

CITY OF FALMOUTH, KENTUCKY

June 30, 2018

AUDITED FINANCIAL STATEMENTS



MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT AUDITOR

City of Falmouth, Kentucky
230 Main Street
Falmouth, KY 41040

To the City Commission

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 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, budgetary schedules, pension schedules, and OPEB schedules as listed in the table of contents, 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 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the schedules of fund activity are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

June 14, 2019

As financial management of the City of Falmouth, Kentucky, (City) we offer readers of these financial statements this narrative overview and analysis of the financial activities of the for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights:

- The assets of the City exceeded liabilities at June 30, 2018, by \$8,513,397.
- At June 30, 2018, the governmental funds reported combined fund balances of \$4,810.

Overview of the Financial Statements:

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The 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 additional supplementary information.

Government-wide financial statements:

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

- The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities presents information showing how a government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of 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 fiscal period.
- 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 City's governmental activities include police, contracted fire protection, streets, sanitation, and general government. The City has one business-type activity, water and sewer service.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with financial legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, 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. This information is useful in evaluating the City's near-term financing requirements.
- Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information for governmental funds with information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the

governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

- The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Municipal Road Aid funds.
- The City adopts an annual appropriated budget for all of the governmental funds. A budgetary comparison statement for these funds is included in the Audit Report.
- The basic governmental fund financial statements are included in this report.

Proprietary Fund:

Proprietary funds provide the same type of information as the government-wide financial statements' business-type activities, only in more detail. The City maintains one proprietary fund to account for its water and sewer services.

- The basic proprietary fund financial statements are included in 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.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning funding progress for the City's employee pension obligation.

Government-wide Financial Analysis:

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The largest part of the City net position reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The increase or decrease reported in the business-type activities cannot be used to make up a difference reported in governmental activities. The City generally can only use the net position to finance the continuing operations of the water and sewer operations.

Following is a summary statement of net position as of June 30, 2018:

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets	642,092	1,439,739	2,081,831
Capital assets, net	3,226,276	8,469,857	11,696,133
Total assets	<u>4,510,460</u>	<u>11,349,335</u>	<u>15,859,795</u>
Deferred outflows of resources:			
Deferred outflows related to pensions	62,327	597,285	659,612
Deferred outflows related to OPEB		<u>120,129</u>	<u>120,129</u>
Total assets and deferred outflows of resources	<u>3,930,695</u>	<u>10,627,010</u>	<u>14,557,705</u>
Liabilities:			
Current liabilities	637,282	317,368	954,650
Net pension liability	0	1,607,435	1,607,435
Net OPEB Liability		552,080	552,080
Long-term liabilities	238,620	2,180,595	2,419,215
Total liabilities	<u>875,902</u>	<u>4,657,478</u>	<u>5,533,380</u>
Deferred inflows of resources:			
Deferred inflows related to pensions	330,229	151,254	481,483
Deferred inflows related to OPEB	<u>0</u>	<u>28,905</u>	<u>28,905</u>
Total liabilities and deferred inflows of resources	<u>1,206,131</u>	<u>4,837,637</u>	<u>6,043,768</u>
Net position:			
Net investment in capital assets	3,042,139	6,493,423	9,535,562
Restricted	170,068	106,896	276,964
Unrestricted	<u>(487,643)</u>	<u>(810,946)</u>	<u>(1,298,589)</u>
Total net position	<u>\$ 2,724,564</u>	<u>\$ 5,789,373</u>	<u>\$ 8,513,937</u>

Revenues for the City are generated from three main sources: property taxes, insurance premium taxes, and other taxes

Financial Analysis of the Government's Funds:

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial and legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The City's governmental funds reported combined ending fund balances of \$4,810

The general fund is the primary operating fund of the City. During the year revenues exceeded expenditures in the general fund by \$2,155.

The table below illustrates the breakdown of program costs as in compliance with GASB 34:

	<u>2018</u>	<u>2017</u>
Mayor and council	\$ 226,207	\$ 207,026
Public safety -police	593,314	425,185
Public safety - fire	148,661	149,422
Streets	8,470	197,931
Debt service	60,238	76,643
Interest	<u>10,105</u>	<u>564</u>
Total expenditures	<u>\$ 1,046,995</u>	<u>\$ 1,056,771</u>

Financial Analysis of the Proprietary Funds:

The City’s only proprietary fund is the water and sewer fund. This fund provides the same information found in the government-wide financial statements but in more detail. Unrestricted net position of the Water and Sewer Fund is \$5,789,373 as of June 30, 2018.

Capital Asset Administration:

The City’s investment in capital assets includes land, buildings and improvements, equipment, water systems, sewer systems, streets, electric systems, and other infrastructure. This investment in capital assets as of June 30, 2018, was \$11,696,133 (net of accumulated depreciation).

Additional information on capital assets can be found in Note 3 in the Notes to Financial Statements.

Debt Administration:

The City had total outstanding debt of \$2,392,536 at June 30, 2018.

Additional information on capital assets can be found in Note 4 in the Notes to Financial Statements.

Requests for Information

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City Clerk, 230 Main Street, Falmouth, KY 41062

City of Falmouth, Kentucky
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 528,109	\$ 702,961	\$ 1,231,070
Receivables	105,342	283,615	388,957
Intergovernmental receivables	8,641	0	8,641
Due from other funds	0	453,163	453,163
Capital assets, net	3,226,276	8,469,857	11,696,133
Total assets	3,868,368	9,909,596	13,777,964
Deferred outflows of resources:			
Deferred outflows related to pensions	62,327	597,285	659,612
Deferred outflows related to OPEB	0	120,129	120,129
Total assets and deferred outflows of resources	3,930,695	10,627,010	14,557,705
Liabilities:			
Accounts payable	7,365	143,296	150,661
Accrued expenses	10,812	7,992	18,804
Accrued wages and benefits	0	2,607	2,607
Customer deposits	0	101,816	101,816
Deferred revenue	13,745	0	13,745
Due to other funds	605,360	61,657	667,017
Interest payable	0	0	-
Net pension liability	0	1,607,435	1,607,435
Net OPEB liability	0	552,080	552,080
Long-term liabilities:			
Due within one year	50,003	181,962	231,965
Due in more than one year	184,137	1,976,434	2,160,571
Compensated absences	4,480	22,199	26,679
Total liabilities	875,902	4,657,478	5,533,380
Deferred inflows of resources:			
Deferred inflows related to pensions	330,229	151,254	481,483
Deferred inflows related to OPEB	0	28,905	28,905
Total liabilities and deferred inflows of resources	1,206,131	4,837,637	6,043,768
Net position:			
Net investment in capital assets	3,042,139	6,493,423	9,535,562
Restricted	170,068	106,896	276,964
Unrestricted	(487,643)	(810,946)	(1,298,589)
Total net position	\$ 2,724,564	\$ 5,789,373	\$ 8,513,937

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

City of Falmouth, Kentucky
Statement of Activities
Year Ended June 30, 2018

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 262,976	\$ 0	\$ 37,985	\$ 0	\$ (224,991)	\$ 0	\$ (224,991)
Public safety - police	353,979		27,385		(326,594)		(326,594)
Public safety - fire	167,794	78,220	10,500		(79,074)		(79,074)
Public works	49,829				(49,829)		(49,829)
Interest	10,104				(10,104)		(10,104)
Total governmental activities	<u>844,682</u>	<u>78,220</u>	<u>75,870</u>	<u>0</u>	<u>(690,592)</u>	<u>0</u>	<u>(690,592)</u>
Business-type activities:							
Electric	1,932,650	1,880,091				(52,559)	(52,559)
Water	834,495	734,758				(99,737)	(99,737)
Sewer	629,036	471,095				(157,941)	(157,941)
Garbage	219,506	198,802				(20,704)	(20,704)
Unallocated	615,558					(615,558)	(615,558)
Total business-type activities	<u>4,231,245</u>	<u>3,284,746</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(946,499)</u>	<u>(946,499)</u>
Total city	<u>\$ 5,075,927</u>	<u>\$ 3,362,966</u>	<u>\$ 75,870</u>	<u>\$ 0</u>	<u>(690,592)</u>	<u>(946,499)</u>	<u>(1,637,091)</u>
General revenues:							
Property tax					421,565		421,565
Insurance tax					294,383		294,383
Other taxes					150,221		150,221
Licenses					12,425		12,425
Other revenues					93,024	66,140	159,164
Transfers					0		0
Sale of assets					0		0
Total general revenues					<u>971,618</u>	<u>66,140</u>	<u>1,037,758</u>
Change in net position					281,026	(880,359)	(599,333)
Prior period adjustment					0	(433,035)	(433,035)
Net position - beginning					<u>2,443,538</u>	<u>7,102,767</u>	<u>9,546,305</u>
Net position - ending					<u>\$ 2,724,564</u>	<u>\$ 5,789,373</u>	<u>\$ 8,513,937</u>

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

City of Falmouth, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2018

	General Fund	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 302,572	\$ 91,061	\$ 134,476	\$ 528,109
Receivables:				
Taxes	89,887			89,887
Accounts	15,455	5,115		20,570
Intergovernmental	3,526	0		3,526
Interfund receivable	(124,476)		-	(124,476)
Total assets	<u>\$ 286,964</u>	<u>\$ 96,176</u>	<u>\$ 134,476</u>	<u>\$ 517,616</u>
Liabilities:				
Accounts payable	\$ 7,365	\$ 0	\$ 0	\$ 7,365
Accrued liabilities	10,812			10,812
Deferred revenue	13,745			13,745
Due to other funds	494,518	7,890	(21,524)	480,884
Total liabilities	<u>526,440</u>	<u>7,890</u>	<u>(21,524)</u>	<u>512,806</u>
Deferred inflows of resources				
Unavailable revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances:				
Nonspendable	0	0	0	0
Restricted	0	96,176	134,476	230,652
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	(239,476)	(7,890)	21,524	(225,842)
Total fund balances	<u>(239,476)</u>	<u>88,286</u>	<u>156,000</u>	<u>4,810</u>
Total liabilities and fund balances	<u>\$ 286,964</u>	<u>\$ 96,176</u>	<u>\$ 134,476</u>	<u>\$ 517,616</u>

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

City of Falmouth, Kentucky
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 June 30, 2018

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

Total governmental fund balances	\$	4,810
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.		3,226,276
Principal debt payments are recorded as expenditures in the funds but are reported as a reduction in debt in the governmental activities.		(234,140)
Deferred outflows and inflow or resources related to pensions are applicable to future periods and, therefore not reported in the funds:		
Deferred outflows related to pensions		62,327
Deferred inflows related to pension		(330,229)
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds.		
Net pension liability		0
Compensated absences		(4,480)
Net position of governmental activities	<u>\$</u>	<u>2,724,564</u>

City of Falmouth, Kentucky
Statement of Revenues, Expenditure, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	General Fund	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property tax	\$ 379,039	\$ 0	\$ 0	\$ 379,039
Insurance premium tax	294,384			294,384
Other tax	112,457		37,766	150,223
Licenses and permits	12,425			12,425
Charges for services	78,220			78,220
Intergovernmental	27,385	42,526	37,985	107,896
Rental revenue	19,254			19,254
Other	84,268			84,268
Total revenues	1,007,432	42,526	75,751	1,125,709
Expenditures:				
Current				
Mayor and council	204,503		21,704	226,207
Public safety - police	593,254		60	593,314
Public safety - fire	148,661			148,661
Streets		8,470		8,470
Debt service - principal	49,003		11,235	60,238
Debt service - interest	9,856		249	10,105
Total expenditures	1,005,277	8,470	33,248	1,046,995
Net change in fund balances	2,155	34,056	42,503	78,714
Other financing sources (uses):				
Sale of assets				0
Transfers in				0
Transfers out				0
Total other financing sources (uses)	0	0	0	0
Net change in fund balances	2,155	34,056	42,503	78,714
Prior period adjustment		0	0	0
Beginning fund balances	(241,631)	54,230	113,497	(73,904)
Ending fund balances	\$ (239,476)	\$ 88,286	\$ 156,000	\$ 4,810

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

City of Falmouth, 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

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

Net change in fund balances - total governmental funds	\$	78,714
<p>Governmental funds report capital outlays as expenditures. However, for governmental activities those costs are reported in the statement of net position and allocated over their estimated useful lives and reported as depreciation expense in the statement of activities</p>		
Capital outlay reported in governmental expenditures		
Depreciation expense reported in the statement of activities		(108,756)
<p>Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned</p>		
		60,298
<p>Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employer contributions, is reported as pension expense</p>		
		253,324
<p>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</p>		
		(2,554)
Change in net position of governmental activities	<u>\$</u>	<u>281,026</u>

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

City of Falmouth, Kentucky
Statement of Net Position
Proprietary Fund
June 30, 2018

	Utility Fund
Assets:	
Current assets:	
Cash	\$ 702,961
Customer receivables	283,615
Due from other funds	391,506
Total current assets	<u>1,378,082</u>
Noncurrent assets:	
Depreciable capital assets	<u>8,469,857</u>
Total noncurrent assets	<u>8,469,857</u>
Total assets	9,847,939
Deferred outflows of resources:	
Deferred outflows related to pensions	597,285
Deferred outflows related to OPEB	<u>120,129</u>
Total assets and deferred outflows of resources	<u><u>\$ 10,565,353</u></u>
Liabilities:	
Accounts payable	\$ 143,296
Accrued expenses	7,992
Payroll and related expenses	2,607
Interest payable	0
Customer deposits	101,816
Compensated absences	22,199
Net pension liability	1,607,435
Net OPEB liability	552,080
Long-term liabilities:	
Due within one year	181,962
Due in more than one year	<u>1,976,434</u>
Total liabilities	4,595,821
Deferred inflows of resources:	
Deferred inflows related to pensions	151,254
Deferred inflows related to OPEB	<u>28,905</u>
Total liabilities and deferred inflows of resources	<u>4,775,980</u>
Net position:	
Net investment in capital assets	6,311,461
Restricted	106,896
Unrestricted	<u>(628,984)</u>
Total net position	<u>5,789,373</u>
Total liabilities and net position	<u><u>\$ 10,565,353</u></u>

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

City of Falmouth, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2018

Operating revenues	\$ 3,350,886
Operating expenses	
Salaries and wages	599,521
Other employee expenses	295,995
Purchases	1,932,264
Operating expenses	<u>782,928</u>
Total operating expenses	<u>3,610,708</u>
Operating income	(259,822)
Non-operating income (expense)	
Depreciation	(309,505)
Interest expense	(27,522)
Net change in pension expense	(255,689)
Net change in OPEB expense	<u>(27,821)</u>
Total non-operating income (expense)	<u>(620,537)</u>
Change in net position	(880,359)
Prior period adjustment	(433,035)
Net position - beginning	<u>7,102,767</u>
Net position - ending	<u><u>\$ 5,789,373</u></u>

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

City of Falmouth, Kentucky
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2018

Cash flows from operating activities	
Receipts from customers	\$3,342,049
Payments to suppliers and service proviers	(2,544,044)
Payments to employees for salaries and benefits	<u>(875,088)</u>
Net cash provided by operating activities	<u>(77,083)</u>
Cash flows from capital and related financing activities	
Acquistion of property	-
Principal payments on bonds	(180,158)
Interest payments on bonds	(27,522)
Cash received from grants	<u>-</u>
Net cash provided by operating activities	<u>(207,680)</u>
Cash flows from investing activities	
Other cash receipts	-
Cash received from interest income	<u>-</u>
Net cash (used) by financing activities	<u>-</u>
Net increase in cash and cash equivalents	(284,763)
Cash and cash equivalents, beginning of year	<u>987,724</u>
Cash and cash equivalents, end of year	<u><u>\$ 702,961</u></u>

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

Note 1 - Summary of Significant Accounting Policies

These financial statements of the City of Falmouth, Kentucky (City) were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (GAAP). The following summary of the more significant policies of the City is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The City operates under a Mayor-Council form of government consisting of the mayor and six city council members. The City's major operations include fire and police protection, street maintenance, and general administrative services. In addition, the City operates a water and sewer system, and electric system, and provides solid waste collection.

The financial statements of the City include the funds for which the Mayor and Council are financially accountable. Financial accountability, as defined by Section 2100 of the Government Account Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, was determined based on the City's ability to significantly influence operations, select the governing body, participate in fiscal management, and the scope of public service. The City has no component units or entities for which the government is considered to be financially accountable.

Basis of Accounting/Masurement Focus/Financial Statement Presentation

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.

Government-Wide Financial Statements

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in two (2) categories: 1) charges for services, and 2) operating grants and contributions.

Certain eliminations have been made as prescribed as GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all GASB Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City Applies all applicable FASB Statements and Interpretations issued after November 30th, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major Governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in balances as presented in these statements to the net assets and changes in net assets presented in the Government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending of “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance revenue sources, which have been treated as susceptible to accrual by the City, are property tax, insurance premium tax, occupational tax, intergovernmental revenues and other taxes. (See Note D) Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Fund Balance Classification: The Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Receivables as being Non-spendable.
- Restricted: This classifications includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors,

contributors, or laws of regulations of other governments, of (b) imposed by law through constitutional provisions or enabling legislation. The City has classified certain cash accounts as being restricted because their use is restricted by Kentucky Revised Statutes and/or a City Ordinance. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2017.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Commission or through the City Commission delegating this responsibility to the City Mayor through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. No funds have been assigned as of June 30, 2017.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The City Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Commission through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

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 reported as non-operating expenses.

Component Units and Fiduciary Activities

There are no government component units incorporated in the basic government-wide financial statements. A component unit is a legally separate entity that is included in the primary government's financial reporting entity using the criteria of Government Standards Accounting Board Statement No. 14.

There are no fiduciary activities incorporated in the financial statements.

Budgetary Information, Compliance, and Accountability

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

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

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

Budgeted amounts, as amended, in the financial statements are as adopted by ordinances of the City.

Encumbrance Accounting

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Investments

Kentucky Revised Statutes authorize the City to invest in obligations of the U.S Treasury, agencies, and instrumentalities; commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record; bankers' acceptances, repurchase agreements; and the state treasurer's investment pool.

Accounts Receivable

Amounts due from private individuals, business, organizations or other government entities which pertain to charges for services rendered by the City departments are reported as 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.

Interfund Transactions

Interfund transactions are reflected as loans, services provided, and reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Restricted Assets

The use of certain assets of general governmental funds and business-type proprietary funds is restricted by specific provisions of City ordinances, Kentucky Revised Statutes and bond resolutions. Assets so designated are identified as restricted assets in the balance sheet. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as they are needed. Restricted assets are classified as non-current if they are for the acquisition or construction of capital assets, for liquidation of long-term debt or other than current operations.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. In connection with implementation of GASB Statement No. 34, the City established a threshold of \$1,000 for capitalization of depreciable assets.

Major outlays for capital assets and improvements are capitalized as projects as constructed. The costs of normal maintenance and repairs that do not ass to the value of the asset or materially extend asset lives are not capitalized but charged to an expense account in the current year.

Impairment Loss

General Government Activities and Business-type Activities revenues do not include impairment losses due to the elimination of equipment (net of accumulated depreciation) that was no longer of service for City use.

Operating and Non-Operating Revenues and Expenses

The business-type propriety fund financial statements distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses are those that result from 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.

Compensated Absences

It is the policy of the City to permit City employees to accumulate a limited amount of earned but unused leave benefits which will be paid to City employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned. The valuation of accrued leave benefits calculated in accordance with GASB Statement No. 16, *Accounting for compensated absences*. The liability is typically liquidated with resources of the same fund that has paid the applicable employee’s regular salaries and fringe benefits.

Net Position - Reserves and Designations

At June 30, 2018, net position of the primary government consisted of the following:

	Governmental Activities	Business-type Activities
Net investment in capital assets	\$ 3,042,139	\$ 6,493,423
Restricted	170,068	106,896
Unrestricted	(487,643)	(810,946)
Total net position	\$ 2,724,564	\$ 5,789,373

None of the net position is restricted by enabling legislation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes Receivable, Property Tax Calendar and Provision for Uncollectable Real Property Taxes

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

Description	Date per KRS 134.015
Due date for payment	Upon receipt
2% Discount	To November 30
Face value payment period	To December 31
Past due date, 10% penalty	January 1
Interest charges	1.0% per month effective January 1

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

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Note 2 - Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

Governmental Activities:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets :				
Land	\$ 638,514	\$	\$	\$ 638,514
Buildings	1,540,663			1,540,663
Improvements/infrastructure	1,773,405			1,773,405
Equipment	195,732			195,732
Parks	200,781			200,781
Vehicles	1,025,080			1,025,080
Total capital assets	5,374,175	0	0	5,374,175
Less accumulated depreciation for:				
Buildings	555,257	30,855		586,112
Improvements/infrastructure	815,210	30,629		845,839
Equipment	178,172	5,914		184,086
Parks	67,197	5,571		72,768
Vehicles	423,308	35,788		459,096
Total accumulated depreciation	2,039,144	108,757	0	2,147,901
Governmental activities capital assets, net	\$ 3,335,031	\$ (108,757)	\$ 0	\$ 3,226,274

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CITY OF FALMOUTH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Business-type activities:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets:				
Land	\$ 30,000	\$ 0	\$ 0	\$ 30,000
Buildings and improvements	348,569			348,569
Water and sewer system	14,017,854			14,017,854
Electric system	920,191			920,191
Vehicles	501,199			501,199
Equipment	233,281			233,281
Total capital assets	16,051,094	0	0	16,051,094
Less accumulated depreciation for:				
Buildings and improvements	341,371	17,671		359,042
Water and sewer system	5,463,857	273,664		5,737,521
Electric system	762,748	11,840		774,588
Vehicles	481,586	3,111		484,697
Equipment	222,171	3,219		225,390
Total accumulated depreciation	7,271,733	309,505	0	7,581,238
Business-type activities capital assets, net	\$ 8,779,361	\$ (309,505)	\$ 0	\$ 8,469,856

During the fiscal year ending June 30, 2018 depreciation expense was charged to the funds as follows:

Governmental activities:

General government	\$ 36,769
Public safety - police	11,495
Public safety - fire	19,133
Streets	41,359
	<u>\$ 108,756</u>

Business-type activities:

Electric	\$ 14,401
Water	102,226
Sewer	171,988
Unallocated	20,890
	<u>\$ 309,505</u>

Depreciation is computed using the straight-line method. The estimated service life of each class of capital asset is based upon guidelines established by the Internal Revenue Service. Donated capital assets are recorded at estimated fair value at the date of donation.

Note 3 - Long Term Debt

Changes in the City's long-term liabilities for the year ended June 30, 2018 are as follows:

	Balance 6/30/2017	Additions	Retirements	Balance 6/30/2018	Due Within One Year
Compensated absences	\$ 1,926	\$ 2,554	\$ 0	\$ 4,480	\$ -
Fire truck lease	117,003		(21,302)	95,701	22,303
Police cruiser lease III	11,235		(11,235)	0	-
Klee farm	166,200		(27,700)	138,500	27,700
Total governmental activities	\$ 296,364	\$ 2,554	\$ (60,237)	\$ 238,681	\$ 50,003
Compensated absences	\$ 23,805		\$ (1,606)	\$ 22,199	
KIA A07-02	1,686,991		(139,135)	1,547,856	140,529
KIA A0209-39	204,177		(14,200)	189,977	14,341
KIA B09-03	447,386		(26,823)	420,563	27,092
Total business-type activities	\$ 2,362,359	\$ -	\$ (181,764)	\$ 2,180,595	\$ 181,962

Governmental Activities

Fire Truck Capital Lease

Capital lease for the purchase of a fire truck financed for \$210,000. This lease is secured by the vehicle, carries an interest rate of 4.70%, and requires an annual payment of \$26,801 each July. Final payment is due July 2021.

Police Cruiser III Capital Lease

Capital lease for the purchase of a police cruiser financed for \$31,785. This lease is secured by the vehicle, carries an interest rate of 4.70%, and requires an annual payment of \$5,848 each January. Final payment is due July 2019.

Klee Farm Capital Lease

Capital lease for the purchase of property. This lease is secured by the property, carries an interest rate of 2.65%, and requires an annual principal payment each November and semi-annual interest payments each May and November. Final payment is due November 2019.

The following is a schedule of future debt service requirements to maturity for governmental activities at June 30, 2018:

	Fire Truck Lease		Klee Farm Lease	
	Principal	Interest	Principal	Interest
2019	\$ 22,303	\$ 4,497	\$ 27,700	\$ 3,303
2020	23,351	3,550	110,800	1,468
2021	24,450	2,352		
2022	25,597	1,203		
	\$ 95,701	\$ 11,602	\$ 138,500	\$ 4,771

	Total Governmental	
	Principal	Interest
2019	\$ 50,003	\$ 7,800
2020	134,151	5,018
2021	24,450	2,352
2022	25,597	1,203
	\$ 234,201	\$ 16,373

Business-type Activities

The City has the following long-term debt payable to the Kentucky Infrastructure Authority in connect with the water and sewer systems. Revenues from the system are pledged to meet debt service requirements.

Date Issued	Interest Rate	Maturity Date	Semi-Annual Payments	Balance June 30, 2018
2/1/2008	1.00%	12/1/2028	\$ 77,829	\$ 1,547,856
1/1/2010	1.00%	12/1/1930	\$ 8,103	189,977
10/1/2011	1.00%	12/1/1932	\$ 31,230	420,563
				\$ 2,158,396

The following is a schedule of future debt service requirements to maturity for business-type activities at June 30, 2018:

	KIA Loan A07-02		KIA Loan A209-39	
	Principal	Interest	Principal	Interest
2019	\$ 140,529	\$ 15,128	\$ 14,341	\$ 1,864
2020	141,938	13,719	14,485	1,720
2021	143,361	12,296	14,631	1,575
2022	144,798	10,859	14,777	1,428
2023	146,250	9,408	14,926	1,280
2024 - 2028	753,538	24,749	76,903	4,126
2029 - 2033	77,442	387	39,914	600
	<u>\$ 1,547,856</u>	<u>\$ 86,546</u>	<u>\$ 189,977</u>	<u>\$ 12,593</u>

	KIA Loan B09-03		Total Business-Type	
	Principal	Interest	Principal	Interest
2019	\$ 27,092	\$ 4,964	\$ 181,962	\$ 21,956
2020	27,364	4,639	183,787	20,078
2021	27,638	4,309	185,630	18,180
2022	27,914	3,976	187,489	16,263
2023	28,194	3,640	189,370	14,328
2024 - 2028	145,271	10,878	975,712	39,753
2029 - 2033	137,090	3,450	254,446	4,437
	<u>\$ 420,563</u>	<u>\$ 35,856</u>	<u>\$ 2,158,396</u>	<u>\$ 134,995</u>

Note 4 - Risk Management

The City is exposed to various risk of loss to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, natural disasters. In order to minimize its loss due to these various risks, the City has insurance with the Kentucky League of Cities Insurance Services for general liability insurance, property insurance and commercial risk insurance for all risk of loss such as worker’s compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three (3) years.

Note 5 - Related Parties Transactions

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

Note 6 - Economic Dependency

The City is not economically dependent on one or more major taxpayers or suppliers.

Note 7 - Pending Litigation

The City is a defendant in various lawsuits in the normal course of business. According to legal counsel, the outcome of the lawsuits is not determinable.

Note 8 – Retirement Plans

The City’s eligible employees are covered by the County Employees Retirement System.

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

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after

retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

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

At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability that was associated with the City were as follows:

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

City's proportionate share of the CERS net pension liability

Hazardous	\$ 0
Non-hazardous	<u>1,607,435</u>
Total	<u><u>\$ 1,607,435</u></u>

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the City's proportion was 0.000% for hazardous and 0.0275% for non-hazardous.

For the year ended June 30, 2018, the City recognized pension expense of \$(190,997) and \$331,272 for Hazardous and Non-hazardous, respectively. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,994	\$ 40,804
Changes in assumptions	296,615	0
Net difference between projected and actual earnings on pension plan investments	127,307	107,425
Changes in proportion and differences between City contributions and proportionate share of contributions	89,281	333,254
City contributions subsequent to the measurement date	144,415	0
	\$ 659,612	\$ 481,483

\$144,415 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	(39,849)
2020	53,065
2021	40,427
2022	(20,640)
2023	0

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

	CERS
Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expense & inflation	6.25%

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

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (I calculated the amounts in this schedule:

	1% Decrease	Current Discount Rate	1% Increase
CERS City's proportionate share of net pension liability	5.25% \$ 2,027,323	6.25% \$ 1,607,435	7.25% \$ 1,256,202

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

Note 11- Date of Management’s Review

Subsequent events were evaluated through June 14, 2019 which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure in the financial statements.

City of Falmouth, Kentucky
 General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Property taxes	\$ 420,000	\$ 420,000	\$ 409,310	\$ (10,690)
Insurance premium tax	270,000	270,000	290,156	20,156
Other taxes	96,300	96,300	93,317	(2,983)
Licenses and permits	19,000	19,000	8,590	(10,410)
Charges for services	61,500	61,500	62,774	1,274
Intergovernmental	32,000	32,000	21,144	(10,856)
Rental revenue	16,304	16,304	16,354	50
Other	31,750	31,750	(6,434)	(38,184)
Sale of property	47,000	47,000	62,502	15,502
Total revenues	993,854	993,854	957,713	(36,141)
Expenditures				
General government	247,030	247,030	207,026	40,004
Public safety - police	576,080	576,080	425,185	150,895
Public safety - fire	150,040	150,040	149,422	618
Public works			(12,250)	12,250
Debt service			60,268	(60,268)
Total expenditures	973,150	973,150	829,651	191,517
Net change in fund balance	20,704	20,704	128,062	107,358
Fund balance - beginning	(388,579)	(388,579)	(388,579)	0
Fund balance - ending	\$ (367,875)	\$ (367,875)	\$ (260,517)	\$ 107,358

City of Falmouth, Kentucky
 Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure
 Non-Hazardous

Schedule of City's Proportionate Share of the Net Pension Liability
 County Employees Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>
City's proportion of the net pension liability	0.275%	0.276%	0.227%
City's proportionate share of the net pension liability	\$ 1,607,435	\$ 1,359,102	\$ 723,910
City's covered employee payroll	\$ 439,443	\$ 470,739	\$ 471,319
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	365.79%	288.72%	153.59%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%

Schedule of City Contributions
 County Employees Retirement System

	<u>2017</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 82,088	\$ 87,934	\$ 80,407
Actual contribution	<u>82,088</u>	<u>87,934</u>	<u>80,407</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	<u>\$ 439,443</u>	<u>\$ 470,739</u>	<u>\$ 471,319</u>
Contributions as a percentage of covered-employee payroll	18.68%	18.68%	17.06%

City of Falmouth, Kentucky
 Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure
 Hazardous

Schedule of City's Proportionate Share of the Net Pension Liability
 County Employees Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>
City's proportion of the net pension liability	0.000%	0.657%	0.227%
City's proportionate share of the net pension liability	\$ -	\$ 112,768	\$ 957,661
City's covered employee payroll	\$ 333,656	\$ 193,704	\$ 252,052
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	58.22%	379.95%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%

Schedule of City Contributions
 County Employees Retirement System

	<u>2017</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 62,327	\$ 36,184	\$ 43,000
Actual contribution	<u>62,327</u>	<u>36,184</u>	<u>43,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	<u>\$ 333,656</u>	<u>\$ 193,704</u>	<u>\$ 252,052</u>
Contributions as a percentage of covered-employee payroll	18.68%	18.68%	17.06%

City of Falmouth, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2018

	ABC 2% Fund	LGEA Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 74,218	\$ 60,258	\$ 134,476
Receivables:			-
Taxes			0
Accounts			0
Intergovernmental			0
Interfund receivable			-
Total assets	<u>\$ 74,218</u>	<u>\$ 60,258</u>	<u>\$ 134,476</u>
Liabilities:			
Accounts payable	\$ 0	\$ 0	\$ 0
Accrued liabilities			
Due to other funds	<u>0</u>	<u>(21,524.00)</u>	<u>(21,524.00)</u>
Total liabilities	<u>-</u>	<u>(21,524.00)</u>	<u>(21,524.00)</u>
Deferred inflows of resources			
Unavailable revenue	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances:			
Nonspendable	0	0	0
Restricted	0	81,782	81,782
Committed	0	0	0
Assigned	0	0	0
Unassigned	<u>74,218</u>	<u>0</u>	<u>74,218</u>
Total fund balances	<u>74,218</u>	<u>81,782</u>	<u>156,000</u>
Total liabilities and fund balances	<u>\$ 74,218</u>	<u>\$ 60,258</u>	<u>\$ 134,476</u>

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

City of Falmouth, Kentucky
Statement of Revenues, Expenditure, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	ABC 2% Fund	LGEA Fund	Total Governmental Funds
Revenues:			
Property tax	\$ 0	\$ 0	\$ 0
Insurance premium tax			0
Vehicle tax			0
Other tax	37,766		37,766
Licenses and permits			0
Charges for services			0
Intergovernmental	0	37,985	37,985
Franchise fees			0
Rental revenue			0
Other			0
Total revenues	<u>37,766</u>	<u>37,985</u>	<u>75,751</u>
Expenditures:			
Current			
Mayor and council		21,704	21,704
Public safety -police	60		60
Public safety - fire			0
Animal control			0
Streets			0
Capital outlay			
Streets			0
Public safety -police			0
Debt service			
Principal	11,235		11,235
Interest	249		249
Total expenditures	<u>11,544</u>	<u>21,704</u>	<u>33,248</u>
Net change in fund balances	<u>26,222</u>	<u>16,281</u>	<u>42,503</u>
Other financing sources (uses):			
Inception of capital lease	0	0	0
Sale of assets	0	0	0
Transfers in	0	0	0
Transfers out	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	<u>26,222</u>	<u>16,281</u>	<u>42,503</u>
Beginning fund balances	<u>47,996</u>	<u>65,501</u>	<u>113,497</u>
Ending fund balances	<u>\$ 74,218</u>	<u>\$ 81,782</u>	<u>\$ 156,000</u>

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

PER BALANCE SHEET	74,218	81,782	156,000
DIFFERENCE	0	0	0

City of Falmouth, Kentucky
 Schedule of Water and Sewer Fund Activity
 Year Ended June 30, 2018

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Waste Collection</u>	<u>Unallocated</u>	<u>Total</u>
Charges for services	\$ 1,880,091	\$ 734,758	\$ 471,095	\$ 198,802	\$ 66,140	\$ 3,350,886
Salaries and benefits	72,854	237,757	164,667	100,964	196,176	772,418
Purchases	1,749,207	92,521		33,638		1,875,366
Operating expenses	<u>68,022</u>	<u>339,152</u>	<u>319,157</u>	<u>42,475</u>	<u>32,820</u>	<u>801,626</u>
Total operating expenses	<u>1,890,083</u>	<u>669,430</u>	<u>483,824</u>	<u>177,077</u>	<u>228,996</u>	<u>3,449,410</u>
Operating income	<u>(9,992)</u>	<u>65,328</u>	<u>(12,729)</u>	<u>21,725</u>	<u>(162,856)</u>	<u>(98,524)</u>
Allocated expenses	24,171	64,951	50,841	21,335		161,298
Depreciation	14,401	102,226	171,988		20,890	309,505
Interest			27,522			27,522
Change in pension liability	18,396	100,114	66,849	21,094	49,234	255,687
Change in OPEB liability					<u>27,821</u>	<u>27,821</u>
Total other expenses	<u>56,968</u>	<u>267,291</u>	<u>317,200</u>	<u>42,429</u>	<u>97,945</u>	<u>781,833</u>
Net income (loss)	<u><u>\$ (66,960)</u></u>	<u><u>\$ (201,963)</u></u>	<u><u>\$ (329,929)</u></u>	<u><u>\$ (20,704)</u></u>	<u><u>\$ (260,801)</u></u>	<u><u>\$ (880,357)</u></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

City of Falmouth, Kentucky
230 Main Street
Falmouth, KY 41040

To the City Commission

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, and each major fund of the City of Falmouth, Kentucky (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 14, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maddox & Associates CPAs, Inc.

Fort Thomas, KY

June 14, 2019