

CITY OF MIDWAY, KENTUCKY

FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND INDEPENDENT
AUDITOR'S REPORT

JUNE 30, 2018

CITY OF MIDWAY, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Midway, Kentucky

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, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, the City adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement 85, *Omnibus 2017*, and Statement 86, *Certain Debt Extinguishment Issues*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, pension schedules, OPEB schedules, and budgetary comparison information on pages 40 – 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Midway, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Slicks, Carter + Associates, CPAs, P. S. C.

Bardstown, Kentucky
December 20, 2018

CITY OF MIDWAY, KENTUCKY

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 925,822	\$ 70,288	\$ 996,110
Receivables:			
Taxes, licenses, and fees, net	213,810	-	213,810
Accounts receivable, net	10,639	58,586	69,225
Prepaid expenses	60	-	60
Total current assets	<u>1,150,331</u>	<u>128,874</u>	<u>1,279,205</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	130,647	130,647
Investments	485,356	-	485,356
Surplussed asset, sewer plant	-	60,000	60,000
Non-depreciable capital assets	6,300	50,000	56,300
Depreciable capital assets, net	931,739	4,486,087	5,417,826
Total noncurrent assets	<u>1,423,395</u>	<u>4,726,734</u>	<u>6,150,129</u>
TOTAL ASSETS	<u>\$ 2,573,726</u>	<u>\$ 4,855,608</u>	<u>\$ 7,429,334</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 118,414	\$ 56,974	\$ 175,388
OPEB related items	31,794	15,298	47,092
Total deferred outflows	<u>\$ 150,208</u>	<u>\$ 72,272</u>	<u>\$ 222,480</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 20,434	\$ 39,456	\$ 59,890
Deposits	13,369	1,850	15,219
Deferred revenues	-	44,186	44,186
Accrued interest payable	-	623	623
Compensated absences, current	6,064	-	6,064
Loan payable, current	24,652	-	24,652
Notes payable, current	-	62,522	62,522
Total current liabilities	<u>64,519</u>	<u>148,637</u>	<u>213,156</u>
Noncurrent liabilities:			
Compensated absences, long-term	34,361	1,161	35,522
Loan payable, long-term	16,706	-	16,706
Notes payable, long-term	-	324,104	324,104
Net pension liability - CERS	332,155	159,814	491,969
Net OPEB liability - CERS	114,080	54,890	168,970
Total noncurrent liabilities	<u>497,302</u>	<u>539,969</u>	<u>1,037,271</u>
TOTAL LIABILITIES	<u>\$ 561,821</u>	<u>\$ 688,606</u>	<u>\$ 1,250,427</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related items	\$ 46,467	\$ 22,358	\$ 68,825
OPEB related items	5,973	2,873	8,846
Total deferred inflows	<u>\$ 52,440</u>	<u>\$ 25,231</u>	<u>\$ 77,671</u>
NET POSITION			
Net investment in capital assets	\$ 896,681	\$ 4,209,461	\$ 5,106,142
Restricted for:			
Debt service	-	130,647	130,647
Municipal Aid Road Fund	57,106	-	57,106
Unrestricted	<u>1,155,886</u>	<u>(126,065)</u>	<u>1,029,821</u>
TOTAL NET POSITION	<u>\$ 2,109,673</u>	<u>\$ 4,214,043</u>	<u>\$ 6,323,716</u>

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

CITY OF MIDWAY, KENTUCKY

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

Programs/Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 384,569	\$ -	\$ 11,020	\$ -	\$ (373,549)	\$ -	\$ (373,549)
Public safety - police	100,000	-	-	-	(100,000)	-	(100,000)
Public safety - fire	116,891	-	11,000	-	(105,891)	-	(105,891)
Parks and recreation	24,578	-	1,628	-	(22,950)	-	(22,950)
Sanitation	120,574	119,694	-	-	(880)	-	(880)
Streets	211,001	9,676	33,801	-	(167,524)	-	(167,524)
Cemetery	157,896	-	-	-	(157,896)	-	(157,896)
Economic development	259,733	-	-	194,800	(64,933)	-	(64,933)
Interest on long-term debt	1,095	-	-	-	(1,095)	-	(1,095)
Total governmental activities	1,376,337	129,370	57,449	194,800	(994,718)	-	(994,718)
Business-type activities:							
Water and sewer utilities	859,694	750,443	-	-	-	(109,251)	(109,251)
Total primary government	\$ 2,236,031	\$ 879,813	\$ 57,449	\$ 194,800	(994,718)	(109,251)	(1,103,969)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					122,988	-	122,988
Franchise					79,482	-	79,482
Utility					11,268	-	11,268
Occupational					662,524	-	662,524
Insurance premium					149,287	-	149,287
Motor vehicle					14,573	-	14,573
Licenses, fees, and permits					25,235	84	25,319
Investment income					21,611	-	21,611
Miscellaneous					36,078	-	36,078
Total general revenues					1,123,046	84	1,123,130
Change in Net Position					128,328	(109,167)	19,161
Net Position, Beginning of Year (as previously reported)					2,063,670	4,363,782	6,427,452
Prior Period Adjustments					(82,325)	(40,572)	(122,897)
Net Position, Beginning of Year (Restated)					1,981,345	4,323,210	6,304,555
Net Position, End of Year					\$ 2,109,673	\$ 4,214,043	\$ 6,323,716

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

CITY OF MIDWAY, KENTUCKY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General Fund	Economic Development Fund	Total Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 838,684	\$ -	\$ 87,138	\$ 925,822
Investments	485,356	-	-	485,356
Taxes, licenses, and fees receivable, net	210,662	-	3,148	213,810
Other accounts receivable, net	10,639	-	-	10,639
Prepaid expenses	60	-	-	60
Total current assets	\$ 1,545,401	\$ -	\$ 90,286	\$ 1,635,687
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts payable	\$ 20,434	\$ -	\$ -	\$ 20,434
Accrued liabilities	13,369	-	-	13,369
Total liabilities	33,803	-	-	33,803
<u>FUND BALANCES</u>				
Nonspendable	60	-	-	60
Restricted	-	-	57,106	57,106
Committed	563,127	-	33,180	596,307
Assigned	5,004	-	-	5,004
Unassigned	943,407	-	-	943,407
Total fund balances	1,511,598	-	90,286	1,601,884
Total liabilities and fund balances	\$ 1,545,401	\$ -	\$ 90,286	\$ 1,635,687

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

CITY OF MIDWAY, KENTUCKY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balances of governmental funds		\$ 1,601,884
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the respective governmental funds:		
Cost of capital assets	\$ 5,320,553	
Accumulated depreciation	<u>(4,382,514)</u>	938,039
Deferred outflows of resources and deferred inflows of resources related to the City's proportionate share of CERS:		
Deferred outflows of resources - pension / OPEB related	150,208	
Deferred inflows of resources - pension / OPEB related	<u>(52,440)</u>	97,768
Long-term liabilities, including loan payable, are not due and payable in the current period; therefore, they are not reported in governmental funds:		
Compensated absences	(40,425)	
Net pension liability	(332,155)	
Net OPEB liability	(114,080)	
Loan payable	<u>(41,358)</u>	<u>(528,018)</u>
Net position of governmental activities		<u><u>\$ 2,109,673</u></u>

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

CITY OF MIDWAY, KENTUCKY

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

	General Fund	Economic Development Fund	Non-Major Governmental Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property taxes, levied for general purposes	\$ 122,988	\$ -	\$ -	\$ 122,988
Franchise	79,482	-	-	79,482
Utility	11,268	-	-	11,268
Occupational	662,524	-	-	662,524
Insurance premium	149,287	-	-	149,287
Motor vehicle	14,573	-	-	14,573
Licenses, fees, and permits	25,235	-	-	25,235
Intergovernmental revenues	23,648	194,800	33,801	252,249
Charges for services and rents	119,694	-	9,676	129,370
Investment income	21,611	-	-	21,611
Miscellaneous	36,079	-	-	36,079
Total revenues	<u>1,266,389</u>	<u>194,800</u>	<u>43,477</u>	<u>1,504,666</u>
EXPENDITURES				
Current:				
General government	331,161	-	-	331,161
Public safety - police	100,000	-	-	100,000
Public safety - fire	62,412	-	-	62,412
Sanitation	120,574	-	-	120,574
Parks and recreation	21,549	-	-	21,549
Streets	154,700	-	30,007	184,707
Cemetery	109,714	-	27,962	137,676
Economic development	-	259,733	-	259,733
Capital outlay	100,521	-	-	100,521
Debt service - principal	-	-	24,167	24,167
Debt service - interest	-	-	1,095	1,095
Total expenditures	<u>1,000,631</u>	<u>259,733</u>	<u>83,231</u>	<u>1,343,595</u>
Excess (deficiency) of revenues over (under) expenditures	<u>265,758</u>	<u>(64,933)</u>	<u>(39,754)</u>	<u>161,071</u>
OTHER FINANCING SOURCES (USES)				
Investment reclassified as available resources	423,358	-	-	423,358
Transfers in	-	64,933	58,587	123,520
Transfers out	<u>(123,520)</u>	<u>-</u>	<u>-</u>	<u>(123,520)</u>
Net other financing sources (uses)	<u>299,838</u>	<u>64,933</u>	<u>58,587</u>	<u>423,358</u>
Net change in fund balances	565,596	-	18,833	584,429
Fund balances - beginning of year (as previously reported)	<u>946,002</u>	<u>-</u>	<u>71,453</u>	<u>1,017,455</u>
Fund balances - end of year	<u>\$ 1,511,598</u>	<u>\$ -</u>	<u>\$ 90,286</u>	<u>\$ 1,601,884</u>

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

CITY OF MIDWAY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net change in fund balances - governmental funds		\$ 584,429
Amounts reported for governmental activities 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.		
Capital outlays are reported as an expenditure in the fund financial statements but are capitalized in the government-wide financial statements	\$ 100,521	
Depreciation is reported in the government-wide financial statements	<u>(108,714)</u>	(8,193)
Long-term investments were reclassified as available resources and presented as an other financing source for governmental funds		(423,358)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long term debt on the statement of net position and interest expense on the statement of activities. The difference is the amount		
Principal debt payments		24,167
Some items reported in the Statement of Activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
These activities include:		
Pension expense related to changes in the net pension liability and the net changes in deferred inflows and deferred outflows related to CERS	(30,933)	
OPEB expense related to changes in the net OPEB liability and the net changes in deferred inflows and deferred outflows related to CERS	(5,934)	
Changes in compensated absences	<u>(11,850)</u>	<u>(48,717)</u>
Change in net position of governmental activities		<u>\$ 128,328</u>

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

CITY OF MIDWAY, KENTUCKY

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2018

	Sewer Fund	Water Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 10,401	\$ 59,887	\$ 70,288
Accounts receivable, net	22,644	35,942	58,586
Due from Sewer fund	-	8,389	8,389
Total current assets	<u>33,045</u>	<u>104,218</u>	<u>137,263</u>
Noncurrent assets:			
Restricted cash and cash equivalents	130,647	-	130,647
Surplused asset, sewer plant	60,000	-	60,000
Non-depreciable capital assets	50,000	-	50,000
Depreciable capital assets, net	3,560,525	925,562	4,486,087
Total noncurrent assets	<u>3,801,172</u>	<u>925,562</u>	<u>4,726,734</u>
TOTAL ASSETS	<u>\$ 3,834,217</u>	<u>\$ 1,029,780</u>	<u>\$ 4,863,997</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 28,874	\$ 28,100	\$ 56,974
OPEB related items	7,753	7,545	15,298
Total deferred outflows	<u>\$ 36,627</u>	<u>\$ 35,645</u>	<u>\$ 72,272</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 6,268	\$ 33,188	\$ 39,456
Accrued liabilities	-	1,850	1,850
Due to Water Fund	8,389	-	8,389
Customer deposits	1,444	42,742	44,186
Accrued interest payable	623	-	623
Notes payable, current	8,891	53,631	62,522
Total current liabilities	<u>25,615</u>	<u>131,411</u>	<u>157,026</u>
Noncurrent liabilities:			
Compensated absences	1,161	-	1,161
Notes payable, long-term	187,995	136,109	324,104
Net pension liability	80,992	78,822	159,814
Net OPEB liability	27,818	27,072	54,890
Total noncurrent liabilities	<u>297,966</u>	<u>242,003</u>	<u>539,969</u>
TOTAL LIABILITIES	<u>\$ 323,581</u>	<u>\$ 373,414</u>	<u>\$ 696,995</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related items	\$ 11,330	\$ 11,028	22,358
OPEB related items	1,456	1,417	2,873
Total deferred inflows	<u>\$ 12,786</u>	<u>\$ 12,445</u>	<u>\$ 25,231</u>
NET POSITION			
Net investment in capital assets	\$ 3,473,639	\$ 735,822	\$ 4,209,461
Restricted for:			
Debt service	130,647	-	130,647
Capital outlay	-	-	-
Unrestricted	<u>(69,809)</u>	<u>(56,256)</u>	<u>(126,065)</u>
TOTAL NET POSITION	<u>\$ 3,534,477</u>	<u>\$ 679,566</u>	<u>\$ 4,214,043</u>

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

CITY OF MIDWAY, KENTUCKY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	Sewer Fund	Water Fund	Total Fund
OPERATING REVENUES			
Charges for services	\$ 290,228	\$ 459,111	\$ 749,339
Miscellaneous income	973	131	1,104
TOTAL OPERATING REVENUES	291,201	459,242	750,443
OPERATING EXPENSES:			
Salaries, wages, benefits, and related taxes	70,559	68,785	139,344
Purchases of water	-	363,529	363,529
Repairs and maintenance	20,204	13,347	33,551
Insurance	4,741	4,741	9,482
Utilities	68,319	2,235	70,554
General administrative, supplies, and services	39,869	15,268	55,137
Depreciation expense	141,775	27,892	169,667
TOTAL OPERATING EXPENSES	345,467	495,797	841,264
OPERATING INCOME (LOSS)	(54,266)	(36,555)	(90,821)
NONOPERATING REVENUES (EXPENSES):			
Investment income	84	-	84
Interest expense	(12,543)	(5,887)	(18,430)
TOTAL NONOPERATING REVENUES (EXPENSES)	(12,459)	(5,887)	(18,346)
CHANGE IN NET POSITION	(66,725)	(42,442)	(109,167)
NET POSITION, beginning of year	3,622,089	741,693	4,363,782
Prior period restatement	(20,887)	(19,685)	(40,572)
NET POSITION, beginning of year, restated	3,601,202	722,008	4,323,210
NET POSITION, end of year	\$ 3,534,477	\$ 679,566	\$ 4,214,043

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

CITY OF MIDWAY, KENTUCKY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 296,693	\$ 477,866	\$ 774,559
Cash payments to suppliers for goods and services	(127,892)	(398,664)	(526,556)
Cash payments to employees for services	(63,617)	(60,724)	(124,341)
Net cash provided by (used in) operating activities	<u>105,184</u>	<u>18,478</u>	<u>123,662</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(49,602)	(8,624)	(58,226)
Principal paid on long-term debt	(131,650)	(8,651)	(140,301)
Interest paid on long-term debt	(12,990)	(5,887)	(18,877)
Net cash used in capital and related financing activities	<u>(194,242)</u>	<u>(23,162)</u>	<u>(217,404)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	84	-	84
Net cash provided by investing activities	<u>84</u>	<u>-</u>	<u>84</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(88,974)	(4,684)	(93,658)
CASH AND CASH EQUIVALENTS, beginning of year	230,022	64,571	294,593
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 141,048</u>	<u>\$ 59,887</u>	<u>\$ 200,935</u>
Classified as:			
Current assets - cash and cash equivalents	\$ 10,401	\$ 59,887	\$ 70,288
Restricted assets - cash and cash equivalents	130,647	-	130,647
Total	<u>\$ 141,048</u>	<u>\$ 59,887</u>	<u>\$ 200,935</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating loss	\$ (54,266)	\$ (36,555)	\$ (90,821)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	141,775	27,892	169,667
Change in assets, liabilities, deferred inflows and deferred outflows:			
(Increase) decrease in accounts receivable	4,833	15,077	19,910
(Increase) decrease in deferred outflows - CERS	(19,421)	(19,429)	(38,850)
Increase (decrease) in accounts payable	(3,148)	9,593	6,445
Increase (decrease) in accrued liabilities	-	(748)	(748)
Increase (decrease) in interfund accounts	8,389	(8,389)	-
Increase (decrease) in deposits	659	3,547	4,206
Increase (decrease) in compensated absences	1,161	-	1,161
Increase (decrease) in deferred inflows - CERS	5,972	6,022	11,994
Increase (decrease) in net pension liability	13,937	15,625	29,562
Increase (decrease) in net OPEB liability	5,293	5,843	11,136
Net cash provided by (used in) operating activities	<u>\$ 105,184</u>	<u>\$ 18,478</u>	<u>\$ 123,662</u>
SCHEDULE OF NON-CASH TRANSACTIONS:			
Cash paid for interest	\$ 12,990	\$ 5,887	\$ 18,877
CERS Pensions / OPEB	<u>\$ 5,781</u>	<u>\$ 8,061</u>	<u>\$ 13,842</u>

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

CITY OF MIDWAY, KENTUCKY

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	<u>Cemetery - Perpetual Care and Maintenance Fund</u>
ASSETS	
Investments	\$ 174,574
Total Assets	<u>\$ 174,574</u>
 NET POSITION	
Held in Trust	\$ 174,574
Total Net Position	<u>\$ 174,574</u>

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

CITY OF MIDWAY, KENTUCKY

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Cemetery - Perpetual Care and Maintenance Fund</u>
Additions	
Deposits from sales of graves	\$ 2,119
Investment income	2,433
Realized gains on investments	10,360
Net change in unrealized gains (losses)	<u>2,759</u>
Total additions	<u>17,671</u>
Deductions	
Distribution to the General Fund	17,867
Investment fees	<u>3,399</u>
	21,266
Change in Net Position	(3,595)
Net Position, beginning of year	<u>\$ 178,169</u>
Net Position, end of year	<u><u>\$ 174,574</u></u>

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

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – NATURE OF ORGANIZATION AND OPERATIONS

The City of Midway, Kentucky (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 of Midway, Kentucky (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.

The Reporting Entity

The financial statements of the City of Midway, Kentucky include the funds, account groups and entities over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by section 2100 of the Government Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, was determined based on the City's ability to significantly influence operation, select the governing body, and participate in fiscal management and the scope of public service.

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

The City's *government-wide financial statements* provide both short-term and long-term information about the City's overall financial status. *Fund financial statements* focus on the individual activities of City government, reporting the City's operations in more detail than the government-wide financial statements.

Government-wide Financial Statements

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position.

The Statement of Activities presents changes in 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. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, however, those transactions between governmental and business-type activities have not been eliminated.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following governmental funds:

General Fund: The General Fund is the City of Midway, Kentucky's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This is a major fund of the City.

Special Revenue – Economic Development Fund - This 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 - This 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 cemetery.

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 improvement of the City's roads and sidewalks. The primary sources of revenue are intergovernmental grants.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in 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 Purpose 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 into the governmentwide statements.

Proprietary Fund Financial Statements

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 noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents 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 - This fund is used to account for revenues and expenditures related to sewer services.

Water Fund - This fund is used to account for 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 are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except for net profits revenues for which a 90 day period is used. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (matured).

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services.

Operating expenses for proprietary funds include the cost of operations and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgetary Data

Annual budgets are adopted on a basis consistent with Section 91A.030 of the Kentucky Revised Statutes (KRS) for the general, enterprise fund and the special revenue funds. Budgets for all government activities and business-type activities are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

On or before June 30th of each year, the Mayor must present the proposed budget to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than July 1st of the new fiscal year.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations can be made within a City department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the governing council. Certain supplemental budgetary appropriations were made during the year, which were not considered material. Budgeted amounts as amended, in the financial statements are as adopted by ordinances of the City.

Encumbrance accounting is a system under which purchase orders, contracts and other commitments for the expenditures of City monies are recorded as a reservation of budget. The City does not use the encumbrance system of accounting to record and track budgeted expenses.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Restricted Cash and Cash Equivalents

Restricted assets include those monies reserved for revenue bond debt and loans with reserve covenants.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The City holds eligible investments as permitted under State law. Investments consisted entirely of certificates of deposit at June 30, 2018 with insignificant early redemption penalties. As such, the certificates of deposit are all classified as cash and cash equivalents.

Prepaid Expenses

Payments made that will benefit periods beyond June 30, 2018 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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 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 receivable 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 a credit to accounts receivable.

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.

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. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

CITY OF MIDWAY, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements 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 one thousand dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Estimated Lives
Buildings	25 - 50 Years
Improvements	10 - 50 Years
Machinery, furniture, and equipment	5 - 10 Years
Water and sewer systems	25 - 50 Years

The net book value of a sewer plant declared surplus in a prior year is not depreciated.

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.

Accrued Liabilities and Long-Term Obligations

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

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

Compensated Absences

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

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable 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.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 government's 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 authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor 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.

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 the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use 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.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions and Other Post-Employment Benefits (OPEB)

For purposes of measuring the net pension / OPEB liability, deferred outflows of resources and deferred inflows of resources, and pension / OPEB expense, information about the City's participation in the County Employees Retirement System (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable on accordance with the benefit terms of the CERS plan of KRS. The net pension and net OPEB liabilities were measured at June 30, 2017.

Use of Estimates

The preparation of 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.

Property Taxes

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 are due 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 net 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.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial statements.

Recently Issued And Adopted Accounting Principles

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and required a restatement of the City's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

Recently Issued Accounting Principles

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement is effective for periods beginning after December 15, 2018. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

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 April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

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

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

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2018, the City's cash and cash equivalents balances include deposits held in checking accounts, savings accounts, and certificate of deposits.

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, 2018, \$867,115 of the government's bank balance of \$1,175,827 was exposed to custodial credit risk. The full amount exposed to custodial credit risk was collateralized by securities held by the pledging financial institution.

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

The City's investments as of June 30, 2018 are as follows:

Governmental Funds:

Governmental Funds:

Certificates of deposit	<u>\$ 485,356</u>
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Fiduciary Funds:

Money Market Mutual Funds	<u>\$ 174,574</u>
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Credit Risk: Under KRS 66.480, the City is permitted to invest in the following:

- o 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
- o obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States Government agency
- o obligations of any corporation of the United States Government
- o 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)
- o 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
- o bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- o commercial paper rated in the highest category by a nationally recognized rating agency
- o bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities
- o 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 FINANCIAL STATEMENTS JUNE 30, 2018

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

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

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

NOTE 4 – HEALTH INSURANCE ACCOUNT

During 2010, the Council voted to open an account at United Bank in which to deposit a portion of each employee's deductible on health insurance. Disbursements are made out of the account when employees have health care costs subject to the deductible. The City reimburses the plan based on reimbursement activity upon receiving an invoice.

This balance is not included in the financial statements due to the fact that the City does not administer the fund; the funds are held in a cafeteria plan that meets the specific requirements and regulations of section 125 of the Internal Revenue Code. The balance of this account at June 30, 2018 was \$12,350. Febco, Inc. is the third party administrator. Employees request reimbursements from Febco, Inc. Febco Inc, then sends a monthly report to the City showing all reimbursements made and for which employee. The City then deposits additional monies as needed into the United Bank account. During fiscal year 2018, there were no deposits made by the City into the United Bank account.

NOTE 5 – NONCURRENT RECEIVABLE

The City has entered into an agreement with the Versailles-Woodford County Economic Development Authority ("the Authority") whereby the City has agreed to pay one-half of any interest expense incurred by the Authority in the acquisition and development of an industrial park. The City has also agreed to guarantee payment of these loans. The Authority agreed to reimburse any interest or other cost paid by the City with proceeds from sales of industrial park lots. As of June 30, 2018, the Authority owes the City \$681,663, which was recorded as a noncurrent receivable. The last payment received from the Authority was in 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 is it 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 in fiscal year 2013.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2018 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land, general government	\$ 6,300	\$ -	\$ -	\$ 6,300
Capital assets being depreciated:				
General government				
Buildings	511,012	9,076		520,088
Office furnishings and equipment	56,264			56,264
Fixtures	33,980			33,980
Vehicles	24,827			24,827
Leased equipment	106,834			106,834
Infrastructure	3,624,268			3,624,268
Cemetery				
Equipment	65,992	2,619		68,611
Improvements	26,130			26,130
Fire Department				
Equipment	140,721	4,971		145,692
Fire trucks	317,997			317,997
Hydrants	12,992			12,992
Park				
Equipment	43,172	20,000		63,172
Municipal Streets				
Equipment	15,681	3,100	-	18,781
Signs	6,116	-	-	6,116
Infrastructure	227,746	60,755	-	288,501
Total	<u>5,213,732</u>	<u>100,521</u>	<u>-</u>	<u>5,314,253</u>
Less: accumulated depreciation	<u>(4,273,800)</u>	<u>(108,714)</u>	<u>-</u>	<u>(4,382,514)</u>
Total depreciable capital assets, net	<u>939,932</u>	<u>(8,193)</u>	<u>-</u>	<u>931,739</u>
Governmental activities capital assets, net	<u>\$ 946,232</u>	<u>\$ (8,193)</u>	<u>\$ -</u>	<u>\$ 938,039</u>

Depreciation expense attributable to governmental activities was charged to the governmental functions/programs per the statement of activities as follows:

General government	\$ 39,066
Public safety - Fire	54,479
Streets	7,429
Cemetery	5,229
Parks	2,511
	<u>108,714</u>
Total depreciation	<u>\$ 108,714</u>

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Capital assets being depreciated:				
<u>Sewer Operations</u>				
Lines	824,956	-	-	824,956
Equipment	366,003	41,077	-	407,080
Sewer plant	4,609,277	8,524	-	4,617,801
Vehicles	44,694	-	-	44,694
<u>Water Operations</u>				
Lines	564,489	8,625	-	573,114
Equipment	282,010	-	-	282,010
Water tower	695,866	-	-	695,866
Total	<u>7,387,295</u>	<u>58,226</u>	<u>-</u>	<u>7,445,521</u>
Less: accumulated depreciation				
Sewer	(2,192,231)	(141,775)	-	(2,334,006)
Water	(597,536)	(27,892)	-	(625,428)
	<u>(2,789,767)</u>	<u>(169,667)</u>	<u>-</u>	<u>(2,959,434)</u>
Total depreciable capital assets, net	<u>4,597,528</u>	<u>(111,441)</u>	<u>-</u>	<u>4,486,087</u>
Business-type activities capital assets, net	<u>\$ 4,647,528</u>	<u>\$ (111,441)</u>	<u>\$ -</u>	<u>\$ 4,536,087</u>

Depreciation expense attributable to business-type activities was charged to specific functions per the statement of activities as follows:

Sewer	141,775
Water	<u>27,892</u>
Total depreciation	<u>\$ 169,667</u>

Capital Grant Projects:

The City has multiple grants pending or anticipated with the Kentucky Infrastructure Authority (KIA) to upgrade and improve the current water and sewer systems of the City.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM OBLIGATIONS

Long-term debt of the City consists of the following as of June 30, 2018:

	<u>Interest rate</u>	<u>Original Principal</u>	<u>June 30, 2018 Balance</u>
Governmental activities:			
Fire truck loan	1.980%	\$ 120,089	\$ 41,358
Total governmental activities		\$ 120,089	\$ 41,358
Business-type activities:			
KIA restricted loan	1.000%	\$ 648,539	\$ -
KIA revolving loan	4.375%	843,714	196,885
KIA F14-052	2.750%	215,000	189,741
Total business-type activities		\$ 1,707,253	\$ 386,626

Annual debt service requirements to maturity are as follows:

	Governmental activities			Business-type activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 24,652	\$ 596	\$ 25,248	\$ 62,522	\$ 12,134	\$ 74,656
2020	16,706	124	16,830	64,826	9,830	74,656
2021	-	-	-	67,215	7,441	74,656
2022	-	-	-	39,389	4,963	44,352
2023	-	-	-	9,918	4,131	14,049
2024 - 2028	-	-	-	53,860	16,380	70,240
2029 - 2033	-	-	-	61,740	8,498	70,238
2034 - 2037	-	-	-	27,156	940	28,096
	<u>\$ 41,358</u>	<u>\$ 720</u>	<u>\$ 42,078</u>	<u>\$ 386,626</u>	<u>\$ 64,317</u>	<u>\$ 450,943</u>

The total interest incurred for the year ended June 30, 2018 was \$19,525, with \$1,095 attributable to governmental funds, \$12,543 for the Sewer Fund and \$5,887 for the Water Fund.

During the year ended June 30, 2018, and in prior years, long-term liabilities were liquidated with revenues from the City's Enterprise Fund-Sewer System with the exception of the fire truck loan that will be liquidated with revenues from the City's General Fund.

The City has a Line of Credit with United Bank and Trust Company for \$100,000. There were no draws on the line of credit during the year ended June 30, 2018. The maturity date of the line of credit is June 30, 2018. There is no balance owed on the line of credit as of June 30, 2018.

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

The City must deposit \$7,000 annually into this fund for ten (10) years. These funds are to be used for extraordinary or unbudgeted expenses associated with the project. The balance in the cash account as of June 30, 2018 is \$78,186 (sinking fund). The balance in the depreciation cash account at June 30, 2018 is \$52,461.

The total of \$130,647 is presented as restricted cash on the Sewer Fund's Statement of Net Position.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)

Long-term liability activity for the year ending June 30, 2018 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due in one year</u>
Governmental activities:					
Fire truck loan	\$ 65,525	\$ -	\$ (24,167)	\$ 41,358	\$ 24,652
Business-type activities:					
KIA restricted loan	\$ 80,000	\$ -	\$ (80,000)	\$ -	\$ -
KIA revolving loan	248,535	-	(51,650)	196,885	8,891
KIA F14-052	198,392	-	(8,651)	189,741	53,631
Total business-type activities	\$ 526,927	\$ -	\$ (140,301)	\$ 386,626	\$ 62,522

Loan Covenants

The loan ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue loan overages. Funds are held in the reserve accounts at June 30, 2018, as required by the revenue loan ordinances.

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

Sewer System Revenue Account

- a. The City, in accordance with Section 7 of Ordinance 610.11, for accumulation of monies into the Loan Sinking Account, Depreciation Account and Operation and Maintenance Account.
- b. Sewer System Bond and Interest Account: Amounts sufficient to pay the current principal and interest requirements of the outstanding revenue loan are to be set aside monthly in this account. The monthly payment is to be equal to one-sixth of the next interest payment one-twelfth of the next principal payment.
- c. Sewer System Depreciation Account: Monthly deposits of not less than \$455 of the funds remaining in the Revenue Account are to be made into this account so long as (i) any loan remains outstanding and unpaid, and (ii) the unexpended balance of the Depreciation Account is less than \$55,000. The City further agrees to deposit the proceeds from the sale of any equipment no longer needed or usable, all fees or charges collected from potential customers and any proceeds received from property damage insurance. These funds are to be used for paying the cost of unusual or extraordinary maintenance, repairs, renewals, replacements and the cost of constructing additions and improvements to the system, which will either enhance its revenue-producing capacity or provide a higher degree of service.
- d. Sewer System Operation and Maintenance Account. The Loan Ordinance established this account to be used to pay operating expenses, and accordingly, the account reflects in the financial statements as unrestricted. The Loan Ordinance provides for monthly deposits from the Revenue Account equal to the anticipated expenses of operating and maintaining the system for the following month, and for accrual of an operation and maintenance reserve equal to the anticipated requirements for a two-month period pursuant to the annual budget.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)

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 statement.

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

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

NOTE 8 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2018, the City had \$60 in nonspendable fund balance related to prepaid expenses.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018, the City had \$57,106 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, 2018 of \$563,127 (\$485,356 for emergency reserves; \$77,771 for the Rau building, and \$33,180 for the cemetery).

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, 2018. 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 nonspendable 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, 2018, the City had \$5,004 assigned for parks.

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

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

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – RETIREMENT PLAN

General information about the County Employees Retirement System Non-Hazardous (“CERS Non-Hazardous”)

The City participates in a statewide, cost-sharing, multiple-employer, public employers’ defined benefit pension plan on behalf of City employees. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability, and death benefits to plan members. Under the provision of KRS 61.565, the plan is administered by the Board of Trustees of Kentucky Retirement Systems and funded by contributions from participants and employers and by investment earnings.

Plan Descriptions

The City participates in the County Employees’ Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. The CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS’ report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions

For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. 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 preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The City’s contractually required contribution rate for the year ended June 30, 2018, was 14.48 percent of annual creditable compensation. Contributions to the pension plan from the City were \$31,807.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – RETIREMENT PLAN (CONTINUED)

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

At June 30, 2018, the City reported a liability of \$491,969 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2017, the City's proportion was 0.008405 percent, which was an increase of .00039 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the City recognized pension expense of \$42,366. At June 30, 2018, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 610	\$ 12,488
Changes in actuarial assumptions	90,784	-
Changes between projected and actual investment earnings	38,963	32,878
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,224	23,459
Contributions paid to CERS subsequent to the measurement date	31,807	-
	<u>\$ 175,388</u>	<u>\$ 68,825</u>

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$31,807 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>June 30:</u>	<u>Pension Expense Amount</u>
2019	\$ 26,959
2020	35,199
2021	18,915
2022	(6,317)
	<u>\$ 74,756</u>

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

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

Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013 and adopted by the Board on December 4, 2014.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18%	5.97%
International Equity	18%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
	<u>100%</u>	

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – RETIREMENT PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

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

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
City's proportionate share of net pension liability	\$ 620,481	\$ 491,969	\$ 384,472

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT PLAN

The City participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky, which is a cost-sharing multiple-employer defined benefit plan. The CERS provides other post-employment benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. CERS' report may be obtained at www.kyret.ky.gov.

Plan description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Benefits provided – For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Contributions – For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. 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 preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The City's contractually required contribution rate for the year ended June 30, 2018, was 4.70 percent of annual creditable compensation. Contributions to the pension plan from the City were \$10,324.

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

At June 30, 2018, the City reported a liability of \$168,970 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2017, the City's proportion was 0.008405 percent. The net OPEB liability increased \$36,435 from the City proportionate share measured at June 30, 2016.

For the year ended June 30, 2018, the City recognized OPEB expense of \$7,827. At June 30, 2018, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 469
Changes in actuarial assumptions	36,768	-
Changes between projected and actual investment earnings	-	7,984
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	393
Contributions paid to CERS subsequent to the measurements date	10,324	-
	\$ 47,092	\$ 8,846

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$10,324 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City’s OPEB expense as follows:

Year Ending <u>June 30:</u>	Pension Expense <u>Amount</u>
2019	\$ 4,804
2020	4,804
2021	4,804
2022	4,804
2023	6,800
Thereafter	<u>1,906</u>
	<u>\$ 27,922</u>

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

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05%, average
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	3.56%
Discount Rate	5.83%

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 — June 30, 2013.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS' investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18%	5.97%
International Equity	18%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
	<u>100%</u>	

The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

Sensitivity Of The City's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.83%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.83%) or 1-percentage-point higher (6.83%) than the current rate:

	1% Decrease 4.83%	Current Discount Rate 5.83%	1% Increase 6.83%
City's proportionate share of net pension liability	\$ 215,004	\$ 168,970	\$ 130,661

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates

The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease	Current Trend Rate	1% Increase
City's proportionate share of net pension liability	\$ 129,608	\$ 168,970	\$ 220,136

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

DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k). The plan is administered by the Kentucky Public Employees' Deferred Compensation Authority. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

NOTE 11 – RISK MANAGEMENT

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

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

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

CITY OF MIDWAY, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 12 – CONTINGENCIES AND COMMITMENTS

Litigation

The City is party to pending civil suits that normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of these proceedings cannot be predicted, due to the insurance coverage maintained by the City, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal grants

The City participates in a number of federally assisted grant programs, principal of which are Federal Emergency Management Agency Grants, Community Development Block Grants, and USDA Rural Development Water and Waste Water Program Loans and Grants. These programs are subject to program compliance audits by the grantors or their representatives, and the audits of these programs include the year ended June 30, 2018.

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 \$194,000 from the state during fiscal year 2018 and matched \$64,933 from the City's general fund. The total \$259,733 was submitted to the private Company.

The following amounts are due under the grant agreement:

Year ended June 30:	
2019	66,667
2020	85,333
2021	93,333
2022	139,734
	<hr/>
	\$ 385,067
	<hr/>

NOTE 13 – RELATED PARTY TRANSACTIONS

In a governmental entity, related parties include members of the governing body (City Council Members, etc.), board members, administrative officials (mayor, city clerk, etc.), immediate family members of the preceding individuals and affiliated governmental units that are not included in the financial statements as part of the reporting entity such as water and sewer systems. There are no related party transactions to be disclosed.

CITY OF MIDWAY, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – TRANSFERS

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

<u>From fund</u>	<u>To fund</u>	<u>Amount</u>
General Fund	Municipal Aid Fund	\$ 662
General Fund	Debt Service Fund	25,262
General Fund	Cemetery Fund	18,803
General Fund	Economic Development Fund	64,933

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

During fiscal year 2018, the District adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This required a restatement to beginning net position as follows for the government-wide financial statements:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Net position, as previously reported	\$ 2,063,670	\$ 4,363,782	\$ 6,427,452
Prior period adjustments:			
Net OPEB liability at June 30, 2017	(88,781)	(43,754)	(132,535)
Deferred outflows - OPEB at June 30, 2017	6,456	3,182	9,638
Net position of governmental activities, as restated	<u>\$ 1,981,345</u>	<u>\$ 4,323,210</u>	<u>\$ 6,304,555</u>

This required a restatement to beginning net position as follows for the fund financial statements:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Net position of business-type activities, as previously reported	\$ 3,622,089	\$ 741,693	\$ 4,363,782
Prior period adjustments:			
Net OPEB liability at June 30, 2017	(22,525)	(21,229)	(43,754)
Deferred outflows - OPEB at June 30, 2017	1,638	1,544	3,182
Net position, as restated	<u>\$ 3,601,202</u>	<u>\$ 722,008</u>	<u>\$ 4,323,210</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MIDWAY, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET-TO-
ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Amended Budget	Actual
REVENUES			
Property taxes, levied for general purposes	\$ 115,000	\$ 115,000	\$ 122,988
Franchise	-	-	79,482
Utility	-	-	11,268
Occupational	894,347	894,347	662,524
Insurance premium	168,720	168,720	149,287
Motor vehicle	-	-	14,573
Licenses, fees, and permits	-	-	25,235
Intergovernmental revenues	-	-	23,648
Charges for services and rents	134,000	134,000	119,694
Investment income	-	-	21,611
Miscellaneous	-	-	36,079
Total revenues	<u>1,312,067</u>	<u>1,312,067</u>	<u>1,266,389</u>
EXPENDITURES			
Current:			
General government	443,909	443,909	331,161
Public safety - police	100,000	100,000	100,000
Public safety - fire	111,762	111,762	62,412
Sanitation	113,200	113,200	120,574
Parks and recreation	45,000	45,000	21,549
Streets	216,295	216,295	154,700
Cemetery	154,339	154,339	109,714
Capital outlay	37,300	37,300	100,521
Total expenditures	<u>1,221,805</u>	<u>1,221,805</u>	<u>1,000,631</u>
Excess (deficiency) of revenues over (under) expenditures	90,262	90,262	265,758
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(90,262)	(90,262)	(123,520)
Net other financing sources (uses)	<u>(90,262)</u>	<u>(90,262)</u>	<u>(123,520)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	142,238
Fund balances - beginning of year, restated			<u>946,002</u>
Fund balances - end of year			<u>\$ 1,511,598</u>

See independent auditor's report on required supplementary information

CITY OF MIDWAY, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET-TO-
ACTUAL – ECONOMIC DEVELOPMENT FUND

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
REVENUES			
Intergovernmental revenues	\$ 194,800	\$ 194,800	\$ 194,800
Total revenues	<u>194,800</u>	<u>194,800</u>	<u>194,800</u>
EXPENDITURES			
Current:			
Economic development grants	259,733	259,733	259,733
Capital outlay	-	-	-
Total expenditures	<u>259,733</u>	<u>259,733</u>	<u>259,733</u>
Excess (deficiency) of revenues over (under) expenditures	(64,933)	(64,933)	(64,933)
OTHER FINANCING SOURCES (USES)			
Transfers in	64,933	64,933	64,933
Transfers out	-	-	-
Net other financing sources (uses)	<u>64,933</u>	<u>64,933</u>	<u>64,933</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	-
Fund balances - beginning of year			<u>-</u>
Fund balances - end of year			<u>\$ -</u>

See independent auditor's report on required supplementary information

CITY OF MIDWAY, KENTUCKY**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY – CERS**AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.008405%	0.008013%	0.009510%	0.009290%
City's proportionate share of the net pension liability	\$ 491,969	\$ 394,547	\$ 408,868	\$ 301,000
City's covered-employee payroll	\$ 203,742	\$ 191,159	\$ 222,682	\$ 213,043
City's proportionate share of the net pension liability as a percentage of its covered payroll	241%	206%	184%	141%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	55.50%	59.97%	66.80%

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30, 2017.

CITY OF MIDWAY, KENTUCKY**SCHEDULE OF PENSION CONTRIBUTIONS - CERS**FOR THE YEAR ENDED JUNE 30, 2018

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

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

CITY OF MIDWAY, KENTUCKY

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY – CERS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

	*
	<u>2018</u>
City's proportion of the net OPEB liability	0.008405%
City's proportionate share of the net OPEB liability	\$ 168,970
City's covered-employee payroll	\$ 203,742
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	83%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

Note: The amounts presented for the fiscal year were determined as of the prior fiscal year-end June 30, 2017.

CITY OF MIDWAY, KENTUCKY

SCHEDULE OF OPEB CONTRIBUTIONS – CERS

FOR THE YEAR ENDED JUNE 30, 2018

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

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

CITY OF MIDWAY, KENTUCKY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

Notes to Budgetary Schedules:

Budget Policy - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, fiduciary - cemetery, sewer and water funds.

Legal Compliance - All agencies of the City submit requests for appropriation to the City Mayor so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the part year, current year estimates, and requested appropriations for the next fiscal year.

On or before June 30th of each year, the Mayor must present the proposed budget to the City's Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than July 1st of the new fiscal year.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations can be made within a City department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the governing council. Certain supplemental budgetary appropriations were made during the year, which were not considered material. Budgeted amounts as amended, in the financial statements are as adopted by ordinances of the City.

Encumbrance accounting is a system under which purchase orders, contracts and other commitments for the expenditures of City monies are recorded as a reservation of budget. The City does not use the encumbrance system of accounting to record and track budgeted expenses.

Notes to Pension Schedules:

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2018.

Changes of assumptions:

2015

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

CITY OF MIDWAY, KENTUCKY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

Notes to Pension Schedules (Continued):

2016 and 2017

No changes.

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

Notes to OPEB Schedules:

Changes of benefit terms. There were no changes in benefit terms for 2018.

Changes of assumptions:

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. For the Non-Hazardous Plan, the single discount rate changed from 6.89% to 5.84%. For the Hazardous Plan, the single discount rate changed from 7.37% to 5.96%.

SUPPLEMENTARY INFORMATION

CITY OF MIDWAY, KENTUCKY

COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Municipal Aid Fund	Cemetery Fund	Debt Service Fund	Total Non-Major Governmental Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 53,958	\$ 33,180	\$ -	\$ 87,138
Taxes receivable	3,148	-	-	3,148
Total current assets	<u>\$ 57,106</u>	<u>\$ 33,180</u>	<u>\$ -</u>	<u>\$ 90,286</u>
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES</u>				
Restricted	57,106	-	-	57,106
Committed	-	33,180	-	33,180
Total fund balances	<u>57,106</u>	<u>33,180</u>	<u>-</u>	<u>90,286</u>
Total liabilities and fund balances	<u>\$ 57,106</u>	<u>\$ 33,180</u>	<u>\$ -</u>	<u>\$ 90,286</u>

CITY OF MIDWAY, KENTUCKY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Municipal Aid Fund	Cemetery Fund	Debt Service Fund	Total Non-Major Governmental Fund
REVENUES				
Intergovernmental revenues	\$ 33,801	\$ -	\$ -	\$ 33,801
Charges for services and rents	-	9,676	-	9,676
Total revenues	<u>33,801</u>	<u>9,676</u>	<u>-</u>	<u>43,477</u>
EXPENDITURES				
Current:				
Streets	30,007	-	-	30,007
Cemetery	-	27,962	-	27,962
Debt service - principal	-	-	24,167	24,167
Debt service - interest	-	-	1,095	1,095
Total expenditures	<u>30,007</u>	<u>27,962</u>	<u>25,262</u>	<u>83,231</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,794</u>	<u>(18,286)</u>	<u>(25,262)</u>	<u>(39,754)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	662	32,663	25,262	58,587
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>662</u>	<u>32,663</u>	<u>25,262</u>	<u>58,587</u>
Net change in fund balances	4,456	14,377	-	18,833
Fund balances - beginning of year (as previously reported)	52,650	18,803	-	71,453
Fund balances - end of year	<u>\$ 57,106</u>	<u>\$ 33,180</u>	<u>\$ -</u>	<u>\$ 90,286</u>



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

To the Mayor and City Council
City of Midway
Midway, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Midway, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Midway, Kentucky's basic financial statements and have issued our report thereon dated December 20, 2018.

Internal Control Over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2018-001 to be a material weakness.

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. We consider the deficiencies described in the accompany schedule of findings and responses as findings 2018-002, 2018-003, 2018-004 to be a significant deficiencies.

Compliance and Other Matters

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

City of Midway, Kentucky's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Hiko, Carter + Associates, CPAs, P.C.

Bardstown, Kentucky
December 20, 2018

CITY OF MIDWAY, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2018

Finding 2018-001 (Material Weakness)

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 the 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: In order to correct the circumstances described, the City may consider the employment of a highly trained accounting person, such as a CPA or consider engaging a second CPA firm. In this instance, one CPA firm would be engaged to prepare the City's financial statements in accordance with accounting principles generally accepted in the United States and the other firm engaged to conduct the audit of the City's financial statements.

Management's Response: Management will evaluate the costs versus the benefits of employing a trained accounting professional or another CPA firm to correct this deficiency. Management recognizes that the costs may exceed the benefits and understands, and is willing to accept the risk that its financial statements may contain misstatements that could go undetected.

Finding 2018-002 (Significant Deficiency)

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: Although the size of the City's accounting and administrative staff prohibits complete adherence to this concept, we believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

CITY OF MIDWAY, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2018

- Mail should be opened by an employee not responsible for accounting, such as the assistant clerk or the Mayor. Cash receipts could be recorded in a cash receipts journal and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, could be forwarded to the Clerk/Treasurer for postings to the general ledger and detail customer accounts.
- Cash receipts should be deposited intact daily. Holding receipts for a weekly deposit exposes the City to loss.
- Bank statements, canceled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.
- Signed checks should be also mailed without allowing them to be returned to the employee responsible for accounts payable.
- The Mayor should review supporting documents for normal recurring disbursements (not usually reviewed) on a spot-check basis. Nonroutine testing would aid in ensuring compliance with City policy for all disbursements.
- Journal entries should be approved by an employee other than the one who prepared the entry.
- Bank reconciliations should be reviewed by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees, we recommend that test reconciliations be made from time to time by one of the Council members. In addition, he or she should review, approve, and sign the bank reconciliations to document the approval.

Management's Response: Management will work to implement the above recommendations.

Finding 2018-003 (Significant Deficiency)

Condition: During our audit, we noted the City made a payment to the Clerk for one week of sick leave in advance of the City's policy.

Criteria: City's policy is to pay out sick leave for individuals hired before 2010 for the full amount at retirement.

Cause: The City did not follow its personnel policy related to the payment of sick leave.

Effect: Compensation payments in excess of the City policy occurred.

Recommendation: We recommend the City follow the personnel policy for all employees.

Management's Response: Management will reiterate the policy to responsible City employees and follow the policy.

Finding 2018-004 (Significant Deficiency)

Condition: During our audit, we noted credit card transactions that were not supported by a source document.

Criteria: City policy requires all purchases to be adequately supported by source documents (i.e. vendor invoices / receipts).

CITY OF MIDWAY, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES
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Cause: The City did not maintain the source documents for all credit card transactions. For these transactions, only the credit card statement was available to support the purchases.

Effect: Unauthorized or unapproved payments may occur.

Recommendation: We recommend the City maintain all original source documents to support transactions.

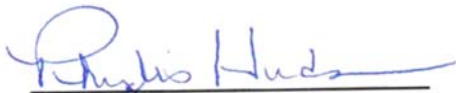
Management's Response: Management will reiterate the policy to responsible City employees and retain original source documents to support all transactions.

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CITY OF MIDWAY, KENTUCKY
For the Year Ended June 30, 2018

The City of Midway, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by applicable Kentucky Revised Statutes.



Mayor



City Clerk