

CITY OF MIDWAY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

**CITY OF MIDWAY, KENTUCKY
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FOR THE YEAR ENDED JUNE 30, 2024**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midway (hereinafter called the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the Statement of Revenues, Expenditures, and Changes in Fund Balance Budget-to-Actual-General Fund, the Statement of Revenues, Expenditures, and Changes in Fund Balance Budget-to-Actual-Economic Development Fund, and the Pension and OPEB Schedules and their related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

SK LEE CPAs, P.S.C.

Berea, Kentucky
February 10, 2025

CITY OF MIDWAY, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2024

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 438,793	\$ 113,334	\$ 552,127
Receivables, net			
Taxes, licenses and fees, net	415,647	78,304	493,951
Prepaid expenses	1,052	-	1,052
Total Current Assets	855,492	191,638	1,047,130
Non-Current Assets			
Restricted cash and cash equivalents	1,248,167	-	1,248,167
Certificates of deposit	62,590	-	62,590
Net OPEB Asset	11,098	4,756	15,854
Capital assets:			
Non-depreciable	2,208,849	50,000	2,258,849
Depreciable, net	1,801,161	3,801,514	5,602,675
Total Non-Current Assets	5,331,865	3,856,270	9,188,135
Total Assets	6,187,357	4,047,908	10,235,265
Deferred Outflows of Resources			
Deferred amounts related to pension	118,881	50,949	169,830
Deferred amounts related to OPEB	51,304	21,987	73,291
Total Deferred Outflows of Resources	170,185	72,936	243,121
Liabilities			
Current Liabilities			
Accounts payable	32,097	65,566	97,663
Accrued expenses	3,399	4,109	7,508
Customer deposits payable	-	8,035	8,035
Compensated absences	6,816	2,552	9,368
Capital lease payable	126,783	-	126,783
Notes payable	8,388	-	8,388
Deferred revenues	-	6,599	6,599
Total Current Liabilities	177,483	86,861	264,344
Non-Current Liabilities			
Capital lease payable	2,637,384	-	2,637,384
Notes payable	183,389	-	183,389
Net pension liability	515,765	221,043	736,808
Net OPEB liability	-	-	-
Total Non-Current Liabilities	3,336,538	221,043	3,557,581
Total Liabilities	3,514,021	307,904	3,821,925
Deferred Inflows of Resources			
Deferred amounts related to pension	65,381	28,020	93,401
Deferred amounts related to OPEB	184,094	78,897	262,991
Total Deferred Inflows of Resources	249,475	106,917	356,392
Net Position			
Net investment in capital assets	1,054,066	3,851,514	4,905,580
Restricted	1,248,167	-	1,248,167
Unrestricted (deficit)	291,813	(145,491)	146,322
Total Net Position	\$ 2,594,046	\$ 3,706,023	\$ 6,300,069

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

**CITY OF MIDWAY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024**

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Operating		Primary Government		Total	
		Charges for Services	Grants and Contributions	Capital Grants and Contribution	Governmental Activities		Business-Type Activities
Government Activities							
General	\$ 589,528	\$ -	\$ -	\$ 31,499	\$ (558,029)	\$ -	\$ (558,029)
Police	187,115	-	-	-	(187,115)	-	(187,115)
Fire	308,586	-	11,500	-	(297,086)	-	(297,086)
Parks and recreation	33,388	-	2,300	-	(31,088)	-	(31,088)
Sanitation	185,488	190,166	-	-	4,678	-	4,678
Streets	400,435	-	39,264	-	(361,171)	-	(361,171)
Cemetery	237,634	48,678	-	-	(188,956)	-	(188,956)
Total Governmental Activities	1,942,174	238,844	53,064	31,499	(1,618,767)	-	(1,618,767)
Business-Type Activities							
Water and sewer utilities	1,332,145	645,268	-	-	-	(686,877)	(686,877)
Total Business-Type Activities	1,332,145	645,268	-	-	-	(686,877)	(686,877)
Total Activities	\$ 3,274,319	\$ 884,112	\$ 53,064	\$ 31,499	(1,618,767)	(686,877)	(2,305,644)
General Revenues							
Property taxes					106,340	-	106,340
Franchise taxes					96,392	-	96,392
Utility taxes					194,096	-	194,096
Occupational taxes					1,257,269	-	1,257,269
Insurance premium taxes					332,233	-	332,233
Licenses, fees and permits					21,928	-	21,928
Miscellaneous					34,540	16,697	51,237
Interest Income					119,617	649	120,266
Equity transfers, net					(567,541)	567,541	-
Total General Revenues and Transfers					1,594,874	584,887	2,179,761
Change in Net Position					(23,893)	(101,990)	(125,883)
Net Position, Beginning					2,617,939	3,808,013	6,425,952
Net Position, Ending					\$ 2,594,046	\$ 3,706,023	\$ 6,300,069

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

CITY OF MIDWAY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2024

	General	Other Funds	Municipal Aid Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 438,793	\$ -	\$ -	\$ 438,793
Restricted cash and cash equivalents	1,183,099	-	65,068	1,248,167
Certificates of deposit	62,590	-	-	62,590
Accounts receivable				
Customers	23,858	-	-	23,858
Taxes, licenses and fees, net	391,789	-	-	391,789
Prepaid expenses	1,052	-	-	1,052
Total Assets	\$ 2,101,181	\$ -	\$ 65,068	\$ 2,166,249
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 32,097	\$ -	\$ -	\$ 32,097
Accrued expenses	10,215	-	-	10,215
Capital lease payable	126,783	-	-	126,783
Notes payable	8,388	-	-	8,388
Total Liabilities	177,483	-	-	177,483
Fund Balances				
Restricted	1,183,099	-	65,068	1,248,167
Committed	62,590	-	-	62,590
Unassigned	678,009	-	-	678,009
Total Fund Balances	1,923,698	-	65,068	1,988,766
Total Liabilities and Fund Balances	\$ 2,101,181	\$ -	\$ 65,068	\$ 2,166,249

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

Fund balances reported above **\$ 1,988,766**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 4,010,010

Net deferred inflows/outflows related to the long-term net pension liability and long-term net OPEB liability are not reported in the funds. (79,290)

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

Capital lease payable	(2,637,384)
Notes payable	(183,389)
Net pension liability	(515,765)
Net OPEB asset	11,098
	11,098

Net Position of Governmental Activities **\$ 2,594,046**

CITY OF MIDWAY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2024

	<u>General Fund</u>	<u>Other Funds</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes				
Property taxes	\$ 106,340	\$ -	\$ -	\$ 106,340
Franchise taxes	96,392	-	-	96,392
Utility taxes	194,096	-	-	194,096
Occupational taxes	1,257,269	-	-	1,257,269
Insurance premium taxes	332,233	-	-	332,233
Licenses, fees and permits	21,928	-	-	21,928
Intergovernmental revenues	45,299	-	39,264	84,563
Charges for services and others	238,844	-	-	238,844
Interest income	119,257	-	360	119,617
Miscellaneous	34,540	-	-	34,540
Total Revenues	<u>2,446,198</u>	<u>-</u>	<u>39,624</u>	<u>2,485,822</u>
Expenditures				
General government	544,207	-	-	544,207
Police department	187,115	-	-	187,115
Fire department	168,933	-	-	168,933
Sanitation	184,537	-	-	184,537
Parks and recreation	22,408	-	-	22,408
Streets	204,319	-	130,178	334,497
Cemetery	226,533	-	-	226,533
Economic development	-	-	-	-
Capital outlay	2,122,282	-	-	2,122,282
Debt Service:				
Principal	58,223	-	-	58,223
Interest	126,171	-	-	126,171
Total Expenditures	<u>3,844,728</u>	<u>-</u>	<u>130,178</u>	<u>3,974,906</u>
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	<u>(1,398,530)</u>	<u>-</u>	<u>(90,554)</u>	<u>(1,489,084)</u>
Other Financing Sources (uses)				
Loan proceeds	2,564,693	-	-	2,564,693
Equity transfers in (out)	(567,541)	-	-	(567,541)
Net other financing sources (uses)	<u>1,997,152</u>	<u>-</u>	<u>-</u>	<u>1,997,152</u>
Net Change in Fund Balance	598,622	-	(90,554)	508,068
Fund Balance, Beginning	<u>1,325,076</u>	<u>-</u>	<u>155,622</u>	<u>1,480,698</u>
Fund Balance, Ending	<u>\$ 1,923,698</u>	<u>\$ -</u>	<u>\$ 65,068</u>	<u>\$ 1,988,766</u>

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

CITY OF MIDWAY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS- TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

Net Changes in Fund Balances - Total Governmental Funds	\$ 508,068
 Amounts reported for <i>government activities</i> in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$2,122,282 is more than depreciation expense of \$154,524 in the current period.	1,967,758
Note proceeds provide current financial resources in the governmental funds, but issuing debt increases long-term debt in the Statement of Net Position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which proceeds is more than repayments.	(2,506,470)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Change in pension liability and related deferrals and OPEB liability and related deferrals of governmental activities	<u>6,751</u>
Change in Net Position of Governmental Activities	<u>\$ (23,893)</u>

CITY OF MIDWAY, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2024

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 46,336	\$ 66,998	\$ 113,334
Receivables, net	26,352	51,952	78,304
Due to other funds	-	-	-
Total Current Assets	72,688	118,950	191,638
Non-Current Assets			
Net OPEB asset	3,488	1,268	4,756
Capital assets:			
Non-depreciable	50,000	-	50,000
Depreciable, net	3,030,894	770,620	3,801,514
Total Non-Current Assets	3,084,382	771,888	3,856,270
Total Assets	3,157,070	890,838	4,047,908
Deferred Outflows of Resources			
Deferred amounts related to pension	37,363	13,586	50,949
Deferred amounts related to OPEB	16,124	5,863	21,987
Total Deferred Outflows of Resources	53,487	19,449	72,936
Liabilities			
Current Liabilities			
Accounts payable	11,533	54,033	65,566
Accrued expenses	473	3,636	4,109
Customer deposits payable	-	8,035	8,035
Compensated absences	1,772	780	2,552
Deferred revenue	6,599	-	6,599
Total Current Liabilities	20,377	66,484	86,861
Non-Current Liabilities			
Net pension liability	162,098	58,945	221,043
Total Non-Current Liabilities	162,098	58,945	221,043
Total Liabilities	182,475	125,429	307,904
Deferred Inflows of Resources			
Deferred amounts related to pension	20,548	7,472	28,020
Deferred amounts related to OPEB	57,858	21,039	78,897
Total Deferred Inflows of Resources	78,406	28,511	106,917
Net Position			
Net investment in capital assets	3,080,894	770,620	3,851,514
Unrestricted (deficit)	(131,218)	(14,273)	(145,491)
Total Net Position	\$ 2,949,676	\$ 756,347	\$ 3,706,023

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

CITY OF MIDWAY, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 220,859	\$ 424,409	\$ 645,268
Miscellaneous	8,047	8,650	16,697
Total Operating Revenues	<u>228,906</u>	<u>433,059</u>	<u>661,965</u>
Operating Expenses			
Salaries	60,676	49,638	110,314
Employee benefits	133,512	(7,597)	125,915
Purchases of water	-	464,423	464,423
Contractual services	4,000	1,945	5,945
Materials and supplies	153,093	157,174	310,267
Insurance	8,954	8,000	16,954
Utilities and telephone	84,637	6,654	91,291
Depreciation	145,629	36,407	182,036
Bad debt provision	1,104	2,122	3,226
Miscellaneous	332	21,442	21,774
Total Operating Expenses	<u>591,937</u>	<u>740,208</u>	<u>1,332,145</u>
Operating Loss	<u>(363,031)</u>	<u>(307,149)</u>	<u>(670,180)</u>
Non-Operating Revenues			
Interest income	549	100	649
Total Non-Operating Revenues	<u>549</u>	<u>100</u>	<u>649</u>
Loss before transfers	<u>(362,482)</u>	<u>(307,049)</u>	<u>(669,531)</u>
Equity transfers in (out)	233,113	334,428	567,541
Change in Net Position	<u>(129,369)</u>	<u>27,379</u>	<u>(101,990)</u>
Total Net Position, Beginning	<u>3,079,045</u>	<u>728,968</u>	<u>3,808,013</u>
Total Net Position, Ending	<u>\$ 2,949,676</u>	<u>\$ 756,347</u>	<u>\$ 3,706,023</u>

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

CITY OF MIDWAY, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 224,035	\$ 438,392	\$ 662,427
Cash received from other sources	8,047	8,650	16,697
Cash payments to suppliers for goods and services	(320,735)	(702,247)	(1,022,982)
Cash payments to employees for services	(60,676)	(49,638)	(110,314)
Net Cash Used in Operating Activities	<u>(149,329)</u>	<u>(304,843)</u>	<u>(454,172)</u>
Cash Flows from Noncapital and Related Financing Activities			
Equity transfers in(out)	233,113	334,428	567,541
Net Cash Provided by Noncapital and Related Financing Activities	<u>233,113</u>	<u>334,428</u>	<u>567,541</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(68,257)	-	(68,257)
Net Cash Used in Capital and Related Financing Activities	<u>(68,257)</u>	<u>-</u>	<u>(68,257)</u>
Cash Flows from Investing Activities			
Cash received from interest income	549	100	649
Net Cash Provided by Investing Activities	<u>549</u>	<u>100</u>	<u>649</u>
Net Increase in Cash and Cash Equivalents	<u>16,076</u>	<u>29,685</u>	<u>45,761</u>
Cash and Cash Equivalents at July 1, 2023	<u>30,260</u>	<u>37,313</u>	<u>67,573</u>
Cash and Cash Equivalents at June 30, 2024 (1)	<u>\$ 46,336</u>	<u>\$ 66,998</u>	<u>\$ 113,334</u>
(1) Cash and cash equivalents are reflected in the Statement of Net Position as follows:			
Cash and cash equivalents	<u>\$ 46,336</u>	<u>\$ 66,998</u>	<u>\$ 67,573</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities			
Operating Loss	<u>\$ (363,031)</u>	<u>\$ (307,149)</u>	<u>\$ (670,180)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	145,629	36,407	182,036
Bad debt	1,104	2,122	3,226
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	3,178	11,053	14,231
(Increase) decrease in deferred outflows of resources	(2,227)	31,811	29,584
Increase (decrease) in accounts payable	9,795	14,128	23,923
Increase (decrease) in accrued expenses	249	(301)	(52)
Increase (decrease) in customer deposits	(2)	2,930	2,928
Increase (decrease) in compensated absences	(281)	(1,273)	(1,554)
Increase (decrease) in deferred inflows of resources	59,408	9,513	68,921
Increase (decrease) in net pension liability	35,023	(68,130)	(33,107)
Increase (decrease) in net OPEB liability	(38,174)	(35,954)	(74,128)
Total adjustments	<u>213,702</u>	<u>2,306</u>	<u>216,008</u>
Net Cash Used in Operating Activities	<u>\$ (149,329)</u>	<u>\$ (304,843)</u>	<u>\$ (454,172)</u>

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

**CITY OF MIDWAY, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2024**

	<u>Cemetery-Perpetual Care and Maintenance Fund</u>
ASSETS	
Investments	\$ 246,587
Total Assets	<u>\$ 246,587</u>
NET POSITION HELD IN TRUST	<u><u>\$ 246,587</u></u>

CITY OF MIDWAY, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2024

	<u>Cemetery-Perpetual Care and Maintenance Fund</u>
Additions	
Investment income	4,505
Realized gain on investments	9,756
Net change in unrealized gains (losses)	20,647
Total Additions	<u>34,908</u>
Deductions	
Professional Fees	4,382
Total Deductions	<u>4,382</u>
Change in Net Position	30,526
Net Position, beginning of year	<u>216,061</u>
Net Position, end of year	<u>\$ 246,587</u>

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – NATURE OF ORGANIZATION AND OPERATIONS

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

Basis of Presentation

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

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

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

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

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

The City reports the following funds:

GOVERNMENTAL

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation – Continued

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

FIDUCIARY FUND TYPES

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

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

PROPRIETARY FUND FINANCIAL STATEMENTS

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

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

The City reports the following major proprietary funds:

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

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

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

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

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2024, the original budget was approved in June 2023. The budget for the General and Special Revenue Funds is presented in the Statements of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

Cash and Cash Equivalents

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

Receivables

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

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

Allowance for Doubtful Accounts

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

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories

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

Internal Receivables and Payables

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

Property Tax Calendar

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

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

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

Interfund Balances

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

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

Interfund Activity

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Principles

GASB issued Statement no. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period – The provisions of this Statement are effective for fiscal years beginning after December 15, 2021. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost of a capital asset reported in a business-type or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of the construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Prepaid Expenses

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

Restricted Cash and Cash Equivalents

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

Capital Assets

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	20-40 years
Equipment	5-10 years
Water and Sewer System Utility Plants	25-40 years
Infrastructure	15-40 years

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Fund Balances

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

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

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

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

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

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use of either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating and Non-Operating Revenues and Expenses

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

Deferred Outflows/Inflows of Resources

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

Pensions and Other Postemployment Benefits

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

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

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

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2024, the City's cash and cash equivalents balances include deposits held in checking accounts, savings accounts, and certificates of deposit.

Custodial Credit Risk: For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. At June 30, 2024, the City's net carrying balance of \$1,862,884 was covered either by FDIC or collateralized by securities held by the pledging financial institution.

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

The City's investments as of June 30, 2024 are as follows:

Governmental Funds:	
Certificates of deposit	\$ 62,590
Investments	1,248,167
	<u>\$ 1,310,757</u>
Fiduciary Funds:	
Money Market Mutual Funds	<u>\$ 246,587</u>

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

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

Credit Risk: Under KRS 66.480, the City is permitted to invest in the following:

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

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

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

NOTE 4 – RECEIVABLES

The City has entered into an agreement with the Versailles-Woodford County Economic Development Authority ("the Authority") whereby the City has agreed to pay one-half of any interest expense incurred by the Authority in the acquisition and development of an industrial park. The City has also agreed to guarantee payment of these loans. The Authority agreed to reimburse any interest or other cost paid by the City with proceeds from sales of industrial park lots. As of June 30, 2024, the Authority owes the City \$681,663, which was recorded as a noncurrent receivable. The last payment received from the Authority was September 2009; therefore, while management maintains that the Authority owes the City the entire amount of the receivable, Management has significant concerns regarding the Authority's ability to pay. Management believes that it is highly unlikely that collection will occur. Also, management of the Economic Development Authority noted, "The agreement requires the EDA will reimburse Midway to the extent that there are any funds remaining after the sale of all lots. Based on the current option agreement and the purchase price in that agreement, it is highly unlikely that there will be any excess funds remaining." Management elected to establish an allowance account for 100% of the balance.

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024**

NOTE 4 – RECEIVABLES – CONTINUED

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

	<u>General</u>	<u>Water and Waste Water</u>	<u>Total</u>
Accounts receivables			
Customers	\$ 29,652	\$ 101,832	\$ 131,484
Other	1,073,452	-	1,073,452
Gross receivables	<u>1,103,104</u>	<u>101,832</u>	<u>1,204,936</u>
Less allowance for bad debt	687,457	23,528	710,985
Net total receivables	<u>\$ 415,647</u>	<u>\$ 78,304</u>	<u>\$ 493,951</u>

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

Capital asset governmental activities during the year ended June 30, 2024 are as follows:

	<u>Beginning Balance 7/1/2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 6/30/2024</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 6,300	\$ -	\$ -	\$ 6,300
Construction in process	625,152	1,907,242	329,845	2,202,549
Total capital assets, not being depreciated:	<u>631,452</u>	<u>1,907,242</u>	<u>329,845</u>	<u>2,208,849</u>
Capital assets, being depreciated:				
General Government				
Buildings	368,141	11,000	-	379,141
Office furnishings and equipment	43,328	-	-	43,328
Improvements	60,765	-	-	60,765
Equipment	183,945	2,521	-	186,466
Infrastructure	-	502,648	-	502,648
Signs	1,090	-	-	1,090
Cemetery				
Buildings	167,840	-	-	167,840
Equipment	67,282	11,918	8,256	70,944
Improvements	37,690	-	-	37,690
Fire Department				
Buildings	162,176	-	-	162,176
Equipment	170,283	-	-	170,283
Fire trucks	317,997	-	-	317,997
Hydrants	12,992	-	-	12,992
Park				
Buildings	16,000	-	-	16,000
Equipment	137,554	-	-	137,554
Signs	630	10,559	-	11,189
Municipal Streets				
Equipment	124,582	14,495	-	139,077
Signs	6,117	-	-	6,117
Infrastructure	4,431,264	-	-	4,431,264
Total capital assets, being depreciated:	<u>6,309,676</u>	<u>553,141</u>	<u>8,256</u>	<u>6,854,561</u>
Less accumulated depreciation for:				
General	534,718	44,611	6,604	572,725
Fire Department	557,323	18,230	-	575,553
Cemetery	156,870	15,307	-	172,177
Park	63,097	10,980	-	74,077
Municipal Street	3,593,472	65,396	-	3,658,868
Total accumulated depreciation:	<u>4,905,480</u>	<u>154,524</u>	<u>6,604</u>	<u>5,053,400</u>
Total capital assets, being depreciated, net:	<u>1,404,196</u>			<u>1,801,161</u>
Government activities capital assets, net:	<u>\$ 2,035,648</u>			<u>\$ 4,010,010</u>

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

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

General Government	\$ 44,611
Public Safety - Fire	18,230
Streets	15,307
Cemetery	10,980
Parks	65,396
Total Depreciation	<u>\$ 154,524</u>

Capital assets for the business-type activities during the year ended June 30, 2024 are as follows:

	Beginning Balance 7/1/2023	Increases	Decreases	Ending Balance 6/30/2024
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Total capital assets, not being depreciated:	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Capital assets, being depreciated:				
Sewer Operations:				
Lines	849,151	-	-	849,150
Equipment	499,191	68,257	-	567,447
Sewer plant	4,794,893	-	-	4,794,893
Water Operations				
Lines	578,364	-	-	578,364
Equipment	317,774	-	-	317,776
Water tower	695,868	-	-	695,869
Total capital assets, being depreciated:	<u>7,735,241</u>	<u>68,257</u>	<u>-</u>	<u>7,803,498</u>
Less accumulated depreciation for:				
Lines	917,720	26,293	-	944,013
Equipment	627,366	39,853	-	667,219
Sewer plant	1,995,312	101,894	-	2,097,206
Water tower	279,549	13,997	-	293,546
Total accumulated depreciation:	<u>3,819,947</u>	<u>182,037</u>	<u>-</u>	<u>4,001,984</u>
Total capital assets, being depreciated, net:	<u>3,915,294</u>			<u>3,801,514</u>
Business-type activities capital assets, net:	<u>\$ 3,965,294</u>			<u>\$ 3,851,514</u>

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

Sewer	\$ 145,630
Water	36,407
Total Depreciation	<u>\$ 182,037</u>

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 6 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2024:

	<u>Balance</u> <u>7/1/2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2024</u>	<u>Due Within</u> <u>One Year</u>
Governmental-type					
Capital lease payable	\$ 249,474	\$ 2,564,693	\$ 50,000	\$ 2,764,167	\$ 126,783
Note payable	200,000	-	8,223	191,777	8,388
Net Pension Liability	593,017	-	77,252	515,765	-
Net OPEB Liability	161,865	-	172,963	(11,098)	-
Business-type					
Net Pension Liability	254,151	-	33,108	221,043	-
Net OPEB Liability	69,371	-	74,127	(4,756)	-
Total	<u>\$ 1,527,878</u>	<u>\$ 2,564,693</u>	<u>\$ 415,673</u>	<u>\$ 3,676,898</u>	<u>\$ 135,171</u>

Conduit Debt

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

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

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

The City issued \$35,000,000 in industrial revenue bonds in fiscal year 2020 to enable a private company to construct a 500,000 square foot facility on 41 acres located in the City limits. The bonds do not constitute an indebtedness or pledge of faith and credit of the City; therefore, no obligation is recorded on the City's general purpose combined financial statement.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 6 – LONG-TERM DEBT - CONTINUED

CAPITAL LEASE PAYABLE

On June 8, 2022, the City of Midway entered into a lease agreement of \$2,860,000, with Kentucky Bond Corporation for construction of a new EMS/Fire Station. As of June 30, 2024, the City had a balance of \$2,764,167 on the bond. The bond bears interest at a rate of approximately 0.40% and payments are monthly with amounts that change annually. The bond matures in 2052. The minimum obligations of the City's at June 30, 2024 for the payment of lease principal and interest are as follows:

2025	\$	178,867
2026		179,570
2027		179,316
2028		179,806
2029		179,340
2030-2034		900,421
2035-2039		903,132
2040-2044		909,697
2045-2049		897,417
2050-2052		464,144
Total minimum lease payments		4,971,710
Less amount representing interest		2,207,543
Present value of minimum lease payments	\$	2,764,167

NOTES PAYABLE

On February 27, 2023, the City of Midway entered into a loan agreement of \$200,000, with Kentucky Infrastructure Authority for the Gayland Drive storm drainage rehabilitation project. As of June 30, 2024, the City had a balance of \$191,777. The note bears interest at a rate of 2.00%. The minimum obligations of the City's at June 30, 2024 for the payment of loan principal and interest are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Annual Requirements
2025	\$ 8,388	\$ 3,794	\$ 12,182
2026	8,557	3,625	12,182
2027	8,729	3,453	12,182
2028	8,904	3,278	12,182
2029	9,083	3,099	12,182
2030-2034	48,231	12,681	60,912
2035-2039	53,277	7,635	60,912
2040-2043	46,608	3,220	49,828
Total	\$ 191,777	\$ 40,785	\$ 232,562

NOTE 7 – FUND BALANCES

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2024, the City had \$65,068 restricted for the municipal aid fund.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 7 – FUND BALANCES - CONTINUED

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, 2024 of \$62,590 for emergency reserves. The committed funds for the Rau building and for the cemetery were deemed uncommitted and the funds were dissolved and deposited into the general fund operating account.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. There were no amounts assigned related to encumbrances at June 30, 2024. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

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

NOTE 8 – RETIREMENT PLAN

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

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

Contributions – Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2024, participating employers contributed 23.34% (non-hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings. For the fiscal year ended June 30, 2024 the contributions for non-hazardous positions were \$81,556.

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024**

NOTE 8 – RETIREMENT PLAN – CONTINUED

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

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

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

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2024 the City reported a liability of \$736,808 and for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date and rolled forward using generally accepted actuarial procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2023, was .0114 percent for non-hazardous. For the year ended June 30, 2024, the City recognized pension expenses of \$70,523.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 8 – RETIREMENT PLAN – CONTINUED

At June 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual results	\$ 38,143	\$ 2,002
Changes of assumptions	-	67,529
Net difference between projected and actual earnings on plan investments	-	10,051
Changes in proportion and differences between employer contribution and proportionate share of contribution	50,131	13,819
City contributions subsequent to the measurement date	81,556	-
Total	\$ 169,830	\$ 93,401

The \$81,556 deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2024	\$ 18,797
2025	(33,239)
2026	16,449
2027	(7,134)
2028	-
Thereafter	-

Actuarial Methods and Assumptions for determining the Total Pension Liability and Net Pension Liability – The total pension liability, net pension liability, and sensitivity information as of June 30, 2023, were based on an actuarial valuation date of June 30, 2022, and was performed by Gabriel Roeder Smith (GRS). The total pension liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2023, using generally accepted actuarial principles. The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2024:

Non-Hazardous	
Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Amortization period	30-year closed period at June 30, 2019

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024**

NOTE 8 – RETIREMENT PLAN – CONTINUED

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

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The actuarial assumptions used in the June 30, 2022, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2023. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

For the plan's year end June 30, 2023, the target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equity		
US Equity	50.00%	5.90%
Non-US Equity	10.00%	11.73%
Fixed Income		
Core Bonds	10.00%	2.45%
Specialty Credit/High Yield	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return		<u>5.75%</u>
Long Term Nominal Return for Portfolio		<u>2.50%</u>
Expected Nominal Return for Portfolio		8.25%

Discount Rate – The projection of cash flows used to determine the discount rate of 6.50% for Non-Hazardous and Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

NOTE 8 – RETIREMENT PLAN – CONTINUED

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the new pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>	
1% Decrease	5.50%	\$	930,264
Current discount rate	6.50%	\$	736,808
1% Increase	7.50%	\$	576,038

Payable to the Pension Plan – At June 30, 2024, the City did not report a payable to the pension and OPEB plans.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

Contributions – Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. For the years ended June 30, 2024, participating employers contributed 0.00% (non-hazardous) of covered payroll. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). For the fiscal year ended June 30, 2024 the contributions for hazardous positions were \$0.

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2024 the City reported an asset of \$15,854 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2023, was .0115 percent for non-hazardous.

CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024

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

For the year ended June 30, 2024, the City recognized OPEB expenses of \$(21,241), with an implicit subsidy of \$5,178. At June 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual results	\$ 11,053	\$ 225,114
Changes of assumptions	31,200	21,743
Net difference between projected and actual earnings on plan investments	-	3,679
Changes in proportion and differences between employer contribution and proportionate share of contribution	31,038	12,455
City's contributions subsequent to the measurement date	-	-
Total	\$ 73,291	\$ 262,991

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2024	\$ (42,995)
2025	(59,033)
2026	(43,291)
2027	(44,382)
2028	-
Thereafter	-

Actuarial Assumptions – The total OPEB liability reported at June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-Hazardous

Inflation	2.30%
Payroll growth rate	2.00%
Salary increase	3.30% to 10.30%, varies by service
Investment rate of return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.30% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 6.30% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024**

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Equity		
Public Equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Fixed Income		
Core Fixed Income	10.00%	2.45%
Specialty Credit	10.00%	3.65%
Cash	0.00%	1.39%
Inflation Protected		
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
Expected Real Return	100.00%	5.75%
Long Term Nominal Return for Portfolio		2.50%
Expected Nominal Return for Portfolio		8.25%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.93% for non-hazardous classifications. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.86%, as reported in Fidelity Index’s “20- Year Municipal GO AA Index” as of June 30, 2023. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan’s fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System’s actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.93%) or one percentage point higher (6.93%) follows:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net OPEB Liability</u>	
1% Decrease	4.93%	\$	29,752
Current discount rate	5.93%	\$	(15,854)
1% Increase	6.93%	\$	(54,044)

**CITY OF MIDWAY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2024**

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

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (4.93%) or one percentage point higher (6.93%) than current healthcare cost trend rates follows:

City’s Net OPEB Liability Healthcare Cost		
Trend Rate -1%	Trend Rate	Trend Rate +1%
4.93%	5.93%	6.93%
\$ (50,815)	\$ (15,854)	\$ 27,092

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

NOTE 10 – RISK MANAGEMENT

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

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

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

NOTE 11 – CONTINGENCIES AND COMMITMENTS

Litigation

The City is not involved in lawsuits or matters which require disclosure with the ABA Statement policy regarding Lawyer’s Responses to Auditor’s Request per the opinion of counsel. Significant losses are covered by commercial insurance with premiums (based on industry information adjustment for any City claims) for general liability, vehicles, personal and real property. Settlement amounts have not exceeded insurance coverage for the current year.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

Prior period adjustment consisted of reinstating the values of the Bank of New York investments and capital lease liability. The difference is the net earnings from the accounts of \$86,37 as an increase in governmental fund equity.

**CITY OF MIDWAY, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 JUNE 30, 2024**

NOTE 13 – EQUITY TRANSFERS

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

From Fund	To Fund	Amount
General Fund	Sewer Fund	\$ 233,113
General Fund	Water Fund	\$ 334,428

NOTE 14 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through February 10, 2025, which is the date the financial statements were available to be issued.

**CITY OF MIDWAY, KENTUCKY
REQUIRED SUPPLEMENTAL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET-TO-ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2024**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Property taxes, levied for general purposes	\$ 104,500	\$ 104,500	\$ 106,340	\$ 1,840
Franchise tax	64,000	64,000	96,392	32,392
Utility tax	170,000	170,000	194,096	24,096
Occupational	1,410,000	1,410,000	1,257,269	(152,731)
Insurance premium	260,000	260,000	332,233	72,233
Licenses, fees, and permits	25,000	25,000	21,928	(3,072)
Intergovernmental revenues	26,000	26,000	45,299	19,299
Charges for services and others	150,000	150,000	238,844	88,844
Interest income	3,700	3,700	119,257	115,557
Other	86,100	86,100	34,540	(51,560)
Total Revenues	2,299,300	2,299,300	2,446,198	146,898
Expenditures				
General	593,387	593,387	544,207	49,180
Police	248,859	248,859	187,115	61,744
Fire	430,508	430,508	168,933	261,575
Sanitation	150,000	150,000	184,537	(34,537)
Parks and recreation	89,010	89,010	22,408	66,602
Streets	650,850	650,850	204,319	446,531
Cemetery	258,000	258,000	226,533	31,467
Capital outlay	-	-	2,122,282	(2,122,282)
Principal	-	-	58,223	(58,223)
Interest	-	-	126,171	(126,171)
Total Expenditures	2,420,614	2,420,614	3,844,728	(1,239,720)
Excess (deficiency) of revenues over (under) expenditures before other financing sources and uses	(121,314)	(121,314)	(1,398,530)	(1,277,216)
Other Financing Sources (uses)				
Loan proceeds	-	-	2,564,693	2,564,693
Transfer out	-	-	(567,541)	(567,541)
Net other financing sources (uses)	-	-	1,997,152	1,997,152
Net Change in Fund Balance	(121,314)	(121,314)	598,622	719,936
Fund Balance, Beginning			1,325,076	
Fund Balance, Ending			\$ 1,923,698	

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
City's proportion of the net pension liability	0.009290%	0.009510%	0.008013%	0.008405%	0.008868%	0.010247%	0.010503%	0.009491%	0.011719%	0.011483%
City's proportionate share of the net pension liability	\$ 301,000	\$ 408,868	\$ 394,547	\$ 491,969	\$ 540,087	\$ 720,676	\$ 805,571	\$ 605,126	\$ 847,168	\$ 736,808
City's covered-employee payroll	\$ 213,043	\$ 222,682	\$ 191,159	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047	\$ 333,322	\$ 349,428
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.29%	183.61%	206.40%	241.47%	208.96%	267.87%	330.09%	186.74%	254.16%	210.86%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%	47.81%	57.33%	52.42%	57.48%

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

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Contractually required contribution	\$ 28,392	\$ 23,742	\$ 28,422	\$ 31,807	\$ 41,922	\$ 51,928	\$ 47,100	\$ 68,601	\$ 77,997	\$ 81,556
Contributions in relation to the contractually required contribution	<u>28,392</u>	<u>23,742</u>	<u>28,422</u>	<u>31,807</u>	<u>41,922</u>	<u>51,928</u>	<u>47,100</u>	<u>68,601</u>	<u>77,997</u>	<u>81,556</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 213,043	\$ 222,682	\$ 191,159	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047	\$ 333,322	\$ 349,428
Contributions as a percentage of covered-employee payroll	13.33%	10.66%	14.87%	15.61%	16.22%	19.30%	19.30%	21.17%	23.40%	23.34%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
City's proportion of the net OPEB liability	0.008405%	0.008868%	0.010244%	0.010500%	0.009489%	0.011717%	0.011483%
City's proportionate share of the net OPEB liability	\$ 168,970	\$ 157,450	\$ 172,299	\$ 253,543	\$ 181,662	\$ 231,237	\$ (15,854)
City's covered-employee payroll	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047	\$ 333,322	\$ 349,428
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	82.93%	60.92%	64.04%	103.89%	56.06%	69.37%	-4.54%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	57.62%	60.44%	51.67%	62.91%	60.95%	104.23%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Contractually required contribution	\$ 10,324	\$ 13,595	\$ 12,804	\$ 11,616	\$ 18,730	\$ 11,300	\$ -
Contributions in relation to the contractually required contribution	<u>10,324</u>	<u>13,595</u>	<u>12,804</u>	<u>11,616</u>	<u>18,730</u>	<u>11,300</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 203,742	\$ 258,461	\$ 269,044	\$ 244,044	\$ 324,047	\$ 333,322	\$ 349,428
Contributions as a percentage of covered-employee payroll	5.07%	5.26%	4.76%	4.76%	5.78%	3.39%	0.00%

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

**CITY OF MIDWAY, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2024**

NOTE 1 – BUDGETARY ACCOUNTING AND CONTROL

Budget Law

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

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

Budgetary Accounting

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

NOTE 2 – CERS

General Information

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

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

Changes of Assumptions

June 30, 2023 - Pension and OPEB Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for pension:

- The single discount rate increased from 6.25% to 6.50% for non-hazardous and from 6.25% to 6.50% for hazardous.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2023, for OPEB:

- The single discount rate increased from 5.70% to 5.93% for non-hazardous and from 5.05% to 5.97% for hazardous. The municipal bond rate increased from 3.39% to 3.86%.

CITY OF MIDWAY, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2024

NOTE 2 – CERS – CONTINUED

Changes of Assumptions – Continued

June 30, 2022 – Pension and OPEB Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The single discount rate increased from 5.20% to 5.70% for non-hazardous and from 5.30% to 5.05% for hazardous. The municipal bond rate increased from 1.92% to 3.39%

June 30, 2021 – Pension and OPEB Hazardous and Nonhazardous

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

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

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

June 30, 2020 – Pension and OPEB Hazardous and Nonhazardous

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

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

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

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

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

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

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

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

CITY OF MIDWAY, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2024

NOTE 2 – CERS – CONTINUED

Changes of Assumptions- Continued

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

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

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

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

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

June 30, 2015 – Pension – Hazardous and Nonhazardous

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

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

June 30, 2014 – Pension – Hazardous and Nonhazardous

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Midway (hereinafter called the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 10, 2025.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

The City's Response to Findings

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

Purpose of This Report

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

SK LEE CPAs, P.S.C.

Berea, Kentucky
February 10, 2025

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2024**

MATERIAL WEAKNESS

2024-001 Financial Statement Preparation

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF MIDWAY, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED JUNE 30, 2024**

MATERIAL WEAKNESS

2024-002 Segregation of Duties

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Views of Responsible Officials:

Management agrees with the recommendation.

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February 10, 2025

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, of the City of Midway (hereinafter called "the City") for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 10, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There are no accounting estimates and the financial statement disclosures are neutral, consistent, and clear.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

None Identified. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Any material misstatements detected as a result of pension and OEPB adjustments were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 10, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not 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 operation, economic, or historical context.

We applied certain limited procedures to the statement of revenues, expenditures, and changes in fund balance budget-to-actual – general fund, the statement of revenues, expenditures, and changes in fund balance budget to actual – economic development fund, and the pension and OPEB schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Mayor, City Council, and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

SK LEE CPAs, P.S.C.

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Certified Public Accountants