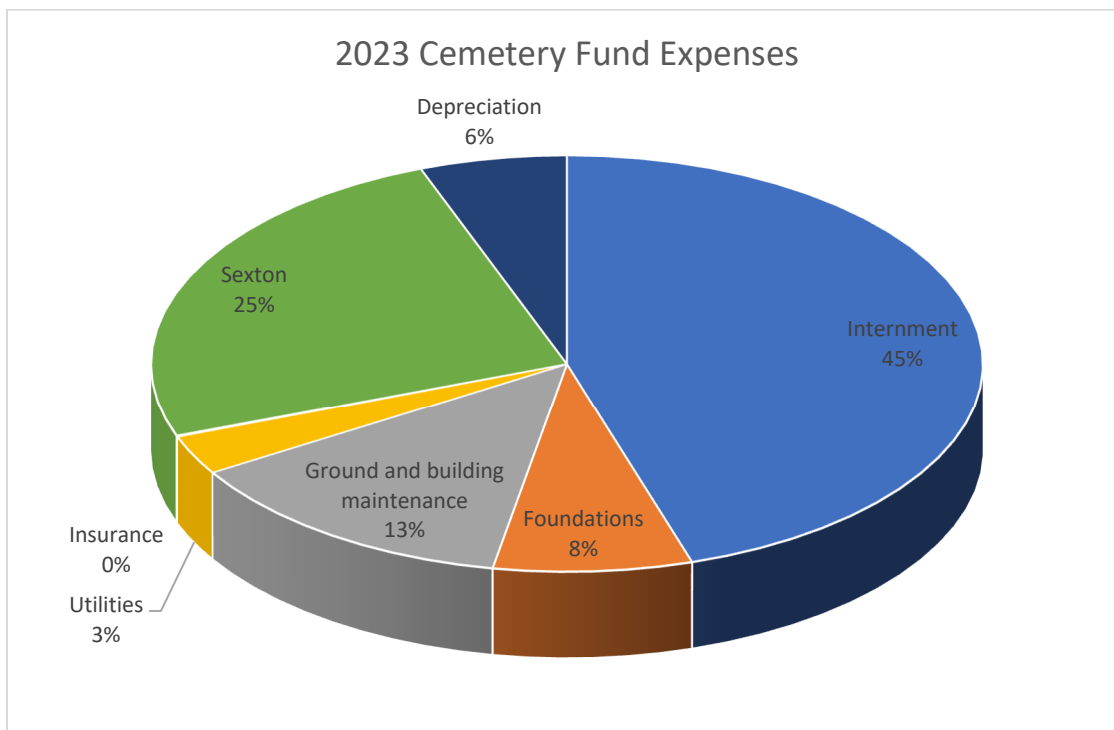
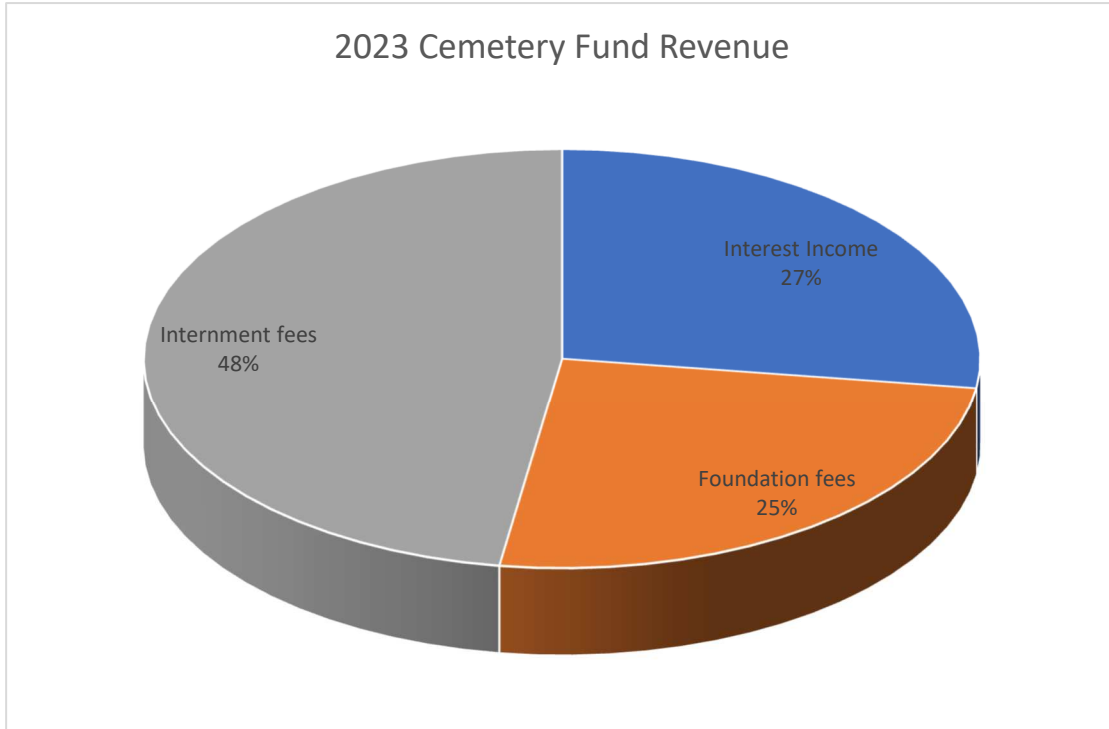
## ROAD FUND

The municipal road aid fund accounts for the allocation of funds from the Commonwealth of Kentucky as provided in KRS 174 for design, right-of-way acquisitions, utilities, construction, and other municipal road aid expenditures.



**CEMETERY FUND**

The cemetery fund accounts for the revenues and expenses related to cemetery operations.



**CAPITAL ASSETS**

	Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023
<b>Governmental Activities</b>				
Land	\$ 446,739	\$ -	\$ -	\$ 446,739
Buildings	5,202,072	192,536	-	5,394,608
Improvements	2,332,107	-	-	2,332,107
Infrastructure	9,416,721	410,783	-	9,827,504
Machinery & Equipment	80,006	90,366	-	170,372
Police Equipment	1,190,519	108,280	-	1,298,799
Furniture	25,931	-	-	25,931
<b>Total capital assets</b>	<b>18,694,095</b>	<b>801,965</b>	<b>-</b>	<b>19,496,060</b>
<b>Less accumulated depreciation</b>	<b>10,615,180</b>	<b>804,712</b>	<b>-</b>	<b>11,419,892</b>
<b>Net governmental capital assets</b>	<b>\$ 8,078,915</b>	<b>\$ (2,747)</b>	<b>\$ -</b>	<b>\$ 8,076,168</b>
<b>Business-Type Activities</b>				
Land	\$ 1,550	\$ -	\$ -	\$ 1,550
Improvements	37,895	-	-	37,895
<b>Total capital assets</b>	<b>39,445</b>	<b>-</b>	<b>-</b>	<b>39,445</b>
<b>Less accumulated depreciation</b>	<b>27,582</b>	<b>2,526</b>	<b>-</b>	<b>30,108</b>
<b>Net business-type capital assets</b>	<b>\$ 11,863</b>	<b>\$ (2,526)</b>	<b>\$ -</b>	<b>\$ 9,337</b>

**DEBT ADMINISTRATION**

The City had no outstanding debt during fiscal year 2022.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The local economy of the City remains strong. The City is experiencing consistent growth from incoming and continuing businesses.

In adopting the budget for fiscal year 2024, the City considered many factors in making decisions and estimates about the finances for the upcoming fiscal year. A primary objective of the City is to continue current service levels without increasing tax rates.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 11803 Old Shelbyville Road, Louisville, KY 40243.

City of Middletown, Kentucky  
Statement of Net Position  
June 30, 2023

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,545,319	\$ 202,225	\$ 1,747,544
Restricted cash	1,332,081	-	1,332,081
Certificates of deposit	259,596	248,870	508,466
Investments	2,451,604	-	2,451,604
Receivables	157,907	-	157,907
Prepaid expenses	21,000	-	21,000
Capital assets, net of depreciation	8,076,168	9,337	8,085,505
<b>Total assets</b>	<b>13,843,675</b>	<b>460,432</b>	<b>14,304,107</b>
<b>Liabilities</b>			
Accounts payable	40,291	-	40,291
Accrued liabilities	19,124	-	19,124
Escrow	55,000	-	55,000
Compensated absences	75,239	-	75,239
<b>Total liabilities</b>	<b>189,654</b>	<b>-</b>	<b>189,654</b>
<b>Net position</b>			
Net investment in capital assets	8,076,168	9,337	8,085,505
Restricted	1,332,081	-	1,332,081
Unrestricted	4,245,772	451,095	4,696,867
<b>Total net position</b>	<b>\$ 13,654,021</b>	<b>\$ 460,432</b>	<b>\$ 14,114,453</b>

See accompanying notes to financial statements.

City of Middletown, Kentucky  
Statement of Activities  
Year Ended June 30, 2023

	Expenses	Charges for Services	Grants and Contributions		Net Revenue (Expense)
			Operating	Capital	
<b>Governmental activities</b>					
General government	\$ 1,284,168	\$ -	\$ -	\$ -	\$ (1,284,168)
Public safety	1,687,177	12,014	75,366	-	(1,599,797)
Public works	534,471	-	150,784	-	(383,687)
Sanitation	485,502	-	-	-	(485,502)
Health and safety	230,733	-	-	-	(230,733)
Community development	593,719	19,021	-	-	(574,698)
Recreation	153,491	-	-	-	(153,491)
<b>Total governmental activities</b>	<b>4,969,261</b>	<b>31,035</b>	<b>226,150</b>	<b>-</b>	<b>(4,712,076)</b>
<b>Business-type activities</b>					
Cemetery	44,148	20,586	-	-	(23,562)
<b>Total business-type activities</b>	<b>44,148</b>	<b>20,586</b>	<b>-</b>	<b>-</b>	<b>(23,562)</b>
<b>Total primary government</b>	<b>\$ 5,013,409</b>	<b>\$ 51,621</b>	<b>\$ 226,150</b>	<b>\$ -</b>	<b>\$ (4,735,638)</b>

	Governmental Activities	Business-Type Activities	Total
Net revenue (expense)	(4,712,076)	(23,562)	(4,735,638)
General revenues			
Property and other taxes	2,001,322	-	2,001,322
Insurance premium tax	1,068,072	-	1,068,072
Bank franchise tax	253,603	-	253,603
Cable franchise tax	99,598	-	99,598
Utility franchise	4,998	-	4,998
Licenses, permits, and fees	95,506	-	95,506
Police income	14,473	-	14,473
Investment income	240,979	7,710	248,689
Change in fair value of investments	44,339	-	44,339
Miscellaneous	66,150	-	66,150
<b>Total general revenues</b>	<b>3,889,040</b>	<b>7,710</b>	<b>3,896,750</b>
Change in net position	(823,036)	(15,852)	(838,888)
Net position - beginning	14,477,057	476,284	14,953,341
<b>Net position - ending</b>	<b>\$ 13,654,021</b>	<b>\$ 460,432</b>	<b>\$ 14,114,453</b>

See accompanying notes to financial statements.

City of Middletown, Kentucky  
Balance Sheet – Governmental Funds  
June 30, 2023

	General Fund	Road Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 1,545,319	\$ -	\$ 1,545,319
Restricted cash	710,517	621,564	1,332,081
Certificates of deposit	259,596	-	259,596
Investments	2,451,604	-	2,451,604
Receivables	157,907	-	157,907
Prepaid expenses	21,000	-	21,000
<b>Total assets</b>	<b>\$ 5,145,943</b>	<b>\$ 621,564</b>	<b>\$ 5,767,507</b>
<b>Liabilities</b>			
Accounts payable	\$ 40,291	\$ -	\$ 40,291
Accrued liabilities	19,124	-	19,124
Escrow	55,000	-	55,000
<b>Total liabilities</b>	<b>114,415</b>	<b>-</b>	<b>114,415</b>
<b>Fund balances</b>			
Nonspendable	21,000	-	21,000
Restricted	710,517	621,564	1,332,081
Unassigned	4,300,011	-	4,300,011
<b>Total fund balances</b>	<b>5,031,528</b>	<b>621,564</b>	<b>5,653,092</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,145,943</b>	<b>\$ 621,564</b>	<b>\$ 5,767,507</b>

See accompanying notes to financial statements.

City of Middletown, Kentucky  
Reconciliation of the Balance Sheet – Governmental Funds  
to the Statement of Net Position  
June 30, 2023

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Total governmental fund balances \$ 5,653,092

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 8,076,168

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Compensated absences (75,239)

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Net position of governmental activities \$ 13,654,021

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See accompanying notes to financial statements.

City of Middletown, Kentucky  
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund  
Balances – Governmental Funds to the Statement of Activities  
June 30, 2023

	General Fund	Road Fund	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 2,001,322	\$ -	\$ 2,001,322
Insurance premium taxes	1,068,072	-	1,068,072
Franchise bank tax	253,603	-	253,603
Cable franchise tax	99,598	-	99,598
Utility franchise tax	4,998	-	4,998
Licenses, permits, and fees	95,506	-	95,506
Intergovernmental	75,366	150,784	226,150
Police and public works	26,487	-	26,487
Rental income	19,021	-	19,021
Investment income	211,943	29,036	240,979
Other income	66,150	-	66,150
Change in fair value of investments	44,339	-	44,339
<b>Total revenues</b>	<b>3,966,405</b>	<b>179,820</b>	<b>4,146,225</b>
<b>Expenditures</b>			
General government	1,191,661	-	1,191,661
Public safety	1,488,547	-	1,488,547
Public works	28,559	458,374	486,933
Sanitation	485,502	-	485,502
Health and safety	230,733	-	230,733
Community development	86,201	-	86,201
Recreation	153,491	-	153,491
Capital outlay	801,965	-	801,965
<b>Total expenditures</b>	<b>4,466,659</b>	<b>458,374</b>	<b>4,925,033</b>
<b>Deficiency of revenues over expenditures</b>	<b>(500,254)</b>	<b>(278,554)</b>	<b>(778,808)</b>
<b>Other financing sources</b>			
Transfer in	-	350,000	350,000
Transfer out	(350,000)	-	(350,000)
<b>Total other financing sources</b>	<b>(350,000)</b>	<b>350,000</b>	<b>0</b>
<b>Net change in fund balances</b>	<b>(850,254)</b>	<b>71,446</b>	<b>(778,808)</b>
<b>Fund balances - beginning</b>	<b>5,881,782</b>	<b>550,118</b>	<b>6,431,900</b>
<b>Fund balances - ending</b>	<b>\$ 5,031,528</b>	<b>\$ 621,564</b>	<b>\$ 5,653,092</b>

See accompanying notes to financial statements.

City of Middletown, Kentucky  
 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund  
 Balances – Governmental Funds to the Statement of Activities  
 June 30, 2023

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Net change in fund balances - total governmental funds \$ (778,808)

Amounts reported for governmental activities in the statement of activities  
 are difference 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.

Capital outlay	801,965	
Depreciation expense	<u>(804,712)</u>	
Total capital asset activities		(2,747)

Compensated absence liabilities are not reported in the funds but are recorded in the statement of activities	(41,481)
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Change in net position of governmental activities	\$ (823,036)
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See accompanying notes to financial statements.

City of Middletown, Kentucky  
Statement of Revenues, Expenses, and Changes  
in Net Position – Proprietary Fund  
June 30, 2023

	Cemetery Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 202,225
Certificates of deposit	248,870
Capital assets	9,337
<b>Total assets</b>	<b>460,432</b>
<b>Liabilities</b>	
Accounts payable	-
<b>Total liabilities</b>	<b>-</b>
<b>Net position</b>	
Net investment in capital assets	9,337
Unrestricted	451,095
<b>Total net position</b>	<b>\$ 460,432</b>

See accompanying notes to financial statements.

City of Middletown, Kentucky  
Statement of Revenues, Expenses, and Changes  
in Net Position – Proprietary Fund  
June 30, 2023

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	Cemetery Fund
<b>Operating revenues</b>	
Internment fees	\$ 13,470
Foundation fees	7,116
<hr/>	<hr/>
Total operating revenues	20,586
<b>Operating expenses</b>	
Internment	19,930
Foundations	3,406
Sexton	11,000
Ground and building maintenance	5,891
Utilities	1,352
Insurance	43
Depreciation	2,526
<hr/>	<hr/>
Total operating expenses	44,148
Operating loss	(23,562)
Non-operating revenues and (expenses):	
Interest Income	7,710
<hr/>	<hr/>
Total non-operating revenues and (expenses):	7,710
Change in net position	(15,852)
Net position - beginning	476,284
<hr/>	<hr/>
Net position - ending	\$ 460,432

See accompanying notes to financial statements.

City of Middletown, Kentucky  
Statement of Revenues, Expenses, and Changes  
in Net Position – Proprietary Fund  
June 30, 2023

	Cemetery Fund
Cash flows from operating activities	
Receipts from customers	\$ 20,586
Payments to suppliers	(41,622)
<u>Net cash used by operating activities</u>	<u>(21,036)</u>
Cash flows from investing activities	
Interest received	7,710
<u>Net cash used by capital financing activities</u>	<u>7,710</u>
Net increase in cash	(13,326)
Cash - beginning	215,551
<u>Cash - ending</u>	<u>\$ 202,225</u>
Cash flows from perating activities	
Operating loss	(23,562)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	2,526
<u>Net cash used in operating activities</u>	<u>(21,036)</u>

See accompanying notes to financial statements.

**NOTE 1: ACCOUNTING POLICIES**

Kentucky Revised Statutes and Ordinances of the City Commission of the City of Middletown, Kentucky (City) designate the purpose, function and restrictions of the various funds.

***Reporting Entity***

The City operates under a commission form of government. The City's major operations include public safety, public works, sanitation, cemetery operations, and general administrative services. The financial statements of the City include all of the funds for which the Commission is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

***Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government.

The statement of net position presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

**Fund Financial Statements**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***Fund Accounting***

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

**Governmental Fund Types**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows, liabilities, and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

*General Fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky.

*Special Revenue Fund* – The municipal road aid fund accounts for the allocation of funds from the Commonwealth of Kentucky as provided in KRS 174 for design, right-of-way acquisitions, utilities, construction, and other municipal road aid expenditures.

**Proprietary Fund Types**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues for the city are charges for services. Operating expenses include personnel and other expenses. The following is the City's major proprietary fund:

*Cemetery Fund* - The cemetery fund is used to account for and report the operations of the cemetery.

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

**Government-wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the City are included in the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g. expenses) in total net position.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government –wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

***Cash and Cash Equivalents***

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date of ninety days or less.

***Receivables***

Receivables are recorded at gross amounts. Write-offs are recognized under the direct write-off method. The City believes all recorded receivables are fully collectible and, therefore, no allowance for doubtful accounts has been recorded

***Investments***

Investments of the City consist of the Kentucky League of Cities Investment Pool. Investments are reported at fair value.

***Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. The City's infrastructure consists of sidewalks, streets, and traffic signals. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	5 - 40 years
Improvements	5 - 40 years
Equipment	5 - 10 years
Infrastructure	15 - 40 years

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

***Net Position***

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***Fund Balances***

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - is reported as restricted when constraints are placed on the use of resources that 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.

Committed - includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Commission (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Commission removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - amounts are intended to be used by the City Commission for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Commission.

Unassigned - the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***Revenues***

**Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

**Nonexchange transactions**

Transactions in which the City receives value without directly giving equal value in return, include property taxes, and grants. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, for which the City must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the City on a reimbursement basis.

On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: state-levied locally shared taxes.

***Expenses/Expenditures***

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental 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/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***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 statement of net position, except for the net residual amounts due between governmental and business-type activities, where are presented as internal balances.

***Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

***Budgetary Process***

Budgetary Basis of Accounting - The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and GAAP basis are: (1) revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP); and (2) expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/objective level. All budget appropriations lapse at year-end.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the City Commission.

***Subsequent Events***

The City evaluated subsequent events for potential recognition and disclosure through December 11, 2023, the date the financial statements were available to be issued.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***Recent Accounting Pronouncements***

In June 2017, the GASB issued Statement No. 96, *Subscription-Based Information Technology*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for subscription-based information technology contracts by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain contracts based on the payment provisions of the contract. The City did not identify any contracts that would require reporting under GASB 96.

**NOTE 2: CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the City's cash and cash equivalents exceeded limits by Federal Deposit Insurance Corporation (FDIC). The City has not experienced any losses in its accounts and believes it is not exposed to any significant custodial credit risk or concentration of credit risk.

The City maintains the following accounts:

	Carrying Amount	Bank Balance
General checking	\$ 1,530,515	\$ 1,534,192
HRA/FSA checking	14,414	14,414
ARPA checking	710,517	710,517
Road fund checking	621,564	656,944
Cemetery checking	202,225	205,225
Petty cash	390	
	<u>\$ 3,079,625</u>	<u>\$ 3,121,292</u>

The carrying amounts are reported in the funds as follows:

Unrestricted	
General fund	\$ 1,545,319
Cemetery fund	202,225
<u>Total unrestricted</u>	<u>1,747,544</u>
Restricted	
General fund	710,517
Road fund	621,564
<u>Total restricted</u>	<u>1,332,081</u>
<u>Total cash</u>	<u>\$ 3,079,625</u>

**NOTE 3: RECEIVABLES**

Receivables at year end consist of the following:

	<u>Government</u>
Intergovernmental	\$ 6,222
Insurance premium tax	<u>151,685</u>
Total governmental receivables	<u>\$ 157,907</u>

The City believes the receivables are fully collectible and, therefore, no allowance for doubtful accounts is recorded.

**NOTE 4: CERTIFICATES OF DEPOSIT**

The City has the following certificates of deposit:

	<u>Total</u>	<u>Maturity Less than One Year</u>
Certificates of Deposit		
General fund	\$ 259,596	\$ 259,596
Cemetery fund	<u>248,870</u>	<u>248,870</u>
	<u>\$ 508,466</u>	<u>\$ 508,466</u>

**NOTE 5: INVESTMENTS**

The City has the following investments at year end:

	<u>Cost</u>	<u>Fair Value</u>
KLC Dividend Focus Equity Pool	\$ 606,376	\$ 734,572
KLC Government Bond Fund	519,295	467,910
KLC Corporate Bond Fund	726,386	660,007
KLC Equity S&P 500 Index Fund	420	420
KLC Enhanced Income Fund	<u>587,725</u>	<u>588,695</u>
Total investments	<u>\$ 2,440,202</u>	<u>\$ 2,451,604</u>

**NOTE 6: CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2023, is summarized below:

	Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023
<b>Governmental Activities</b>				
Land	\$ 446,739	\$ -	\$ -	\$ 446,739
Buildings	5,202,072	192,536	-	5,394,608
Improvements	2,332,107	-	-	2,332,107
Infrastructure	9,416,721	410,783	-	9,827,504
Machinery & Equipment	80,006	90,366	-	170,372
Police Equipment	1,190,519	108,280	-	1,298,799
Furniture	25,931	-	-	25,931
<b>Total capital assets</b>	<b>18,694,095</b>	<b>801,965</b>	<b>-</b>	<b>19,496,060</b>
<b>Less accumulated depreciation</b>	<b>10,615,180</b>	<b>804,712</b>	<b>-</b>	<b>11,419,892</b>
<b>Net governmental capital assets</b>	<b>\$ 8,078,915</b>	<b>\$ (2,747)</b>	<b>\$ -</b>	<b>\$ 8,076,168</b>
<b>Business-Type Activities</b>				
Land	\$ 1,550	\$ -	\$ -	\$ 1,550
Improvements	37,895	-	-	37,895
<b>Total capital assets</b>	<b>39,445</b>	<b>-</b>	<b>-</b>	<b>39,445</b>
<b>Less accumulated depreciation</b>	<b>27,582</b>	<b>2,526</b>	<b>-</b>	<b>30,108</b>
<b>Net business-type capital assets</b>	<b>\$ 11,863</b>	<b>\$ (2,526)</b>	<b>\$ -</b>	<b>\$ 9,337</b>

Depreciation was charged to following government funds:

Governmental		Business-type	
General government	\$ 88,331	Cemetery	\$ 2,526
Public safety	161,325		
Public works	47,538		
Community development	507,518		
<b>Total depreciation</b>	<b>\$ 804,712</b>	<b>Total depreciation</b>	<b>\$ 2,526</b>

**NOTE 7: RELATED PARTY TRANSACTIONS**

The City rents a house to an employee of the City. Total rental income for the fiscal year was \$10,560. The City believes that the rental amount approximates fair value. The lease is on a month-to-month basis.

**NOTE 8: RETIREMENT PLAN**

The City provides a Simple IRA plan for eligible employees. Employee may contribute up to the allowable limit and the City makes a matching contribution up to 3% of wages. The City's expense for the fiscal year was \$29,635.

**NOTE 9: CONTINGENCIES**

The City is party to various legal proceedings which normally occur in governmental operations. It is neither possible to determine the outcome of these proceedings nor possible to estimate the effects adverse decisions may have on the future expenditures or revenue sources of the City. In the opinion of City management, these legal proceedings are not likely to have a material adverse impact on the accompanying financial statements. Therefore, no provision for any liability that may result upon adjudication of this, and similar cases has been made in the accompanying financial statements

**NOTE 10: RISK MANAGEMENT**

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred, and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2023, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

**NOTE 11: FUND TRANSFERS**

The following transfers were made during the year:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General fund	Road fund	\$ 350,000

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Middletown, Kentucky  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance
<b>Revenues</b>				
Property taxes	\$ 1,763,833	\$ 1,763,833	\$ 2,001,322	\$ 237,489
Insurance premium taxes	1,125,000	1,125,000	1,068,072	(56,928)
Franchise bank tax	270,071	270,071	253,603	(16,468)
Cable franchise tax	100,000	100,000	99,598	(402)
Utility franchise tax	5,000	5,000	4,998	(2)
Licenses, permits, and fees	68,000	68,000	95,506	27,506
Police and public works	103,700	103,700	75,366	(28,334)
Rental income	13,260	13,260	26,487	13,227
Grants and contributions	2,728,787	2,728,787	19,021	(2,709,766)
Investment income	117,500	117,500	211,943	94,443
Other income	17,500	17,500	66,150	48,650
Change in fair value of investments	-	-	44,339	44,339
<b>Total revenues</b>	<b>6,312,651</b>	<b>6,312,651</b>	<b>3,966,405</b>	<b>(2,346,246)</b>
<b>Expenditures</b>				
General government	1,285,124	1,321,124	1,191,661	129,463
Public safety	1,568,756	1,594,756	1,488,547	106,209
Public works	27,721	30,721	28,559	2,162
Sanitation	482,000	482,000	485,502	(3,502)
Health and safety	259,000	279,000	230,733	48,267
Community development	102,114	103,114	86,201	16,913
Recreation	183,000	183,000	153,491	29,509
Capital outlay	2,021,922	2,021,922	801,965	1,219,957
<b>Total expenditures</b>	<b>5,929,637</b>	<b>6,015,637</b>	<b>4,466,659</b>	<b>1,548,978</b>
<b>Other financing sources</b>				
Transfer out	(350,000)	(350,000)	(350,000)	-
<b>Total other financing sources</b>	<b>(350,000)</b>	<b>(350,000)</b>	<b>(350,000)</b>	<b>-</b>
Net change in fund balances	33,014	(52,986)	(850,254)	(797,268)
Fund balances - beginning	-	-	5,881,782	
<b>Fund balances - ending</b>	<b>\$ 33,014</b>	<b>\$ (52,986)</b>	<b>\$ 5,031,528</b>	

City of Middletown, Kentucky  
 Budgetary Comparison Schedule – Road Fund  
 Year Ended June 30, 2023

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	Original Budget	Final Budget	Actual	Variance
<b>Revenues</b>				
Intergovernmental	\$ 160,000	\$ 160,000	\$ 150,784	\$ (9,216)
Investment income	600	600	29,036	28,436
<b>Total revenues</b>	<b>160,600</b>	<b>160,600</b>	<b>179,820</b>	<b>19,220</b>
<b>Expenditures</b>				
Public works	510,600	510,600	458,374	52,226
<b>Total expenditures</b>	<b>510,600</b>	<b>510,600</b>	<b>458,374</b>	<b>52,226</b>
<b>Other financing sources</b>				
Transfer in	350,000	350,000	350,000	-
<b>Total other financing sources</b>	<b>350,000</b>	<b>350,000</b>	<b>350,000</b>	<b>-</b>
Net change in fund balances	-	-	71,446	
Fund balances - beginning	-	-	550,118	
<b>Fund balances - ending</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 621,564</b>	

**NOTE 1: BUDGETS AND BUDGETARY PROCESS**

The City follows the procedures established pursuant to KRS 91A.030 in establishing the budgetary data included in the required supplementary information. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.



Honorable Mayor  
and Members of City Commission  
City of Middletown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Middletown, Kentucky (City) as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated December 11, 2023.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, 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 District's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

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

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**Purpose of this Report**

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

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky

December 11, 2023



## Independent Accountant's Report

Honorable Mayor  
and Members of City Commission  
City of Middletown, Kentucky

We have examined the City of Middletown, Kentucky's (City) compliance with the compliance requirements "activities allowed or unallowed" and "allowable cost/cost principles" (the specified requirements) as described in Part IV "Requirements for an Alternative Compliance Examination Engagement for Recipients That Would Otherwise be Required to Undergo a Single Audit or Program-Specific Audit as a Result of Receiving Coronavirus State and Local Fiscal Recovery Funds" of the CSLFRF section of the 2023 OMB *Compliance Supplement* (referred to herein as "Requirements for an Alternative CSLFRF Compliance Examination Engagement") during the year ended June 30, 2023. Management of the City is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA; the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and in the "Requirements for an Alternative CSLFRF Compliance Examination Engagement." Those standards and requirements require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the specified requirements referenced above during the year ended June 30, 2023.

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

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the City's compliance with the specified requirements and any other instances that warrant the attention of those charged with governance. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on the City's compliance with the specified requirements and not for the purpose of expressing an opinion on the internal control over the specified requirements or on compliance and other matters; accordingly, we express no such opinions. The results of our tests disclosed no matters that are required to be reported under *Government Auditing Standards*.

**Intended Purpose**

The purpose of this examination report is solely to express an opinion on whether the City complied, in all material respects, with the specified requirements referenced above during the year ended June 30, 2023. Accordingly, this report is not suitable for any other purpose.

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky

December 11, 2023