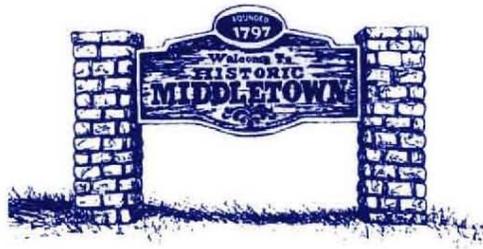


CITY OF MIDDLETOWN, KENTUCKY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

CITY OF MIDDLETOWN
Circa 1797

J. Byron Chapman
Mayor



P.O. Box 43048
Middletown, Kentucky 40253
(502) 245-2762
(502) 245-6047 Fax
E-mail: mdtown@bellsouth.net
Web: www.cityofmiddletownky.org

CITY OF MIDDLETOWN, KENTUCKY MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

As management of the City of Middletown, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Middletown for the fiscal year ended June 30, 2018.

Financial Highlights

- The City's Net Position increased by \$413,060 as a result of revenues exceeding City operating expenditures.
- The City established a police department during the fiscal year.
- During the year, the City increased their cash and investment holdings by \$450,798.
- During the year, the bank franchise and local deposits tax contributed \$193,715 of revenues to the general fund.
- The City completed \$57,750 in parking lot additions and sidewalk reconstruction.
- The City finished the renovation of the Community Center for the relocation of Middletown's branch of the Department of Motor Vehicles.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Middletown's basic financial statements. The City of Middletown's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The governmental activities of the City of Middletown include general government, public safety, public works (roads, etc.), sanitation, and community development.

The government-wide financial statements can be found on pages 2-3 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Middletown, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Middletown are governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. The governmental statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between the *governmental funds and governmental activities*.

The City of Middletown maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and special revenue fund (municipal road aid), both of which are considered to be major funds. No non-major funds exist.

The City of Middletown adopts an annual appropriated budget for both funds as required by state statute. Budgetary comparison statements have been provided for the general fund and the special revenue fund (municipal road aid) for the reader to demonstrate compliance with the adopted budget.

The basic governmental fund financial statements can be found on pages 4-6 of this report.

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

The proprietary fund financial statements can be found on pages 7-9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-18 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Middletown, the increase in assets plus the decrease in liabilities created a net increase in net position of \$413,060 at the close of the most recent fiscal year.

By far, the largest portion of the City of Middletown's net position \$8,004,272 (62 percent) reflect its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less depreciation. The City of Middletown used these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Governmental and Business-Type Activities

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>
Current and other assets	\$ 5,037,498	\$ 4,597,645	\$ 439,853
Capital assets	<u>8,004,272</u>	<u>7,971,178</u>	<u>33,094</u>
Total assets	<u>13,041,770</u>	<u>12,568,823</u>	<u>472,947</u>
Current and other liabilities	<u>166,821</u>	<u>106,934</u>	<u>59,887</u>
Net position:			
Invested in capital assets net of depreciation	8,004,272	7,971,178	33,094
Restricted	413,630	396,606	17,024
Unrestricted	<u>4,457,047</u>	<u>4,094,105</u>	<u>362,942</u>
Total net position	<u>\$ 12,874,949</u>	<u>\$ 12,461,889</u>	<u>\$ 413,060</u>

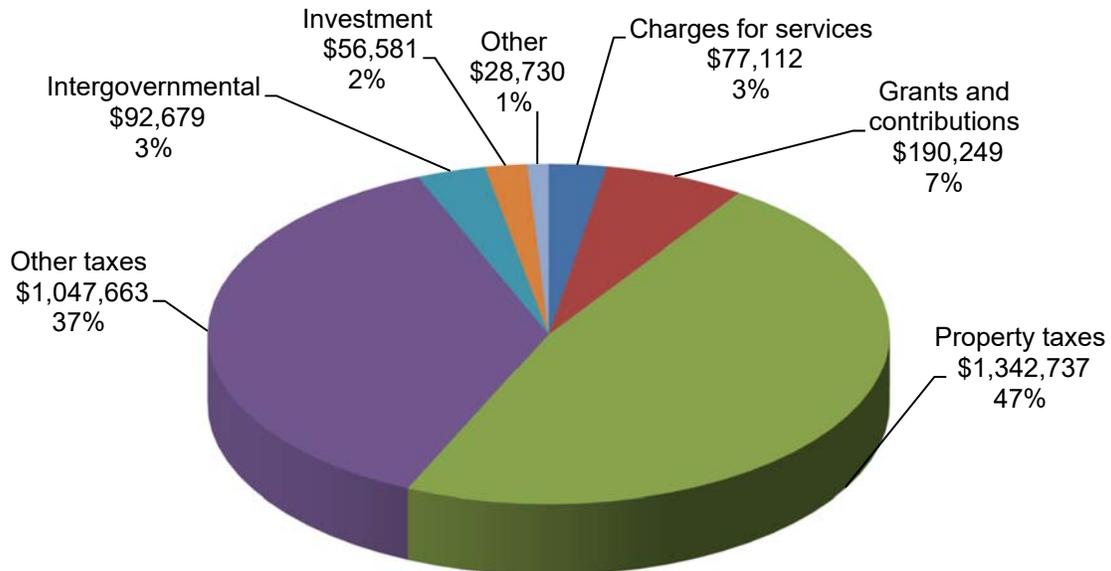
A portion of the City of Middletown's net position, \$413,630, represents resources that are subject to external restrictions on how they may be used. Prior year comparison shows \$396,606, an increase of \$17,024. The remaining balance of unrestricted net position, \$4,457,047, may be used to meet the government's ongoing obligations to citizens and creditors. This is an increase in available net assets of \$362,942 from 2017. At the end of the current fiscal year, the City of Middletown is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental activities. The increase in governmental net position of \$413,060 is primarily attributable to general government revenues exceeding operating expenditures by \$411,230.

The following is a more detailed review of the years' operations:

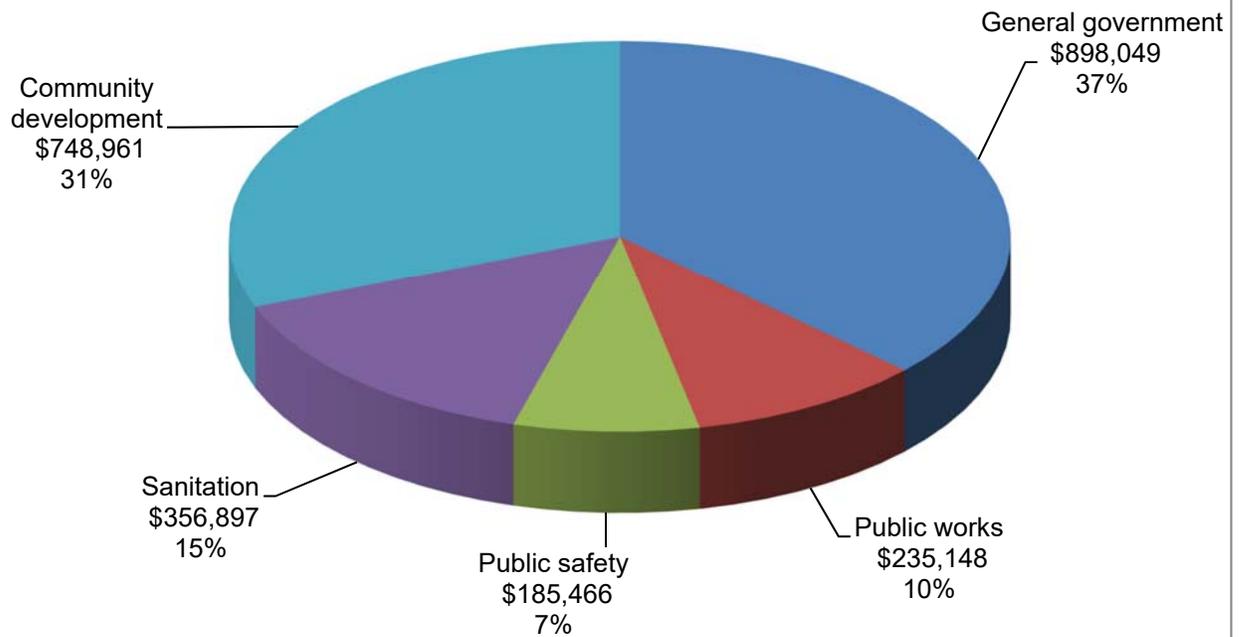
**City of Middletown's Changes in Net Position
Governmental Activities**

	<u>2018</u>	<u>2017</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Increase/ Decrease</u>
Revenues:				
Program Revenue:				
Charges for Services	\$ 77,112	\$ 56,330	\$ 20,782	36.89%
Grants and Contributions	190,249	171,930	18,319	10.65%
General Revenues:				
Property Taxes	1,342,737	1,245,319	97,418	7.82%
Other Taxes	1,047,663	1,046,442	1,221	0.12%
Intergovernmental	92,679	101,767	(9,088)	(8.93%)
Investment	56,581	21,493	35,088	163.25%
Other	<u>28,730</u>	<u>7,809</u>	<u>20,921</u>	<u>267.91%</u>
Total Revenues	2,835,751	2,651,090	184,661	6.97%
Expenses:				
General Government	898,049	696,675	201,374	28.91%
Public Safety	185,466	51,850	133,616	257.70%
Public Works	235,148	450,035	(214,887)	(47.75%)
Sanitation	356,897	377,089	(20,192)	(5.35%)
Community Development	<u>748,961</u>	<u>799,557</u>	<u>(50,596)</u>	<u>(6.33%)</u>
Total Expenses	2,424,521	2,375,206	49,315	2.08%
Increase (decrease) in net position	411,230	275,884	135,346	49.06%
Net position – beginning	<u>12,006,077</u>	<u>11,730,193</u>	<u>275,884</u>	<u>2.35%</u>
Net position – ending	<u>\$12,417,307</u>	<u>\$ 12,006,077</u>	<u>\$ 411,230</u>	<u>3.43%</u>

City of Middletown Governmental Activities 2018 Revenues



City of Middletown Governmental Activities 2018 Expenses

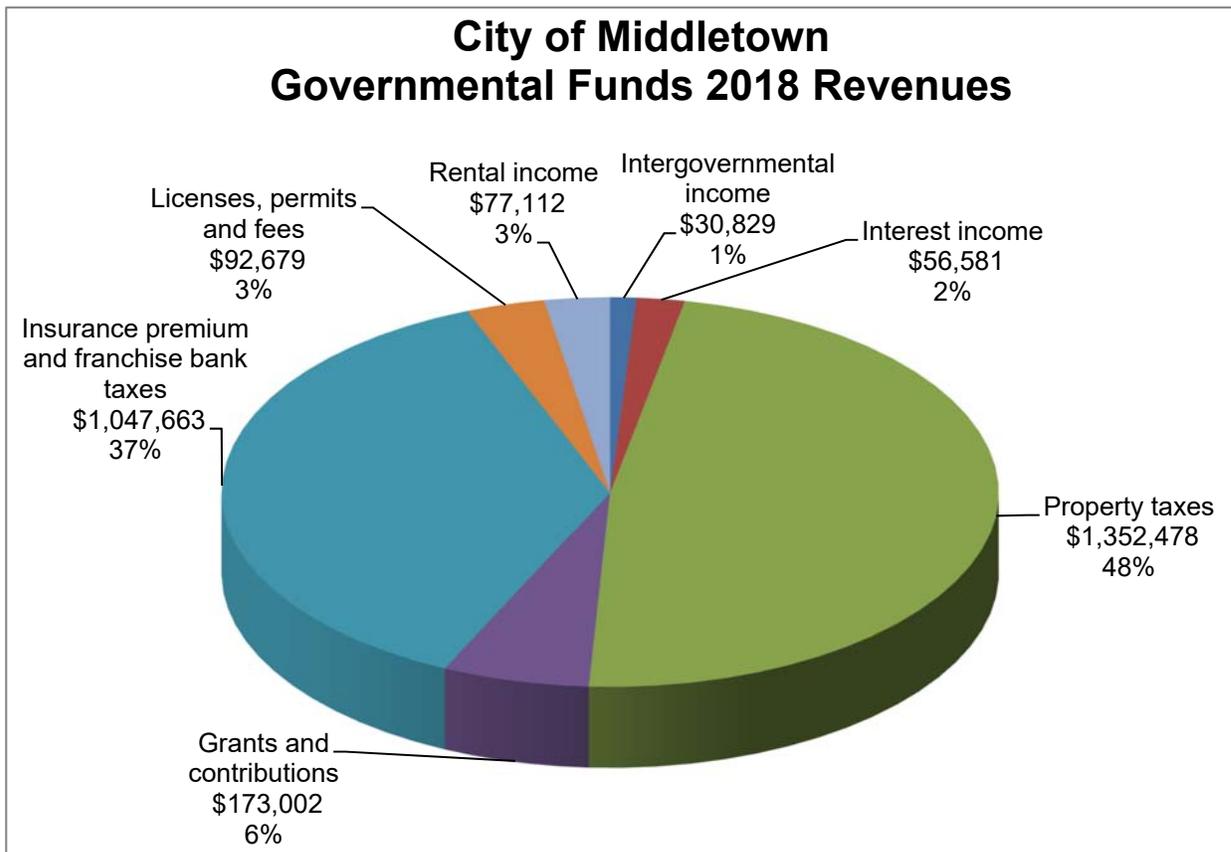


Financial Analysis of the Government Funds

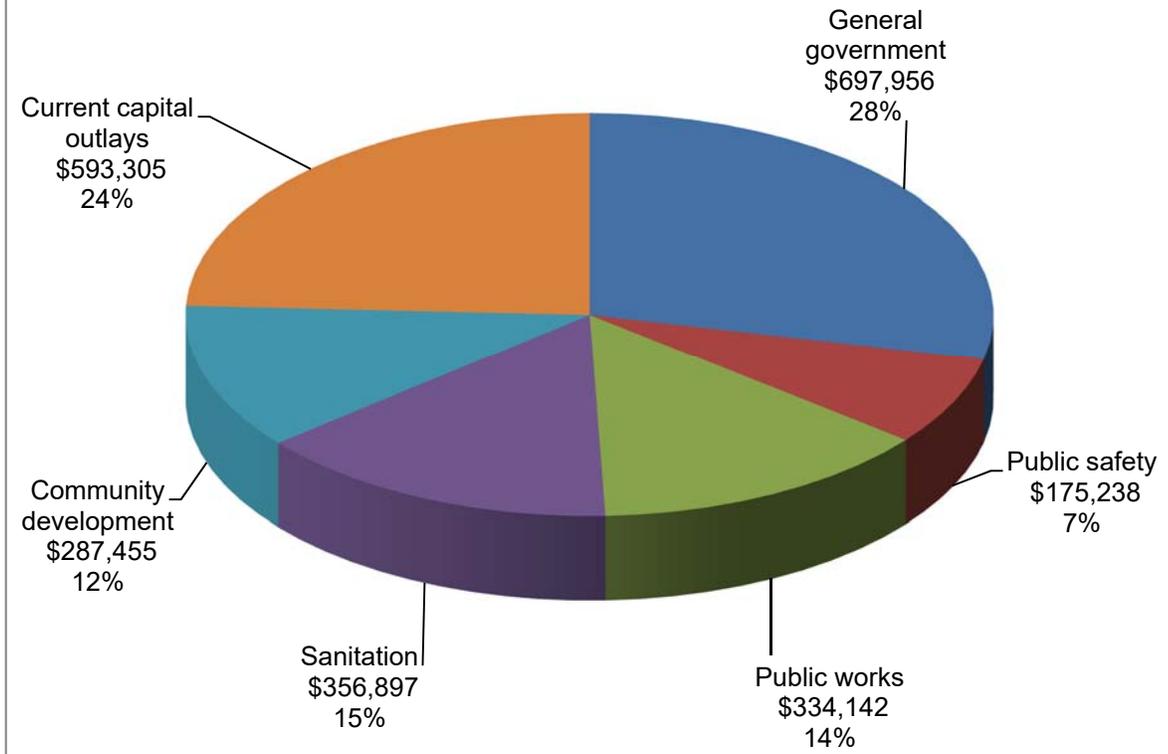
As noted earlier, the City of Middletown uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The financial reporting focus of the City of Middletown's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information, particularly *unassigned fund balance*, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Middletown's governmental funds reported a combined ending fund balance of \$4,402,091, an increase of \$385,351 in comparison with the prior year. Of this total, \$3,745,026 constitutes the unassigned fund balance, which is available to meet the future financial needs of the City. The remainder of the fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending.



City of Middletown Governmental Funds 2018 Expenses



Revenues for governmental fund functions totaled \$2,830,344 (see Statement of Revenues, Expenditures, and Changes in Fund Balances on page 5 of this report) in the fiscal year ended June 30, 2018.

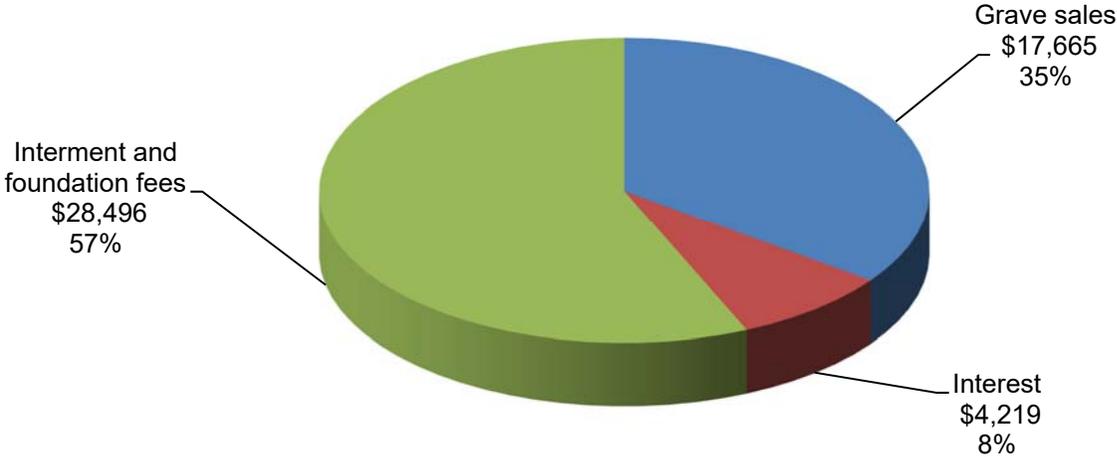
Property taxes represent the City's largest revenue source, with \$1,352,478 or 48 percent of all Governmental Fund revenues at the end of the current fiscal year. There was no change in the tax rate for this fiscal year within the General Fund. Grants of \$173,002 were received during the current fiscal year.

Expenses for governmental fund functions totaled \$2,444,993 (see Statement of Revenues, Expenditures, and Changes in Fund Balances on page 5 of this report) in the fiscal year ended June 30, 2018.

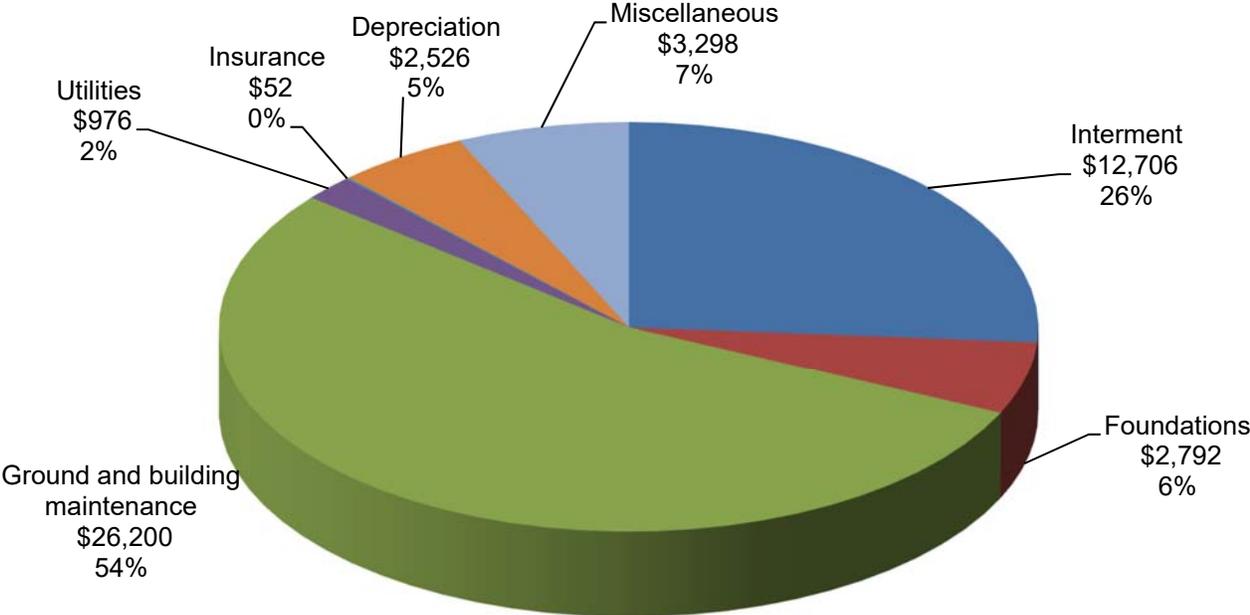
General government expenditures represent the City's largest expense, with \$697,956 or 28 percent of all Governmental Fund expenses. This amount represents expenses in the form of insurance, wages, general maintenance and other various general expenses.

Proprietary fund. The proprietary fund accounts for revenues collected from the sale of cemetery grave space and interment and foundation fees. This year the unrestricted net position increased from \$455,812 to \$457,642, an increase of \$1,830.

City of Middletown Proprietary Fund (Cemetery) 2018 Revenues

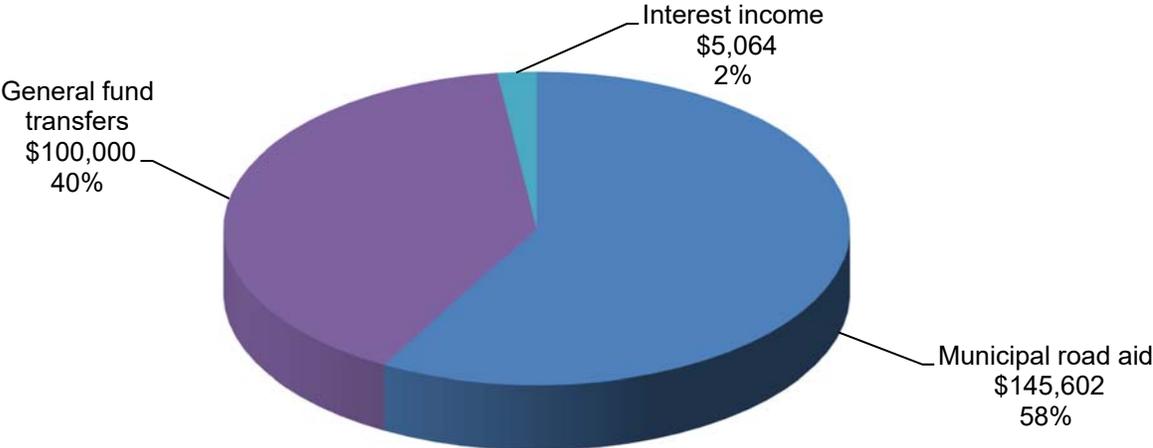


City of Middletown Proprietary Fund (Cemetery) 2018 Expenses

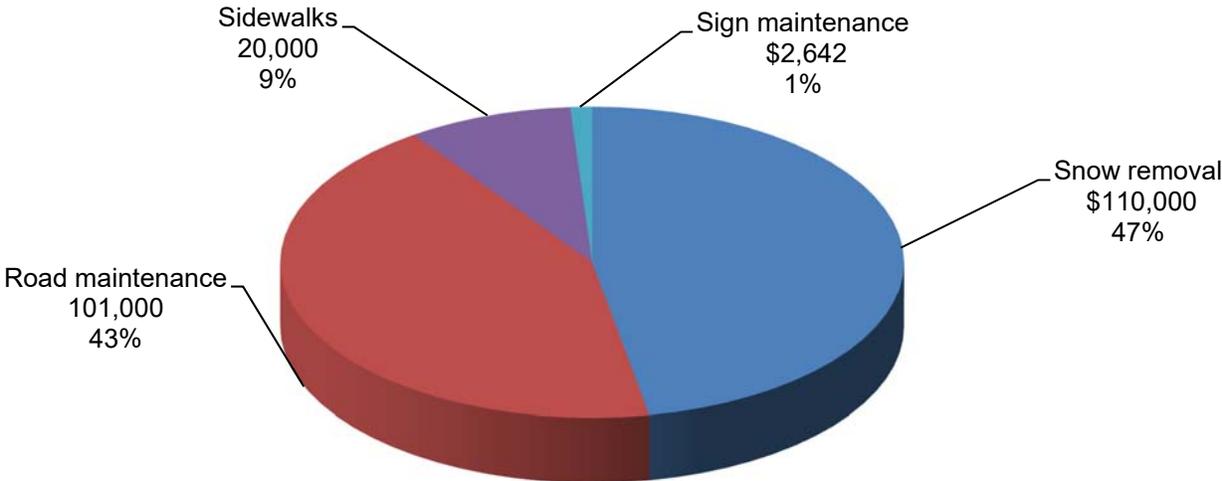


Special revenue fund (municipal road aid). The special revenue fund (municipal road aid) accounts for revenues collected from the Kentucky Transportation Cabinet municipal road aid payments and transfers from the general operating fund. This year the restricted fund balance increased from \$396,606 to \$413,630, an increase of \$17,024.

**City of Middletown
Special Revenue Fund (Municipal Road Aid) 2018
Revenues**



**City of Middletown
Special Revenue Fund (Municipal Road Aid) 2018
Expenses**



Capital Assets

The City of Middletown's investment in capital assets for its governmental activities for the year ended June 30, 2018 amounts to \$593,305. This investment in capital assets includes land and building improvements, machinery and equipment, roads and sidewalks, and park facilities.

City of Middletown's 2018 Capital Assets Governmental Activities

	June 30, 2017	Additions	Disposals	June 30, 2018
Land and Office	\$ 304,565	\$ -	\$ -	\$ 304,565
Farmbrook Property	232,550	-	-	232,550
Police Vehicles & Equip.	-	80,133	-	80,133
Building - Office	230,226	-	-	230,226
Middletown Museum	422,357	-	-	422,357
Building - Church	707,799	-	-	707,799
Community Center	599,032	317,869	-	916,901
Signs	53,019	-	-	53,019
Office Equipment	50,054	5,372	(4,000)	51,425
Wetherby House	1,290,560	-	-	1,290,560
Wetherby House Impr	1,260,537	34,140	-	1,294,677
War Monument	29,111	-	-	29,111
Main Streetscape	1,278,848	-	-	1,278,848
Shelbyville Rd Renovation	607,549	-	-	607,549
11905 Shelbyville Rd	320,201	-	-	320,201
Miscellaneous Impr	9,000	-	-	9,000
Infrastructure	8,065,805	173,038	-	8,238,844
Total Fixed Assets	<u>15,461,213</u>	<u>610,552</u>	<u>(4,000)</u>	<u>16,067,765</u>
Accumulated Depreciation:	<u>(7,514,529)</u>	<u>(572,833)</u>	<u>1,901</u>	<u>(8,085,461)</u>
Net Fixed Assets	<u>\$ 7,946,684</u>	<u>\$ 37,719</u>	<u>\$ (2,099)</u>	<u>\$ 7,982,304</u>

Business -Type Activities

	June 30, 2017	Additions	Disposals	June 30, 2018
Land	\$ 1,550	\$ -	\$ -	\$ 1,550
Improvements	37,895	-	-	37,895
Total Fixed Assets	<u>39,445</u>	<u>-</u>	<u>-</u>	<u>39,445</u>
Accumulated Depreciation:	<u>(14,951)</u>	<u>(2,526)</u>	<u>-</u>	<u>(17,477)</u>
Net Fixed Assets	<u>\$ 24,494</u>	<u>\$ (2,526)</u>	<u>\$ -</u>	<u>\$ 21,968</u>

Major capital asset events during the current fiscal year included the following:

- The City expanded the parking lot next to the park.
- The City completed renovations to the Community Center.
- The City completed improvements to roads and sidewalks during the fiscal year.
- The City purchased vehicles and equipment for the newly established police department.

Additional information on the City of Middletown's capital assets can be found in Note 1 on page 13 of this report.

Budgetary Highlights

The general fund budget was amended during the year to reflect the addition of a police department to the City of Middletown.

Significant budget versus actual variances include the following:

- The general fund federal and state grants revenue was \$27,400 versus the budgeted amount of \$717,827, which was \$690,427 under budget due to several large grants applied for but had not been awarded as of June 30, 2018.
- The general fund community development expenditures were \$697,214 versus the budgeted amount of \$1,747,724, which was \$1,050,510 under budget due to capital projects that were not started since the federal grant money to be used for the projects had not been awarded as of June 30, 2018.

Debt Administration

The City had no debt during fiscal year 2018.

Economic Factors and Next Year's Budgets

The local economy of the City remains strong. The City is experiencing consistent growth from incoming and continuing businesses. The City has experienced increases in property values in the current year.

In adopting the budget for the fiscal year 2019, the City officials considered many factors in making decisions and estimates about the finances of the upcoming year. A primary objective of the Commission was to continue to provide basic city services to the citizens while keeping the property tax rate the same.

A summary for the 2019 fiscal year budgeted expenses are as follows:

- Capital projects \$905,266
- Police expenditures \$340,925
- Public health & safety \$597,000
- Public works \$177,222
- General government \$1,043,074

Requests for Information

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

**CITY OF MIDDLETOWN, KENTUCKY
CONTENTS**

FINANCIAL STATEMENTS:	<u>Page(s)</u>
Independent Auditor's Report	1
Statement of Net Position	2
Statement of Activities	3
Balance Sheet Governmental Funds	4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Net Position – Proprietary Fund (Cemetery)	7
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund (Cemetery)	8
Statement of Cash Flows – Proprietary Fund (Cemetery)	9
Notes to Financial Statements	10-18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	19
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund (Municipal Road Aid)	20
Statement of Revenues, Expenses, and Changes in Fund Balance – Budget and Actual – Proprietary Fund (Cemetery)	20
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 <i>Government Auditing Standards</i>	21-22

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Commissioners
City of Middletown, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Middletown, Kentucky as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Middletown, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages M1-M12 and 19-20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2018, on our consideration of the City of Middletown, Kentucky'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 of Middletown, Kentucky'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 of Middletown, Kentucky's internal control over financial reporting and compliance.



Welenken CPAs

Louisville, Kentucky
September 7, 2018

CITY OF MIDDLETOWN, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,981,796	\$ 176,457	\$ 2,158,253
Taxes receivable and other current assets	66,220	-	66,220
Investments	2,406,373	259,217	2,665,590
Other assets	147,435	-	147,435
Capital assets, net of accumulated depreciation	<u>7,982,304</u>	<u>21,968</u>	<u>8,004,272</u>
Total assets	<u>12,584,128</u>	<u>457,642</u>	<u>13,041,770</u>
LIABILITIES			
Accounts payable	141,928	-	141,928
Accrued liabilities	4,893	-	4,893
Escrow	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total liabilities	<u>166,821</u>	<u>-</u>	<u>166,821</u>
NET POSITION			
Invested in capital assets, net of related debt	7,982,304	21,968	8,004,272
Restricted for other purposes	413,630	-	413,630
Unrestricted	<u>4,021,373</u>	<u>435,674</u>	<u>4,457,047</u>
Total net position	<u>\$ 12,417,307</u>	<u>\$ 457,642</u>	<u>\$ 12,874,949</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETOWN, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net (Expenses) Revenues and Changes in Net Position

Functions/Programs	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ (898,049)	\$ -	\$ -	\$ 44,647	\$ (853,402)	\$ -	\$ (853,402)
Public safety	(185,466)	-	-	-	(185,466)	-	(185,466)
Public works	(235,148)	-	-	-	(235,148)	-	(235,148)
Sanitation	(356,897)	-	-	-	(356,897)	-	(356,897)
Community development	(748,961)	77,112	145,602	-	(526,247)	-	(526,247)
Total governmental activities	<u>(2,424,521)</u>	<u>77,112</u>	<u>145,602</u>	<u>44,647</u>	<u>(2,157,160)</u>	<u>-</u>	<u>(2,157,160)</u>
Business-type activities:							
Cemetery	<u>(48,550)</u>	<u>46,161</u>				<u>(2,389)</u>	<u>(2,389)</u>
Total business activities	<u>(48,550)</u>	<u>46,161</u>				<u>(2,389)</u>	<u>(2,389)</u>
Total primary government	<u>\$ (2,473,071)</u>	<u>\$ 123,273</u>	<u>\$ 145,602</u>	<u>\$ 44,647</u>			<u>\$ (2,159,549)</u>
General revenues:							
Taxes							
Property taxes, levied for general purpose					1,342,737	-	1,342,737
Insurance premiums taxes					853,948	-	853,948
Bank franchise and local deposit taxes					193,715	-	193,715
Public service taxes					92,679	-	92,679
Investment earnings					56,581	4,219	60,800
Loss on disposal of asset					(2,099)	-	(2,099)
Miscellaneous					30,829	-	30,829
Total general revenues					<u>2,568,390</u>	<u>4,219</u>	<u>2,572,609</u>
Changes in net position					411,230	1,830	413,060
Net position - beginning					<u>12,006,077</u>	<u>455,812</u>	<u>12,461,889</u>
Net position - ending					<u>\$ 12,417,307</u>	<u>\$ 457,642</u>	<u>\$ 12,874,949</u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETOWN, KENTUCKY
BALANCE SHEET GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Special Revenue (Municipal Road Aid)	Total
ASSETS			
Cash and cash equivalents	\$ 1,469,166	\$ 512,630	\$ 1,981,796
Receivables			
Taxes	36,220	-	36,220
Grants	9,000	-	9,000
Prepaid expenses	21,000	-	21,000
Investments	2,406,373	-	2,406,373
Other current assets	147,435	-	147,435
Total Assets	4,089,194	512,630	4,601,824
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	42,928	99,000	141,928
Accrued liabilities	4,893	-	4,893
Escrow	20,000	-	20,000
Total Liabilities	67,821	99,000	166,821
Deferred Inflows of Resources			
Unavailable revenue - property taxes	32,912	-	32,912
Total Deferred Inflows of Resources	32,912	-	32,912
Fund balances:			
Nonspendable			
Prepaid items	21,000	-	21,000
Restricted			
Special Revenue (Municipal Road Aid)	-	413,630	413,630
Committed			
Sewer recapture project	147,435	-	147,435
Assigned			
Subsequent year's budget	75,000	-	75,000
Unassigned	3,745,026	-	3,745,026
Total Fund Balances	3,988,461	413,630	4,402,091
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,089,194	\$ 512,630	\$ 4,601,824

**RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION**

Total fund balances - governmental	\$ 4,402,091
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	7,982,304
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds	32,912
Net position of governmental activities	\$ 12,417,307

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Special Revenue (Municipal Road Aid)</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 1,352,478	\$ -	\$ 1,352,478
Insurance premiums taxes	853,948	-	853,948
Franchise bank tax	193,715	-	193,715
Licenses, permits and fees	92,679	-	92,679
Intergovernmental revenues	30,829	-	30,829
Rental income	77,112	-	77,112
Grant income	27,400	145,602	173,002
Interest received	51,517	5,064	56,581
Total revenues	<u>2,679,678</u>	<u>150,666</u>	<u>2,830,344</u>
EXPENDITURES			
General government	697,956	-	697,956
Public safety	175,238	-	175,238
Public works	215,788	118,354	334,142
Sanitation	356,897	-	356,897
Community development	287,455	-	287,455
Current capital outlays	478,017	115,288	593,305
Total expenditures	<u>2,211,351</u>	<u>233,642</u>	<u>2,444,993</u>
Other financing sources (uses)			
Transfers in (out)	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>
Net change in fund balances	368,327	17,024	385,351
Fund balances - beginning	<u>3,620,134</u>	<u>396,606</u>	<u>4,016,740</u>
Fund balances - ending	<u>\$ 3,988,461</u>	<u>\$ 413,630</u>	<u>\$ 4,402,091</u>

The accompanying notes are an integral part of these statements.

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

Net change in fund balances-total governmental funds	\$ 385,351
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital outlay	593,305
Depreciation expense	(572,833)
Loss on disposal of asset	(2,099)
Governmental funds do not report donated capital assets because no financial resource flow has taken place however, in the statement of activities, the fair value is recorded as a contribution	17,247
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds	(9,741)
Change in net position of governmental activities	\$ 411,230

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETOWN, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND (CEMETERY)
JUNE 30, 2018**

ASSETS

Current Assets:	
Cash	\$ 176,457
Investments	<u>259,217</u>
Total current assets	<u>435,674</u>
Capital assets, net of accumulated depreciation	<u>21,968</u>
Total capital assets, net	<u>21,968</u>
Total assets	<u>457,642</u>

LIABILITIES

Current Liabilities:	
Accounts payable	<u>-</u>
Total current liabilities	<u>-</u>

NET POSITION

Invested in capital assets	21,968
Unrestricted	<u>435,674</u>
Total net position	<u><u>\$ 457,642</u></u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
PROPRIETARY FUND (CEMETERY)
YEAR ENDED JUNE 30, 2018**

Operating Revenues:	
Sale of grave space	\$ 17,665
Interment and foundation fees	<u>28,496</u>
Total operating revenue	<u>46,161</u>
Operating Expenses:	
Interment	12,706
Foundations	2,792
Ground and building maintenance	26,200
Utilities	976
Insurance	52
Depreciation	2,526
Miscellaneous	<u>3,298</u>
Total operating expenses	<u>48,550</u>
Operating loss	(2,389)
Non-operating revenues:	
Interest income	<u>4,219</u>
Total non-operating revenues	<u>4,219</u>
CHANGE IN NET POSITION	1,830
Net position - beginning	<u>455,812</u>
Net position - ending	<u><u>\$ 457,642</u></u>

The accompanying notes are an integral part of these statements.

**CITY OF MIDDLETOWN, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND (CEMETERY)
YEAR ENDED JUNE 30, 2018**

Cash Flows From Operating Activities:

Receipts from customers	\$ 46,161
Payments to suppliers	<u>(46,574)</u>
Net cash used in operating activities	<u>(413)</u>

Cash Flows From Investing Activities:

Interest income	4,219
Purchase of investments	(2,501)
Sale of investments	<u>3,342</u>
Net cash provided by investing activities	<u>5,060</u>

Net Increase in Cash

4,647

Cash, Beginning

171,810

Cash, Ending

\$ 176,457

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Cash flows from operating activities:	
Operating loss	\$ (2,389)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	2,526
Change in assets and liabilities:	
Decrease in accounts payable	<u>(550)</u>
Net cash used in operating activities	<u><u>\$ (413)</u></u>

The accompanying notes are an integral part of these statements.

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Middletown, Kentucky (City) was founded in 1797 and incorporated on August 7, 1979 under the laws of the Commonwealth of Kentucky. The City operates under a Commission form of government and provides the following services as authorized by its charter: streets, sanitation, public improvements, planning and zoning, and general administrative services. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements present the activities of the City.

B. BASIC FINANCIAL STATEMENTS

Basic financial statements consist of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

The government-wide financial statements consist of the statement of net position and the statement of activities and report information on all of the non-fiduciary activities of the City. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include general government, public safety, public works, sanitation, and community development.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. 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 activity, and 2) grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds due to their belief that all of these funds present financial information which is important to the financial statement users. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

C. MEASUREMENTS FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City in general considers revenues available if they are collected within 180 days after year-end, except for property taxes, which the City considers available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if the susceptible to accrual criteria are met.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

C. MEASUREMENTS FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION- continued

The Special Revenue Fund (Municipal Road Aid) 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 for specified purposes.

The City reports the following major proprietary fund:

The Proprietary Fund (Cemetery). 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 principal ongoing operations. The principal operating revenues of the proprietary fund are sales of cemetery grave space, interment and foundation fees. Operating expenses report on the costs of interment, maintenance and administration of the cemetery. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Cash and Cash Equivalents – The City maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidence by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The City met the requirements stated above, and as of June 30, 2018, deposits were fully insured or collateralized at a 100% level.

For purposes of the statement of cash flows, all cash deposits (including restricted assets) with an original maturity of three months or less from date of acquisition are considered to be cash equivalents.

Accounts Receivable and Taxes Receivable – Accounts receivable and taxes receivable are recorded at gross amount with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

Investments – Investments are stated at amortized cost which approximates fair value. The City maintains investments in certificates of deposit with maturities varying from twelve to nineteen months.

Other Assets – The City has entered into a Recapture Agreement to construct sewer recapture facilities which will be capable of providing sanitary sewer service to certain properties within the service area. The cost of the Recapture Facilities was paid for by the

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION – continued

City and the project’s partners. The cost of this project will be offset by future connection fees charged to property owners within the service area. As of June 30, 2018 construction costs less connection fees totaled \$147,435.

Capital Assets – Capital assets, which include land, buildings, improvements, machinery, equipment and infrastructure assets (e.g., roads, sidewalks, traffic lights and signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Capital assets of the City are depreciated using a straight-line method over the following estimated useful lives:

Assets	Years
Buildings	5 to 40
Improvements other than buildings	5 to 40
Machinery and equipment	5 to 10
Infrastructure	15 to 40

Deferred Inflows of Resources – In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity:

Fund Financial Statements – Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION – continued

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of the other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Commission. The Commission is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commission.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Commission adopted policy, only the City Commission may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Commissioners have provided otherwise in its commitment or assignment functions

Government-Wide Statements – Equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt – Amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Amount of net position that are subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – Net position that are neither classified as restricted nor as invested in capital assets, net of related debt.

Budgetary Accounting - The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City including any authorized revisions

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION – continued

Compensated Absences –Vacation time not taken within the current year may be carried forward to the following calendar year not to exceed 20 days per year. Any amount over 20 days will be compensated at the full rate at the end of each calendar year. Also at the end of each calendar year, all full-time current employees have the option of: (1) carry forward all unused sick leave days of the maximum at 30, or (2) be paid compensation for all sick leave days in excess of 30 days at a rate of 100% of current compensation for all accumulated sick leave days. Since the employee’s accumulating rights are contingent upon future events that cannot be reasonably estimated, no liability or expense has been recorded.

Long-term Obligations – In the government-wide financial statements, and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position.

Interfund Transfers – Interfund transfers are budgeted and approved by the City Commission.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the classification and reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

Note 2. AD VALOREM TAXES

The City has adopted a tax rate of .135 cents per \$100 of property assessed for taxation. The total assessed value of real property within the City is \$1,143,895,230.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided. Taxes are levied annually on June 30 and are due by December 31. A discount of 15% shall be allowed on tax bills paid through November 1st. From January 1st and thereafter, a penalty of 10% plus interest at the rate of 18% per annum is assessed on the face amount of the tax bill until payment is received.

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 3. INSURANCE PREMIUMS TAXES

The City levies an insurance premium tax on non-health and worker's compensation insurance products sold to City residents. The assessed tax is 5% of gross premiums payable on a quarterly basis.

Note 4. BANK FRANCHISE AND LOCAL DEPOSIT TAXES

The City imposes a bank franchise tax on local deposits of all financial institutions located within the City limits. The assessed tax is .025% on all deposits payable on an annual basis.

Note 5. COMMITMENTS

The City maintains contractual relationships relating to services provided for the benefit of the City. These commitments include annual contractual obligations for employment, sanitation, cable television, and maintenance services. All contracts are current and no invoices are outstanding.

Note 6. INVESTMENTS

At June 30, 2018, the City had investments in certificates of deposits with maturities as follows:

<u>Total</u>	<u>Investment Maturities</u>	
	<u>Less than 1 year</u>	<u>1 – 5 years</u>
<u>\$2,665,590</u>	<u>-</u>	<u>\$2,665,590</u>

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 7. CAPITAL ASSETS

City of Middletown's 2018 Capital Assets
Governmental Activities

	June 30, 2017	Additions	Disposals	June 30, 2018
Land and Office	\$ 304,565	\$ -	\$ -	\$ 304,565
Farmbrook Property	232,550	-	-	232,550
Police Vehicles & Equip.	-	80,133	-	80,133
Building - Office	230,226	-	-	230,226
Middletown Museum	422,357	-	-	422,357
Building - Church	707,799	-	-	707,799
Community Center	599,032	317,869	-	916,901
Signs	53,019	-	-	53,019
Office Equipment	50,054	5,372	(4,000)	51,425
Wetherby House	1,290,560	-	-	1,290,560
Wetherby House Impr	1,260,537	34,140	-	1,294,677
War Monument	29,111	-	-	29,111
Main Streetscape	1,278,848	-	-	1,278,848
Shelbyville Rd Renovation	607,549	-	-	607,549
11905 Shelbyville Rd	320,201	-	-	320,201
Miscellaneous Impr	9,000	-	-	9,000
Infrastructure	8,065,805	173,038	-	8,238,844
Total Fixed Assets	<u>15,461,213</u>	<u>610,552</u>	<u>(4,000)</u>	<u>16,067,765</u>
Accumulated Depreciation:	<u>(7,514,529)</u>	<u>(572,833)</u>	<u>1,901</u>	<u>(8,085,461)</u>
Net Fixed Assets	<u>\$ 7,946,684</u>	<u>\$ 37,719</u>	<u>\$ (2,099)</u>	<u>\$ 7,982,304</u>

Business-Type Activities

	June 30, 2017	Additions	Disposals	June 30, 2018
Land	\$ 1,550	\$ -	\$ -	\$ 1,550
Improvements	37,895	-	-	37,895
Total Fixed Assets	<u>39,445</u>	<u>-</u>	<u>-</u>	<u>39,445</u>
Accumulated Depreciation:	<u>(14,951)</u>	<u>(2,526)</u>	<u>-</u>	<u>(17,477)</u>
Net Fixed Assets	<u>\$ 24,494</u>	<u>\$ (2,526)</u>	<u>\$ -</u>	<u>\$ 21,968</u>

Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 81,739
Public safety	10,228
Public works	19,360
Community development	<u>461,506</u>
	<u>\$572,833</u>
Business-type activities:	
Cemetery	<u>\$ 2,526</u>

CITY OF MIDDLETOWN, KENTUCKY
Notes to Financial Statements
June 30, 2018

Note 8. RELATED PARTY TRANSACTIONS

The City rents a house to an employee of the City. Rental income from the house for the year ended June 30, 2018 totaled \$9,600. Rental terms are detailed in Note 9.

Note 9. LEASES

The City of Middletown holds various leases. The lease details are as follows:

<u>Location</u>	<u>Rental Income</u>	<u>Term of Lease</u>
11905 Old Shelbyville Road	\$800/month	Month to month
12556 Shelbyville Road	\$3,500/month	October 2016 – September 2023
12556 Shelbyville Road	\$3,200/month	Addendum to lease for period 3/1/17 - 2/28/18
Community Center	\$8,701/quarter	11/1/17-6/30/18
Community Center		
Build out reimbursement	\$4,544/month	11/1/17-6/30/18

As a courtesy, the City of Middletown, Kentucky provides free space to certain non-profit organizations.

Note 10. RETIREMENT PLAN

The City provides a Simple IRA plan for eligible employees, whereby employees make salary reduction contributions up to the allowable limit and the City makes matching contributions up to 3% of wages. The City's expense for the year ended June 30, 2018 was \$3,766.

Note 11. SUBSEQUENT EVENTS

The City has evaluated subsequent events through September 7, 2018, the date the financial statements are available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MIDDLETOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL-GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 1,306,520	\$ 1,306,520	\$ 1,352,478	\$ 45,958
Insurance premiums	890,000	890,000	853,948	(36,052)
Franchise bank fees	200,000	200,000	193,715	(6,285)
Licenses, permits, and fees	99,400	99,400	92,679	(6,721)
Federal and state grants	717,827	717,827	27,400	(690,427)
Rental income	73,428	73,428	77,112	3,684
Interest received	10,000	10,000	51,517	41,517
Miscellaneous	38,604	38,604	30,829	(7,775)
Total revenues	<u>3,335,779</u>	<u>3,335,779</u>	<u>2,679,678</u>	<u>(656,101)</u>
Expenditures:				
General government	793,052	793,052	697,956	95,096
Public safety and sanitation	455,000	630,000	595,021	34,979
Public works	226,700	226,700	221,160	5,540
Community development	1,747,724	1,747,724	697,214	1,050,510
Total expenditures	<u>3,222,476</u>	<u>3,397,476</u>	<u>2,211,351</u>	<u>1,186,125</u>
Other financing sources (uses)				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
Net change in fund balance	13,303	(161,697)	368,327	530,024
Fund balance - beginning	<u>3,620,134</u>	<u>3,620,134</u>	<u>3,620,134</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 3,633,437</u></u>	<u><u>\$ 3,458,437</u></u>	<u><u>\$ 3,988,461</u></u>	<u><u>\$ 530,024</u></u>

**CITY OF MIDDLETOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - SPECIAL REVENUE FUND (MUNICIPAL ROAD AID)
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with final budget Positive (Negative)
	Original	Final		
Revenues:				
Intra-governmental revenue	\$ 145,000	\$ 145,000	\$ 145,602	\$ 602
Interest	600	600	5,064	4,464
Total revenues	<u>145,600</u>	<u>145,600</u>	<u>150,666</u>	<u>5,066</u>
Expenditures:				
Public works	234,200	234,200	233,642	558
Total expenditures	<u>234,200</u>	<u>234,200</u>	<u>233,642</u>	<u>558</u>
Other financing sources(uses)				
Transfers in	100,000	100,000	100,000	-
Net change in fund balance	11,400	11,400	17,024	5,624
Fund balance - beginning	396,606	396,606	396,606	-
Fund balance - ending	<u>\$ 408,006</u>	<u>\$ 408,006</u>	<u>\$ 413,630</u>	<u>\$ 5,624</u>

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - PROPRIETARY FUND (CEMETERY)
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with final budget Positive (Negative)
	Original	Final		
Revenues:				
Revenues	\$ 61,500	\$ 61,500	\$ 46,161	\$ (15,339)
Interest	-	-	4,219	4,219
	<u>61,500</u>	<u>61,500</u>	<u>50,380</u>	<u>(11,120)</u>
Expenditures:				
Cemetery expenses	61,252	61,252	48,550	12,702
	<u>61,252</u>	<u>61,252</u>	<u>48,550</u>	<u>12,702</u>
Net change in fund balance	248	248	1,830	1,582
Net position - beginning	455,812	455,812	455,812	-
Net position - ending	<u>\$ 456,060</u>	<u>\$ 456,060</u>	<u>\$ 457,642</u>	<u>\$ 1,582</u>

**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 City Commissioners
City of Middletown, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Middletown, Kentucky, as of and for the year ended June 30, 2018 and the related notes to the financial statements, and have issued our report thereon dated September 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Middletown, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Middletown, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Middletown, Kentucky'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Welenken CPAs". The signature is written in a cursive, slightly slanted style.

Welenken CPAs

Louisville, Kentucky
September 7, 2018