

CITY OF FALMOUTH, KENTUCKY

FINANCIAL STATEMENTS

JUNE 30, 2021



MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT AUDITOR

Honorable Mayor
and Members of City Council
City of Falmouth, 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 Falmouth, Kentucky (City) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as

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Fort Thomas, KY 41075

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Cincinnati, OH 45211

of June 30, 2021, 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 on pages 3-6, budgetary schedules on pages 39, pension schedules on pages 40-41, and OPEB schedules on pages 42-43 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 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 April 26, 2022 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 City's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

April 26, 2022

As management of the City of Falmouth, Kentucky we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the City's basic financial statements.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of the City were more than the liabilities and deferred inflows by \$8,268,330 at the close of the current fiscal year. The unrestricted net position, which represents the amounts available to meet the City's ongoing obligations to citizens and creditors, was a deficit of \$1,635,227. The City is required to provide post-employment benefits to its employees. As a result, the City has recognized substantial liabilities in the financial statements for these benefits. As of June 30, 2021, the City had liabilities of \$3,744,759 for postemployment benefits, which has caused the deficit balance in the unrestricted net position. The City's total net position increased \$147,898.

At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$84,399 a decrease of \$38,138 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position.

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

The governmental activities of the City include general government, police, fire, and public works.

The government-wide financial statements can be found on pages 4-5 of this report.

FUND FINANCIAL STATEMENTS

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

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

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

The City maintains six 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, special revenue fund, and the debt service fund which are considered to be major funds.

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

The fund financial statements can be found on pages 6-12 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-40 of this report.

OTHER INFORMATION

In addition to the basic financial statements and notes to the financial statements, this report also presents required supplementary information concerning the City's progress in funding its obligations to provide pension and OPEB benefits to its employees. Required supplementary information can be found on pages 34-40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

| | <u>June 30, 2021</u> | <u>June 30, 2020</u> |
|----------------------------------|----------------------|----------------------|
| Current assets | \$ 2,610,772 | \$ 2,165,797 |
| Non-current assets | 11,862,229 | 11,232,222 |
| Total assets | <u>14,473,001</u> | <u>13,398,019</u> |
| Deferred outflows | 1,417,578 | 1,427,740 |
| Current liabilities | 1,145,839 | 1,105,263 |
| Non-current liabilities | 6,086,834 | 5,254,083 |
| Total liabilities | <u>7,232,673</u> | <u>6,359,346</u> |
| Deferred inflows | 389,576 | 512,981 |
| Net investment in capital assets | 9,562,369 | 9,389,530 |
| Restricted | 341,188 | 312,160 |
| Unrestricted | <u>(1,635,227)</u> | <u>(1,581,258)</u> |
| Total net position | <u>\$ 8,268,330</u> | <u>\$ 8,120,432</u> |

Governmental Funds – Revenues and Expenditures

| | <u>June 30, 2021</u> | <u>June 30, 2020</u> |
|-------------------------------------|----------------------|----------------------|
| Revenues | | |
| Property tax | \$ 425,590 | \$ 424,573 |
| Insurance premium tax | 293,651 | 301,399 |
| Other tax | 109,015 | 84,072 |
| Licenses and permits | 54,667 | 45,106 |
| Charges for services | 105,000 | 77,345 |
| Intergovernmental | 124,458 | 132,357 |
| Rental revenue | 10,079 | 6,742 |
| Investment income and other revenue | 22,123 | 13,767 |
| Total revenues | <u>\$ 1,144,583</u> | <u>\$ 1,085,361</u> |
| Expenditures | | |
| Current | | |
| Mayor and council | \$ 255,828 | \$ 157,588 |
| Public safety -police | 671,713 | 670,346 |
| Public safety - fire | 272,591 | 148,568 |
| Public works | 7,974 | 3,203 |
| Debt service | | |
| Debt service - principal | 39,000 | 134,152 |
| Debt service - interest | 5,615 | 4,917 |
| Total expenditures | <u>\$ 1,252,721</u> | <u>\$ 1,118,774</u> |

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Falmouth, Attn: City Clerk, 230 Main Street, Falmouth, KY 41040.

City of Falmouth, Kentucky
Statement of Net Position
June 30, 2021

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 553,633 | \$ 740,206 | \$ 1,293,839 |
| Receivables | 76,529 | 292,507 | 369,036 |
| Intergovernmental receivables | 3,671 | | 3,671 |
| Due from other funds | 31,131 | 571,907 | 603,038 |
| Restricted cash | 219,871 | 121,317 | 341,188 |
| Capital assets, net | 2,956,093 | 8,906,136 | 11,862,229 |
| Total assets | 3,840,928 | 10,632,073 | 14,473,001 |
| Deferred outflows of resources | | | |
| Deferred outflows related to pensions | 271,990 | 598,291 | 870,281 |
| Deferred outflows related to OPEB | 111,577 | 435,720 | 547,297 |
| Total deferred outflows of resources | 383,567 | 1,034,011 | 1,417,578 |
| Liabilities | | | |
| Accounts payable | 8,520 | 145,099 | 153,619 |
| Accrued expenses | 46,816 | | 46,816 |
| Customer deposits | | 125,233 | 125,233 |
| Due to other funds | 745,100 | 75,071 | 820,171 |
| Noncurrent liabilities: | | | |
| Due within one year: | | | |
| Notes payable | 0 | 187,490 | 187,490 |
| Compensated absences | 3,700 | 38,515 | 42,215 |
| Due in more than one year: | | | |
| Notes payable | 131,046 | 1,981,324 | 2,112,370 |
| Net pension liability | 422,767 | 2,427,605 | 2,850,372 |
| Net OPEB liability | 129,532 | 764,855 | 894,387 |
| Total liabilities | 1,487,481 | 5,745,192 | 7,232,673 |
| Deferred inflows of resources | | | |
| Deferred inflows related to pensions | 6,486 | 172,189 | 178,675 |
| Deferred inflows related to OPEB | 16,896 | 194,005 | 210,901 |
| Total deferred inflows of resources | 23,382 | 366,194 | 389,576 |
| Net position | | | |
| Net investment in capital assets | 2,825,047 | 6,737,322 | 9,562,369 |
| Restricted | 219,871 | 121,317 | 341,188 |
| Unrestricted | (331,286) | (1,303,941) | (1,635,227) |
| Total net position | \$ 2,713,632 | \$ 5,554,698 | \$ 8,268,330 |

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

See accompanying notes to financial statements.

City of Falmouth, Kentucky
Statement of Activities
Year Ended June 30, 2021

| | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental activities | | | | | | | |
| General government | \$ 289,404 | \$ 0 | \$ 71,939 | \$ 0 | \$ (217,465) | \$ 0 | \$ (217,465) |
| Public safety - police | 829,891 | | 34,203 | | (795,688) | | (795,688) |
| Public safety - fire | 260,224 | 105,000 | | | (155,224) | | (155,224) |
| Public works | 49,332 | | 39,969 | | (9,363) | | (9,363) |
| Interest | 5,615 | | | | (5,615) | | (5,615) |
| Total governmental activities | 1,434,466 | 105,000 | 146,111 | 0 | (1,183,355) | 0 | (1,183,355) |
| Business-type activities | | | | | | | |
| Electric | 1,378,418 | 2,000,945 | | | | 622,527 | 622,527 |
| Water | 825,556 | 826,107 | | | | 551 | 551 |
| Sewer | 728,330 | 565,931 | | 436,640 | | 274,241 | 274,241 |
| Garbage | 191,213 | 214,546 | | | | 23,333 | 23,333 |
| Unallocated | 300,824 | 94,746 | | | | (206,078) | (206,078) |
| Change in pension | 231,639 | | | | | (231,639) | (231,639) |
| Change in OPEB | 46,370 | | | | | (46,370) | (46,370) |
| Total business-type activities | 3,702,350 | 3,702,275 | 0 | 436,640 | 0 | 436,565 | 436,565 |
| Total city | \$ 5,136,816 | \$ 3,807,275 | \$ 146,111 | \$ 436,640 | (1,183,355) | 436,565 | (746,790) |
| | | | General revenues | | | | |
| | | | Property tax | | 425,590 | | 425,590 |
| | | | Insurance tax | | 293,651 | | 293,651 |
| | | | Other taxes | | 153,167 | | 153,167 |
| | | | Licenses | | 10,515 | | 10,515 |
| | | | Other revenues | | 8,545 | | 8,545 |
| | | | Transfers | | (50,000) | 50,000 | 0 |
| | | | Investment income | | 2,004 | 1,216 | 3,220 |
| | | | Total general revenues | | 843,472 | 51,216 | 894,688 |
| | | | Change in net position | | (339,883) | 487,781 | 147,898 |
| See accompanying notes to financial statements. | | | Net position - beginning | | 3,053,515 | 5,066,917 | 8,120,432 |
| | | | Net position - ending | | \$ 2,713,632 | \$ 5,554,698 | \$8,268,330 |

City of Falmouth, Kentucky
Balance Sheet – Governmental Funds
Year Ended June 30, 2021

| | General Fund | Municipal Road Aid Fund | ABC 2% Fund | LGEA Fund | Total Governmental Funds |
|--|-------------------|-------------------------------|-------------------|------------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 389,990 | \$ | \$ 116,941 | \$ 46,702 | \$ 553,633 |
| Receivables: | | | | | |
| Taxes | 73,709 | | \$ 2,820 | | 76,529 |
| Accounts | | | | | - |
| Intergovernmental | 3,671 | | | | 3,671 |
| Restricted cash | | 219,871 | | | 219,871 |
| Interfund receivable | 1,598 | | | 29,533 | 31,131 |
| Total assets | \$ 468,968 | \$ 219,871 | \$ 119,761 | \$ 76,235 | \$ 884,835 |
| Liabilities | | | | | |
| Accounts payable | \$ 8,520 | \$ | \$ | \$ | \$ 8,520 |
| Accrued payroll liabilities | 46,816 | | | | 46,816 |
| Due to other funds | 729,201 | 15,899 | | | 745,100 |
| Total liabilities | 784,537 | 15,899 | 0 | 0 | 800,436 |
| Fund balances | | | | | |
| Restricted | | 203,972 | | | 203,972 |
| Unassigned | (315,569) | | 119,761 | 76,235 | (119,573) |
| Total fund balances | (315,569) | 203,972 | 119,761 | 76,235 | 84,399 |
| Total liabilities and fund balances | \$ 468,968 | \$ 219,871 | \$ 119,761 | \$ 76,235 | \$ 884,835 |

See accompanying notes to financial statements.

City of Falmouth, Kentucky
Reconciliation of Balance Sheet – Governmental Funds to Statement of Net Position
June 30, 2021

| | | |
|--|-----------|-------------|
| Total governmental fund balances | | \$ 84,399 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | |
| Capital assets of used in governmental activities are not financial resources and therefore are not reported in the funds. | | 2,956,093 |
| Deferred outflows and inflow or resources related to post-retirement benefits (pensions and OPEB) are applicable to future periods and, therefore, are not reported in the funds | | |
| Deferred outflows - pension related | 271,990 | |
| Deferred outflows - OPEB related | 111,577 | |
| Deferred inflows - pension related | (6,486) | |
| Deferred inflows - OPEB related | (16,896) | |
| Total deferred outflow and inflow related to post-retirement benefits | | 360,185 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds | | |
| Long-term debt | (131,046) | |
| Net pension liability | (422,767) | |
| Net OPEB liability | (129,532) | |
| Compensated absences | (3,700) | |
| Total long-term liabilities | | (687,045) |
| Net position of governmental activities | | \$2,713,632 |

See accompanying notes to financial statements.

City of Falmouth, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds
Year Ended June 30, 2021

| | General Fund | Municipal Road Aid Fund | ABC 2% Fund | LGEA Fund | Total Governmental Funds |
|---|---------------------|-------------------------------|-------------------|------------------|--------------------------------|
| Revenues | | | | | |
| Property tax | \$ 425,590 | \$ | \$ | \$ | \$ 425,590 |
| Insurance premium tax | 293,651 | | | | 293,651 |
| Other tax | 109,015 | | | | 109,015 |
| Licenses and permits | 10,515 | | 44,152 | | 54,667 |
| Charges for services | 105,000 | | | | 105,000 |
| Intergovernmental | 34,203 | 39,969 | | 50,286 | 124,458 |
| Rental revenue | 10,079 | | | | 10,079 |
| Investment income | 1,071 | 532 | 266 | 135 | 2,004 |
| Grants | 21,653 | | | | 21,653 |
| Other | (1,534) | | | | (1,534) |
| Total revenues | 1,009,243 | 40,501 | 44,418 | 50,421 | 1,144,583 |
| Expenditures | | | | | |
| Current | | | | | |
| Mayor and council | 190,558 | | | 65,270 | 255,828 |
| Public safety -police | 633,424 | | 38,289 | | 671,713 |
| Public safety - fire | 272,591 | | | | 272,591 |
| Public works | | 7,974 | | | 7,974 |
| Debt service - principal | 39,000 | | | | 39,000 |
| Debt service - interest | 5,615 | | | | 5,615 |
| Total expenditures | 1,141,188 | 7,974 | 38,289 | 65,270 | 1,252,721 |
| Net change in fund balances | (131,945) | 32,527 | 6,129 | (14,849) | (108,138) |
| Other financing sources (uses) | | | | | |
| Lease proceeds | 120,000 | 0 | 0 | 0 | 120,000 |
| Transfers out | (50,000) | | | | (50,000) |
| Total other financing sources (uses) | 70,000 | 0 | 0 | 0 | 70,000 |
| Net change in fund balances | (61,945) | 32,527 | 6,129 | (14,849) | (38,138) |
| Beginning fund balances | (253,624) | 171,445 | 113,632 | 91,084 | 122,537 |
| Ending fund balances | \$ (315,569) | \$ 203,972 | \$ 119,761 | \$ 76,235 | \$ 84,399 |

See accompanying notes to financial statements.

City of Falmouth, Kentucky
**Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds to Statement of Activities
Year Ended June 30, 2021**

Net change in fund balances - total governmental funds \$ (38,138)

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|--------------------------------|-----------|----------|
| Capital outlay | 35,000 | |
| Depreciation expense | (111,327) | |
| <hr/> | | |
| Total capital asset activities | | (76,327) |

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 the governmental funds.

| | | |
|--|-----------|-----------|
| Changes in pension liabilities and related deferred outflows and inflows | (113,261) | |
| Changes in OPEB liabilities and related deferred outflows and inflows | (33,087) | |
| Changes in compensated absences | 1,930 | |
| <hr/> | | |
| Total expense activities | | (144,418) |

Repayment of debt principal is an expenditure in the governmental funds, but repayment reduces long-term debt in the statement of net position

| | | |
|---|-----------|---------------------|
| Principal paid on debt | 39,000 | |
| Proceeds from lease obligations | (120,000) | |
| | | <u>(81,000)</u> |
| Change in net position of governmental activities | | <u>\$ (339,883)</u> |

See accompanying notes to financial statements.

City of Falmouth, Kentucky
Statement of Net Position – Proprietary Fund
June 30, 2021

| | Utility Fund |
|---------------------------------------|---------------------|
| Assets | |
| Cash | \$ 740,206 |
| Customer receivables | 292,507 |
| Due from other funds | 571,907 |
| Restricted cash | 121,317 |
| Depreciable capital assets | 8,906,136 |
| Total assets | 10,632,073 |
| Deferred outflows | |
| Pension related | 598,291 |
| OPEB related | 435,720 |
| Total deferred outflows | 1,034,011 |
| Liabilities | |
| Accounts payable | 145,099 |
| Customer deposits | 125,233 |
| Due to other funds | 75,071 |
| Noncurrent liabilities: | |
| Due within one year: | |
| Notes payable | 187,490 |
| Compensated absences | 38,515 |
| Due in more than one year: | |
| Notes payable | 1,981,324 |
| Net pension liability | 2,427,605 |
| Net OPEB liability | 764,855 |
| Total liabilities | 5,745,192 |
| Deferred inflows of resources: | |
| Deferred inflows related to pensions | 172,189 |
| Deferred inflows related to OPEB | 194,005 |
| Total deferred inflows | 366,194 |
| Net position | |
| Net investment in capital assets | 6,737,322 |
| Restricted | 121,317 |
| Unrestricted | (1,303,941) |
| Total net position | \$ 5,554,698 |

See accompanying notes to financial statements.

City of Falmouth, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund
Year Ended June 30, 2021

| | |
|---|---------------------|
| Operating revenues | \$ 3,652,273 |
| Operating expenses | |
| Salaries and wages | 568,401 |
| Other employee expenses | 580,804 |
| Purchases | 1,448,265 |
| Operating expenses | 513,793 |
| Total operating expenses | 3,111,263 |
| Operating income | 541,010 |
| Non-operating income (expense) | |
| Depreciation | (292,120) |
| Interest expense | (20,956) |
| Interest income | 1,216 |
| Net change in pension expense | (231,639) |
| Net change in OPEB expense | (46,370) |
| Grants | 436,640 |
| Transfers | 100,000 |
| Total non-operating income (expense) | (53,229) |
| Change in net position | 487,781 |
| Net position - beginning | 5,066,917 |
| Net position - ending | \$ 5,554,698 |

See accompanying notes to financial statements.

City of Falmouth, Kentucky
Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2021

| | |
|---|-------------------|
| Cash flows from operating activities | |
| Receipts from customers | \$3,675,086 |
| Payments to suppliers and service proviers | (2,057,336) |
| Payments to employees for salaries and benefits | (1,175,154) |
| <u>Net cash provided by operating activities</u> | <u>442,596</u> |
| Cash flows from investing activities | |
| Interest income | 1,216 |
| <u>Net cash provided by investing activities</u> | <u>1,216</u> |
| Cash flows from capital and related financing activities | |
| Acquisition of property | (998,454) |
| Grants and transfers | 536,640 |
| Principal payments on bonds | (185,630) |
| Debt proceeds | 561,798 |
| Interest payments on bonds | (20,956) |
| <u>Net cash provided by capital activities</u> | <u>(106,602)</u> |
| Net increase in cash and cash equivalentents | 337,210 |
| Cash and cash equivalents, beginning of year | 402,996 |
| Cash and cash equivalents, end of year | <u>\$ 740,206</u> |

See accompanying notes to financial statements.

NOTE 1: 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 city council form of government comprised of the Mayor and six 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, sewer, and electric system and provides solid waste collection. The financial statements of the City include all of the funds for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial

See accompanying notes to financial statements.

statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Proprietary funds distinguish operating revenue 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 operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses for the proprietary funds include personnel and other expenses

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

related to water, electric, cable, and sewer operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses

Fund Accounting

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

Governmental Fund Types

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

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

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

ABC 2% Tax Fund - The ABC 2% tax fund is a city designated fund used to account for ABC tax revenue and expenditures.

LGEA Fund - The LGEA fund is a city designated fund used to account for LGEA revenue and expenditures.

Proprietary Fund Types

Utility Fund – The utility fund accounts for the City's water, sewer, electric and solid waste activities. The utility fund is a major fund of the City.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements **NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Cash and Cash Equivalents

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

Capital Assets

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

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

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

| <u>Description</u> | <u>Estimated Lives</u> |
|--------------------|------------------------|
| Buildings | 50 Years |
| Improvements | 20 Years |
| Infrastructure | 40 Years |
| Vehicles | 7 Years |
| General equipment | 7 Years |

Deferred Outflows of Resources – Pension and OPEB

The City reports decreases in net position that relates to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary fund statements of net position. The deferred outflows of resources reported in the financial statements include (1) deferred outflows of resources for contributions made to the City's defined benefit pension plan between the measurement date of the plan net pension liabilities and the end of City's fiscal year and (2) deferred outflows of resources related to the changes between the

expected and actual experiences for the plan and changes in actuarial assumptions. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred outflows related to experience and assumption changes will be recognized in future periods.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources – Pension and OPEB

The City reports increases in net position that relates to future periods as deferred inflows of resources in a separate section of its government-wide and proprietary fund statements of net position. The deferred inflows of resources reported in the financial statements arise from changes in the expected and actual experiences for the plan and for changes in assumptions. The deferred inflows related to these changes will be recognized in future periods.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as the are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Net OPEB Liability

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from fiduciary net position have been determined on the same basis as the are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Accrued Liabilities and Long-Term Obligations

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

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

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are

attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Fund Balances

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

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

Restricted - is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

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

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

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

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

Revenues

Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is

recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Nonexchange transactions

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Interfund Activity

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

Interfund Balances

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

Extraordinary and Special Items

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

Estimates

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

NOTE 1: ACCOUNTING POLICIES (CONTINUED)

Budgetary Process

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

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

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

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

Subsequent Events

The City evaluated subsequent events for potential recognition and disclosure through January 26, 2021, the date the financial statements were available to be issued.

NOTE 2: CASH AND CASH EQUIVALENTS

The City maintains the following governmental activity cash accounts:

| | Unrestricted | Restricted |
|---------------|--------------|------------|
| General Fund | \$ 389,990 | \$ |
| Road Aid Fund | | 219,871 |
| LGEA | 46,702 | |
| ABC 2% | 116,941 | |
| Total cash | \$ 553,633 | \$ 219,871 |

The City maintains the following business-type activity cash accounts:

| | | |
|-----------------------------|------------|------------|
| Utility Fund | \$ 73,980 | |
| Meter Deposit Fund | | 121,317 |
| Reserve for Depr - Garbage | 56,701 | |
| Reserve for Depr - Water | 50,334 | |
| Reserve for Depr - Sewer | 229,765 | |
| Reserve for Depr - Electric | 329,341 | |
| Total | \$ 740,121 | \$ 121,317 |

Concentrations of Credit Risk

At June 30, 2021, the carrying value of the City's deposits exceed the Federal Deposit Insurance Corporation (FDIC) insurance. Total deposited funds in excess of the \$250,000 insured by FDIC are covered by securities pledged for the City by the holding bank.

NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

Kentucky Revised Statues (KRS) authorizes municipalities to invest in obligations of the United States of America and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge security obligations of the United States of America government or its agencies.

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 is summarized below:

City of Falmouth, Kentucky
Notes to Financial Statements
June 30, 2021

Governmental Activities:

| | Balance July 1, 2020 | Increases | Decreases | Balance June 30, 2021 |
|--|-------------------------|--------------------|-------------|--------------------------|
| Capital assets : | | | | |
| Land | \$ 638,514 | \$ | \$ | \$ 638,514 |
| Buildings | 1,545,663 | | | 1,545,663 |
| Vehicles | 1,009,081 | | | 1,009,081 |
| Equipment | 210,599 | 35,000 | | 245,599 |
| Parks | 200,781 | | | 200,781 |
| Improvements/infrastructure | 1,789,405 | | | 1,789,405 |
| Total capital assets | 5,394,043 | 35,000 | 0 | 5,429,043 |
| Less accumulated depreciation for: | | | | |
| Buildings | 648,488 | 31,188 | | 679,676 |
| Vehicles | 906,573 | 30,106 | | 936,679 |
| Equipment | 191,978 | 8,674 | | 200,652 |
| Parks | 83,910 | 5,571 | | 89,481 |
| Improvements/infrastructure | 530,674 | 35,788 | | 566,462 |
| Total accumulated depreciation | 2,361,623 | 111,327 | 0 | 2,472,950 |
| Governmental activities capital assets, net | \$ 3,032,420 | \$ (76,327) | \$ 0 | \$ 2,956,093 |

Depreciation was charged to the following governmental funds:

Governmental activities:

| | |
|---------------------------|-------------------|
| General government | \$ 33,575 |
| Public safety - police | 13,760 |
| Public safety - fire | 22,633 |
| Streets | 41,359 |
| Total depreciation | \$ 111,327 |

NOTE 3: CAPITAL ASSETS (CONTINUED)

City of Falmouth, Kentucky
Notes to Financial Statements
June 30, 2021

Business-type activities:

| | Balance July 1, 2020 | Increases | Decreases | Balance June 30, 2021 |
|---|-------------------------|---------------------|--------------------|--------------------------|
| Capital assets: | | | | |
| Land | \$ 30,000 | \$ 0 | \$ 0 | \$ 30,000 |
| Buildings and improvements | 348,569 | | | 348,569 |
| Water and sewer system | 14,079,732 | | (61,878) | 14,017,854 |
| Electric system | 1,034,032 | | | 1,034,032 |
| Vehicles | 636,798 | | | 636,798 |
| Equipment | 239,569 | | | 239,569 |
| Construction in progress | | 118,311 | | 118,311 |
| Total capital assets | 16,368,700 | 118,311 | (61,878) | 16,425,133 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 348,569 | | | 348,569 |
| Water and sewer system | 6,279,147 | 265,723 | (4,125) | 6,540,745 |
| Electric system | 805,856 | 13,085 | | 818,941 |
| Vehicles | 506,151 | 11,105 | | 517,256 |
| Equipment | 229,175 | 2,207 | | 231,382 |
| Total accumulated depreciation | 8,168,898 | 292,120 | (4,125) | 8,456,893 |
| Business-type activities capital assets, net | \$ 8,199,802 | \$ (173,809) | \$ (57,753) | \$ 7,968,240 |

Depreciation was charged to the following proprietary funds:

Business-type activities:

| | |
|---------------------------|-------------------|
| Electric | \$ 16,860 |
| Water | 95,619 |
| Sewer | 172,232 |
| Garbage | 7,409 |
| Total depreciation | \$ 292,120 |

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NOTE 4: LONG-TERM LIABILITIES

Changes in the City's long-term liabilities for the year ended June 30, 2020 are as follows:

City of Falmouth, Kentucky
Notes to Financial Statements
June 30, 2021

| | Balance 6/30/2020 | Additions | Retirements | Balance 6/30/2021 | Amount Due Within One Year |
|---------------------------------|----------------------|-------------------|---------------------|----------------------|----------------------------------|
| Governmental activities | | | | | |
| Fire truck lease | \$ 50,046 | | \$ (24,500) | \$ 25,546 | \$ 25,546 |
| Heritage lease | | \$ 120,000 | \$ (14,500) | 105,500 | \$ 22,614 |
| Compensated absences | 5,630 | | (1,930) | 3,700 | |
| Net pension liability | 270,235 | 152,532 | | 422,767 | |
| Net OPEB liability | 72,366 | 57,166 | | 129,532 | |
| Total governmental activities | <u>\$ 398,277</u> | <u>\$ 329,698</u> | <u>\$ (40,930)</u> | <u>\$ 687,045</u> | <u>\$ 48,160</u> |
| Business-type activities | | | | | |
| KIA A07-02 | \$ 1,265,389 | | \$ (143,361) | \$ 1,122,028 | \$ 144,798 |
| KIA A0209-39 | 161,150 | | (14,631) | 146,519 | 14,777 |
| KIA B09-03 | 366,107 | | (27,638) | 338,469 | 27,915 |
| Rural development | | 561,798 | | 561,798 | |
| Compensated absences | 31,602 | 6,913 | | 38,515 | |
| Net pension liability | 2,442,436 | | (14,831) | 2,427,605 | |
| Net OPEB liability | 589,122 | 175,733 | | 764,855 | |
| Total business-type activities | <u>\$ 4,855,806</u> | <u>\$ 744,444</u> | <u>\$ (200,461)</u> | <u>\$ 5,399,789</u> | <u>\$ 187,490</u> |

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NOTE 4: LONG-TERM LIABILITIES (CONTINUED)

Future minimum principal and interest payments are as follows:

City of Falmouth, Kentucky
Notes to Financial Statements
June 30, 2021

| | Fire Truck Lease | | Heritage Lease | | Total Governmental | |
|------|------------------|-----------------|-------------------|------------------|--------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2022 | \$ 25,546 | \$ 1,207 | \$ 22,614 | \$ 4,107 | \$ 22,614 | \$ 22,615 |
| 2023 | | | 23,608 | 3,114 | 23,608 | 3,114 |
| 2024 | | | 24,641 | 2,081 | 24,641 | 2,081 |
| 2025 | | | 25,729 | 993 | 25,729 | 993 |
| 2026 | | | 8,908 | 82 | 8,908 | 82 |
| | <u>\$ 25,546</u> | <u>\$ 1,207</u> | <u>\$ 105,500</u> | <u>\$ 10,377</u> | <u>\$ 105,500</u> | <u>\$ 28,885</u> |

| | KIA Loan A07-02 | | KIA Loan A209-39 | |
|-------------|---------------------|------------------|-------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2022 | \$ 144,798 | \$ 13,031 | \$ 14,777 | \$ 1,714 |
| 2023 | 146,250 | 11,289 | 14,926 | 1,536 |
| 2024 | 147,716 | 9,529 | 15,075 | 1,357 |
| 2025 | 149,197 | 7,753 | 15,226 | 1,175 |
| 2026 | 150,692 | 5,958 | 15,378 | 992 |
| 2027 - 2031 | 383,375 | 6,459 | 71,137 | 2,148 |
| 2032 - 2036 | 0 | 0 | 0 | - |
| | <u>\$ 1,122,028</u> | <u>\$ 54,019</u> | <u>\$ 146,519</u> | <u>\$ 8,922</u> |

| | KIA Loan B09-03 | | Total Business-Type | |
|-------------|-------------------|------------------|---------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2022 | \$ 27,915 | \$ 3,978 | \$ 187,490 | \$ 18,723 |
| 2023 | 28,195 | 3,642 | 189,371 | 16,467 |
| 2024 | 28,478 | 3,303 | 191,269 | 14,189 |
| 2025 | 28,763 | 2,960 | 193,186 | 11,888 |
| 2026 | 29,051 | 2,614 | 195,121 | 9,564 |
| 2027 - 2031 | 149,685 | 7,759 | 604,197 | 16,366 |
| 2032 - 2036 | 46,382 | 557 | 46,382 | 557 |
| | <u>\$ 338,469</u> | <u>\$ 24,813</u> | <u>\$ 1,607,016</u> | <u>\$ 87,754</u> |

NOTE 5: COMPENSATED ABSENCES

City employees earn vacation time based on length of service. Employees cannot opt for cash in lieu of time off. Employees also accrue sick days based on length of service. Sick days are not paid out at retirement or termination. At June 30, 2020, accrued compensated absences are \$42,215.

NOTE 6: RETIREMENT PLANS

The City is a participating employer of the County Employees' Retirement System (CERS) or (Plan). Under provision of Kentucky Revised Statute 61.645, the Board of Trustees of the Kentucky Retirement System

administers the CERS. The Kentucky Retirement System issues a publicly available financial reports that may be downloaded from their website.

Plan description

CERS is a cost-sharing multi-employer public employee retirement system which covers substantially all regular full-time employees of each county, city, and school board and any additional eligible local agencies electing to participate in the Plan. The Plan is divided into a Pension Plan and Health Insurance Fund Plan (Other Post-Employment Benefits; OPEB) and each plan is further divided based on Non-hazardous duty and Hazardous duty covered employee classifications.

Benefits provided

CERS provides retirement, health insurance, death, and disability benefits to employees and beneficiaries. Employees are vested in the plan after five years of service.

For retirement purposes, non-hazardous duty employees are grouped into three tiers based on hire date:

| | | |
|--------|--|---|
| Tier 1 | Participation date Unreduced retirement Reduced retirement | Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old, or 25 years service and any age |
| Tier 2 | Participation date Unreduced retirement Reduced retirement | September 1, 2008 to December 31, 2013 At least 5 years service and 65 years old, or age 57+ with sum of service years plus age equal At least 10 years service and 60 years old |
| Tier 3 | Participation date Unreduced retirement Reduced retirement | On or after January 1, 2014 At least 5 years service and 65 years old, or age 57+ with sum of service years plus age equal Not available |

NOTE 6: RETIREMENT PLANS (CONTINUED)

For retirement purposes, hazardous duty employees are grouped into three tiers based on hire date:

| | | |
|--------|--|---|
| Tier 1 | Participation date Unreduced retirement Reduced retirement | Before September 1, 2008 At least one month service and 55 years old, or at least 20 years service at any age At least 15 years service and 50 years old |
| Tier 2 | Participation date Unreduced retirement Reduced retirement | September 1, 2008 to December 31, 2013 At least 5 years service and 60 years old, or at least 25 years service at any age At least 15 years service and 50 years old |
| Tier 3 | Participation date Unreduced retirement Reduced retirement | On or after January 1, 2014 At least 5 years service and 60 years old, or at least 25 years service at any age Not available |

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 2, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Contributions

Employees - For the year ended June 30, 2020 nonhazardous covered employees are required to contribute 5% of wages and hazardous covered employees are required to contribute 8% of wages to the plan. Employees who begin participation on or after September 1, 2008 are required to contribute an additional 1%.

Employers - For the year ended June 30, 2020 participating employers contributed 19.30% of wages for non-hazardous covered employees and 30.06% of wages for hazardous covered employees. The City made all required contributions for fiscal year in the amount of \$161,727 for non-hazardous and \$97,739 for hazardous.

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

At June 30, 2020, the City reported a liability for its proportionate share of the net pension liability as follows:

| | |
|---|---------------------|
| Nonhazardous | \$ 2,427,605 |
| Hazardous | 422,767 |
| <u>Total proportionate share of the net pension liability</u> | <u>\$ 2,850,372</u> |

NOTE 6: RETIREMENT PLANS (CONTINUED)

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net

City of Falmouth, Kentucky
Notes to Financial Statements
June 30, 2021

pension liability was based on the City's share of 2019 contributions to the pension plan relative to the 2020 contributions of all participating employers, actuarially determined. The City's proportionate share at June 30, 2020 was:

| | |
|--------------|---------|
| Nonhazardous | 0.0317% |
| Hazardous | 0.0140% |

For the year ended June 30, 2021 the City recognized pension expense of \$120,598. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Nonhazardous | Deferred Outflow | Deferred Inflow | Net Deferral |
|--|---------------------|--------------------|-------------------|
| Change in liability experience | \$ 60,537 | \$ - | |
| Change of assumptions | 94,794 | | |
| Change in investment experience | 105,229 | 44,481 | |
| Change in proportionate share of contributions | 136,931 | 127,708 | |
| Total deferred resources | 397,491 | <u>\$ 172,189</u> | <u>\$ 225,302</u> |
| Subsequent contributions | 200,800 | | |
| Total | <u>\$ 598,291</u> | | |
| | | | |
| Hazardous | Deferred Outflow | Deferred Inflow | Net Deferral |
| Change in liability experience | \$ 13,112 | | |
| Change of assumptions | 16,034 | | |
| Change in investment experience | 16,010 | | |
| Change in proportionate share of contributions | 133,992 | 6,486 | |
| Total deferred resources | 179,148 | <u>\$ 6,486</u> | <u>\$ 172,662</u> |
| Subsequent contributions | 92,872 | | |
| Total | <u>\$ 272,020</u> | | |
| | | | |
| Total nonhazardous and hazardous | Deferred Outflow | Deferred Inflow | Net Deferral |
| Change in liability experience | \$ 73,649 | \$ - | |
| Change of assumptions | 110,828 | | |
| Change in investment experience | 121,239 | 44,481 | |
| Change in proportionate share of contributions | 270,923 | 134,194 | |
| Total deferred resources | 576,639 | <u>\$ 178,675</u> | <u>\$ 397,964</u> |
| Subsequent contributions | 293,672 | | |
| Total | <u>\$ 870,311</u> | | |

NOTE 6: RETIREMENT PLANS (CONTINUED)

The contributions subsequent to the measurement date of \$29,3672 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. The net deferral of \$397,964 will be recognized as pension expense as follows:

| Year Ending June 30 | Net Deferral |
|------------------------|-------------------|
| 2022 | \$ 221,395 |
| 2023 | 87,288 |
| 2024 | 51,036 |
| 2025 | 38,245 |
| Tota net deferral | <u>\$ 397,964</u> |

Actuarial assumptions

The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled forward from the valuation date to the plan’s fiscal year ending June 30, 2020, using generally accepted actuarial principles

The KRS Board of Trustee adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2010”. The total pension liability as of June 30, 2019 was determined using these updated assumptions.

The actuarial assumptions are:

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Payroll growth rate | 2.00% for non-hazardous 0.00% for hazardous |
| Salary increase | 3.30% to 10.30% for non-hazardous 3.55% to 19.05% for hazardous |
| Investment rate of return | 6.25% |

The mortality table used for active members was Pub-2010 General Mortality Table, for the non-hazardous system, and Pub-2010 Public Safety Mortality Table for the hazardous system, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018 projected with ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for disabled members was PUB-2010 Mortality Table, with a 4-year set-forward for both male and female rates, projected with ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

NOTE 6: RETIREMENT PLANS (CONTINUED)

The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous system.

| Asset Class | Target Allocation | Long-term Expected Nominal Return |
|-----------------------------|----------------------|---|
| US Equity | 18.75% | 4.30% |
| Non US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 2.60% |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |
| | <u>100.00%</u> | <u>3.89%</u> |

Discount rate

The projection of cash flows used to determine the discount rate of 6.25% assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the KRS plan’s CAFR.

Sensitivity of City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | 1% Decrease 5.25% | Current Rate 6.25% | 1% Increase 7.25% |
|---|----------------------|-----------------------|----------------------|
| Nonhazardous | \$ 2,993,766 | \$ 2,427,605 | \$1,958,803 |
| Hazardous | 522,480 | 422,767 | 341,375 |
| Total proportionate share of the net pension liability | \$ 3,516,246 | \$ 2,850,372 | \$2,300,178 |

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report.

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan description

The City's employees are provided OPEB under provisions of Kentucky Revised Statutes. The Kentucky Retirement Systems (KRS) board administers the CERS Insurance Fund. The CERS Insurance fund is a cost-sharing, multiple-employer defined benefit OPEB plan which provides group health insurance benefits for plan members that are regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. OPEB benefits may be extended to beneficiaries of plan members under certain circumstances. The CERS Insurance Fund is included in a public available financial report that can be viewed at www.kyret.ky.gov.

Benefits provided

The CERS Insurance hospital and medical benefits to eligible plan members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Premium payments are submitted to DEI. The KRS board contracts with Humana to provide health care benefits to the eligible Medicare retirees. The CERS Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

For health insurance purposes, employees are grouped into three tiers based on hire date:

Tier 1

| | |
|-----------------------|--|
| Participation date | Before July 1, 2003 |
| Insurance eligibility | 10 years of service credit required |
| Benefit | Set percentage of single coverage health insurance based on service credit accrued at retirement |

Tier 2

| | |
|-----------------------|---|
| Participation date | After September 1, 2008 and before December 31, 2013 |
| Insurance eligibility | 15 years of service credit required |
| Benefit | Set dollar amount based on service credit accrued, increased annually |

Tier 3

| | |
|-----------------------|---|
| Participation date | After December 31, 2013 |
| Insurance eligibility | 15 years of service credit required |
| Benefit | Set dollar amount based on service credit accrued, increased annually |

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Contributions

For the year ending June 30, 2021, the employer’s contribution was 4.76% to the insurance trust for non-hazardous job classifications and 9.52% for hazardous classifications. Participating employers were required to contribute at an actuarially determined rate. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. Employees qualifying as Tier 2 or Tier 3 of the CERS plan contribute 1.0% of creditable compensation to an account created for payment of health insurance benefits.

Implicit Subsidy

The fully-insured premiums KRS Pays for the Kentucky Employees’ Health plan are blended rates based on the combined experience of active and retiree members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability as follows:

| | | |
|--|-----------|----------------|
| Nonhazardous | \$ | 764,855 |
| Hazardous | | 129,532 |
| <u>Total proportionate share of the net OPEB liability</u> | <u>\$</u> | <u>894,387</u> |

The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City’s proportion of the net OPEB liability was based on the City’s share of contributions to the OPEB plan relative to the contributions of all participating employers, actuarially determined. The City’s proportionate share at June 30, 2019 was as follows:

| | |
|--------------|---------|
| Nonhazardous | 0.0317% |
| Hazardous | 0.0140% |

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For the year ended June 30, 2020, the City recognized OPEB expense of \$108,737. At June 30, 2020 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| Nonhazardous | Deferred Outflow | Deferred Inflow | Net Deferral |
|--|---------------------|--------------------|-------------------|
| Change in liability experience | \$ 127,791 | \$ 127,891 | |
| Change of assumptions | 133,040 | 809 | |
| Change in investment experience | 41,029 | 15,607 | |
| Change in proportionate share of contributions | 81,553 | 49,698 | |
| Total deferred resources | <u>383,413</u> | <u>\$ 194,005</u> | <u>\$ 189,408</u> |
| Subsequent contributions | <u>52,307</u> | | |
| Total | <u>\$ 435,720</u> | | |
| | | | |
| Hazardous | Deferred Outflow | Deferred Inflow | Net Deferral |
| Change in liability experience | \$ 4,445 | \$ 12,935 | |
| Change of assumptions | 21,132 | 119 | |
| Change in investment experience | 9,591 | 3,842 | |
| Change in proportionate share of contributions | 52,225 | - | |
| Total deferred resources | <u>87,393</u> | <u>\$ 16,896</u> | <u>\$ 70,497</u> |
| Subsequent contributions | <u>24,184</u> | | |
| Total | <u>\$ 111,577</u> | | |
| | | | |
| Total nonhazardous and hazardous | Deferred Outflow | Deferred Inflow | Net Deferral |
| Change in liability experience | \$ 132,236 | \$ 140,826 | |
| Change of assumptions | 154,172 | 928 | |
| Change in investment experience | 50,620 | 19,449 | |
| Change in proportionate share of contributions | 133,778 | 49,698 | |
| Total deferred resources | <u>470,806</u> | <u>\$ 210,901</u> | <u>\$ 259,905</u> |
| Subsequent contributions | <u>76,491</u> | | |
| Total | <u>\$ 547,297</u> | | |

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The contributions subsequent to the measurement date of \$76,491 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. The net deferral of \$259,905 will be recognized in OPEB expense as follows:

| Year Ending June 30 | Net Deferral |
|------------------------|-------------------|
| 2022 | \$ 72,748 |
| 2023 | 74,590 |
| 2024 | 56,199 |
| 2025 | 56,368 |
| Tota net deferral | <u>\$ 259,905</u> |

Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity as of June 30, 2019 were based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 20, 2018) to the plan's fiscal year ending June 30, 2020, using generally accepted accounting principles.

The KRS Board of Trustee adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2010". The total OPEB liability as of June 30, 2019 was determined using these updated assumptions.

The actuarial assumptions are:

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Payroll growth rate | 2.00% for non-hazardous 0.00% for hazardous |
| Salary increase | 3.30% to 10.30% for non-hazardous 3.55% to 19.05% for hazardous |
| Investment rate of return | 6.25% |

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

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below. The current long-term inflation assumption is 2.30% per annum for both the non-hazardous and hazardous system.

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

| Asset Class | Target Allocation | Long-term Expected Nominal Return |
|-----------------------------|----------------------|---|
| US Equity | 18.75% | 4.30% |
| Non US Equity | 18.75% | 4.80% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 2.60% |
| Core Bonds | 13.50% | 1.35% |
| Cash | 1.00% | 0.20% |
| Real Estate | 5.00% | 4.85% |
| Opportunistic | 3.00% | 2.97% |
| Real Return | 15.00% | 4.10% |
| | 100.00% | 3.89% |

Discount rate

The projection of cash flows used to determine the discount rate of 5.68% for non-hazardous and 5.69% for hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 362 (passed in 2018). The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit study will not be paid out of KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the KRS plan's CAFR.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 5.68% for non-hazardous and 5.69% for hazardous as well as what the City's proportionate share of the net OPEB 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 :

| | 1% Decrease 4.34% | Current Rate 5.34% | 1% Increase 6.34% |
|--|----------------------|-----------------------|----------------------|
| Nonhazardous | \$ 982,614 | \$ 764,855 | \$ 586,002 |
| | 1% Decrease 4.30% | Current Rate 5.30% | 1% Increase 6.30% |
| Hazardous | 175,836 | 129,532 | 92,220 |
| Total proportionate share of the net OPEB liability | \$ 1,158,450 | \$ 894,387 | \$ 678,222 |

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|-------------------|-----------------------|-------------------|
| Nonhazardous | \$ 438,133 | \$ 589,122 | \$ 772,213 |
| Hazardous | 50,353 | 72,366 | 99,220 |
| Total proportionate share of the net pension liability | \$ 488,486 | \$ 661,488 | \$ 871,433 |

OPEB plan fiduciary net position

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

NOTE 8: CONTINGENCIES

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

NOTE 9: RISK MANAGEMENT

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

Management estimates that the amount of actual or potential claims against the City as of June 30, 2020, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

City of Falmouth, Kentucky
Budget Comparison Schedule
June 30, 2021

| | Budgeted Amounts | | Actual | Variance |
|----------------------------|-------------------|-------------------|---------------------|---------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 453,000 | \$ 453,000 | \$ 425,590 | \$ (27,410) |
| Insurance premium tax | 302,000 | 302,000 | 293,651 | (8,349) |
| Other taxes | 84,500 | 84,500 | 109,015 | 24,515 |
| Licenses and permits | 17,250 | 17,250 | 10,515 | (6,735) |
| Charges for services | 75,000 | 75,000 | 105,000 | 30,000 |
| Intergovernmental | 36,000 | 36,000 | 34,203 | (1,797) |
| Rental revenue | - | - | 10,079 | 10,079 |
| Other | 26,500 | 26,500 | 21,190 | (5,310) |
| Total revenues | <u>994,250</u> | <u>994,250</u> | <u>1,009,243</u> | <u>14,993</u> |
| Expenditures | | | | |
| General government | 203,220 | 203,220 | 190,558 | 12,662 |
| Public safety - police | 679,768 | 679,768 | 633,424 | 46,344 |
| Public safety - fire | 198,472 | 198,472 | 272,591 | (74,119) |
| Debt service | | | 44,615 | (44,615) |
| Total expenditures | <u>1,081,460</u> | <u>1,081,460</u> | <u>1,141,188</u> | <u>(59,728)</u> |
| Other financing sources | | | 70,000 | 70,000 |
| Net change in fund balance | (87,210) | (87,210) | (61,945) | 25,265 |
| Fund balance - beginning | 261,876 | 261,876 | (253,624) | (515,500) |
| Fund balance - ending | <u>\$ 174,666</u> | <u>\$ 174,666</u> | <u>\$ (315,569)</u> | <u>\$ (490,235)</u> |

City of Falmouth, Kentucky
Schedule of City's Share of the Net Pension Liability and Contributions - Nonhazardous
June 30, 2021

Schedule of City's Proportionate Share of the Net Pension Liability - CERS

| As of June 30, | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|--------------|--------------|--------------|--------------|--------------|------------|
| Measurement period as of June 30, | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| City's proportion of the net pension liability | 0.3170% | 0.0347% | 0.0292% | 0.2750% | 0.2760% | 0.2230% |
| City's proportionate share of the net pension liability | \$ 2,427,605 | \$ 2,442,436 | \$ 1,781,353 | \$ 1,607,435 | \$ 1,359,102 | \$ 957,661 |
| City's covered payroll | \$ 1,040,415 | \$ 837,964 | \$ 590,197 | \$ 1,675,811 | \$ 1,181,269 | \$ 647,399 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 233.33% | 291.47% | 301.82% | 95.92% | 115.05% | 147.92% |
| Plan fiduciary net position as a percentage of the total pension liability | 50.45% | 50.45% | 53.54% | 53.32% | 55.50% | 59.97% |

Schedule of City Contributions - CERS

| As of June 30, | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------------|------------|------------|--------------|--------------|------------|------------|
| Contractually required contribution | \$ 200,800 | \$ 161,727 | \$ 95,730 | \$ 237,630 | \$ 164,787 | \$ 80,407 | \$ 78,049 |
| Actual contribution | 200,800 | 161,727 | 95,730 | 237,630 | 164,787 | 80,407 | 78,049 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| City's covered payroll | \$ 1,040,415 | \$ 837,964 | \$ 590,197 | \$ 1,675,811 | \$ 1,181,269 | \$ 647,399 | \$ 612,149 |
| Contributions as a percentage of covered payroll | 19.30% | 19.30% | 16.22% | 14.18% | 13.95% | 12.42% | 12.75% |

City of Falmouth, Kentucky
Schedule of City's Share of the Net Pension Liability and Contributions - Hazardous
June 30, 2021

Schedule of City's Proportionate Share of the Net Pension Liability - CERS

| As of June 30, Measurement period as of June 30, | 2021 2020 | 2020 2019 | 2019 2018 | 2018 2017 | 2017 2016 | 2016 2015 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| City's proportion of the net pension liability | 0.0140% | 0.0098% | 0.0043% | 0.0000% | 0.0066% | 0.0472% |
| City's proportionate share of the net pension liability | \$ 422,767 | \$ 270,235 | \$ 104,622 | \$ - | \$ 112,768 | \$ 723,910 |
| City's covered payroll | \$ 308,955 | \$ 325,146 | \$ 236,766 | \$ 197,545 | \$ 111,433 | \$ 212,241 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 136.84% | 83.11% | 44.19% | 0.00% | 101.20% | 341.08% |
| Plan fiduciary net position as a percentage of the total pension liability | 46.63% | 46.63% | 49.26% | 49.78% | 53.95% | 57.52% |

Schedule of City Contributions - CERS

| As of June 30, | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|------------|------------|------------|------------|------------|------------|------------|
| Contractually required contribution | \$ 92,842 | \$ 97,739 | \$ 58,860 | \$ 43,855 | \$ 24,192 | \$ 43,000 | \$ 55,209 |
| Actual contribution | 92,872 | 97,739 | 58,860 | 43,855 | 24,192 | 43,000 | 55,209 |
| Contribution deficiency (excess) | \$ (30) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| City's covered payroll | \$ 308,955 | \$ 325,146 | \$ 236,766 | \$ 197,545 | \$ 111,433 | \$ 212,241 | \$ 240,562 |
| Contributions as a percentage of covered payroll | 30.06% | 30.06% | 24.86% | 22.20% | 21.71% | 20.26% | 22.95% |

City of Falmouth, Kentucky
Schedule of City's Share of the Net OPEB Liability and Contributions - Nonhazardous
June 30, 2021

Schedule of City's Proportionate Share of the Net OPEB Liability - CERS

| As of June 30, | 2021 | 2020 | 2019 | 2018 |
|--|--------------|------------|------------|--------------|
| Measurement period as of June 30, | 2020 | 2019 | 2018 | 2017 |
| City's proportion of the net pension liability | 0.0317% | 0.0350% | 0.0293% | 0.2750% |
| City's proportionate share of the net pension liability | \$ 764,855 | \$ 589,122 | \$ 520,533 | \$ 552,080 |
| City's covered payroll | \$ 1,098,887 | \$ 885,042 | \$ 633,365 | \$ 1,760,745 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 69.60% | 66.56% | 82.19% | 31.35% |
| Plan fiduciary net position as a percentage of the total pension liability | 60.44% | 60.44% | 57.62% | 52.39% |

Schedule of City Contributions - CERS

| As of June 30, | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|--------------|------------|------------|--------------|--------------|
| Contractually required contribution | \$ 52,307 | \$ 42,128 | \$ 33,315 | \$ 82,755 | \$ 59,696 |
| Actual contribution | 52,307 | 42,128 | 33,315 | 82,755 | 59,696 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| City's covered payroll | \$ 1,098,887 | \$ 885,042 | \$ 633,365 | \$ 1,760,745 | \$ 1,262,072 |
| Contributions as a percentage of covered payroll | 4.76% | 4.76% | 5.26% | 4.70% | 4.73% |

City of Falmouth, Kentucky
Schedule of City's Share of the Net OPEB Liability and Contributions - Hazardous
June 30, 2021

Schedule of City's Proportionate Share of the Net OPEB Liability - CERS

| As of June 30, - Measurement period as of June 30, | 2021 2020 | 2020 2019 | 2019 2018 | 2018 2017 |
|--|--------------|--------------|--------------|--------------|
| City's proportion of the net pension liability | 0.0140% | 0.0098% | 0.0043% | 0.0000% |
| City's proportionate share of the net pension liability | \$ 129,532 | \$ 72,366 | \$ 30,843 | \$ - |
| City's covered payroll | \$ 308,855 | \$ 325,137 | \$ 236,695 | \$ 197,540 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 41.94% | 22.26% | 13.03% | 0.00% |
| Plan fiduciary net position as a percentage of the total pension liability | 64.44% | 64.44% | 64.24% | 58.99% |

Schedule of City Contributions - CERS

| As of June 30, | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|------------|------------|------------|------------|------------|
| Contractually required contribution | \$ 29,403 | \$ 30,953 | \$ 24,782 | \$ 18,470 | \$ 10,418 |
| Actual contribution | 29,403 | 30,953 | 24,782 | 18,470 | 10,418 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| City's covered payroll | \$ 308,855 | \$ 325,137 | \$ 236,695 | \$ 197,540 | \$ 111,422 |
| Contributions as a percentage of covered payroll | 9.52% | 9.52% | 10.47% | 9.35% | 9.35% |

City of Falmouth, Kentucky
 Changes of Benefits and Assumptions - Pension
 June 30, 2021

| Benefits | <u>2021</u> no change | <u>2020</u> no change |
|-------------------------------------|--------------------------|--------------------------|
| Assumptions | | |
| | <u>2021</u> | <u>2020</u> |
| Valuation date | 6/30/2019 | 6/30/2018 |
| Actuarial cost method | Entry age normal | Entry age normal |
| Asset valuation method | 20% of difference | 20% of difference |
| Amortization method | Level percent of pay | Level percent of pay |
| Remaining amortization period | 25 years, closed | 26 years, closed |
| Payroll growth rate | 2.00% | 2.00% |
| Investment return | 6.25% | 6.25% |
| Inflation | 2.30% | 2.30% |
| Salary increase rate - nonhazardous | 3.30% - 11.55% | 3.30% - 11.55% |
| Salary increase rate - hazardous | 3.05% - 18.55% | 3.05% - 18.55% |

City of Falmouth, Kentucky
 Changes of Benefits and Assumptions - OPEB
 June 30, 2021

| Benefits | 2021 | 2020 |
|-------------------------------------|---|---|
| | no change | no change |
| Assumptions | | |
| | 2021 | 2020 |
| Valuation date | 6/30/2018 | 6/30/2017 |
| Actuarial cost method | Entry age normal | Entry age normal |
| Amortization method | Level percent of pay | Level percent of pay |
| Remaining amortization period | 25 years, closed | 26 years, closed |
| Payroll growth rate | 2.00% | 2.00% |
| Investment rate of return | 6.25% | 6.25% |
| Inflation | 2.30% | 2.30% |
| Salary increase rate - nonhazardous | 3.30% - 11.55% | 3.30% - 11.55% |
| Salary increase rate - hazardous | 3.05% - 18.55% | 3.05% - 18.55% |
| Health care cost trends: | | |
| Pre-65 | 7.00% decreasing to an ultimate rate of 4.05% in 12 years | 7.00% decreasing to an ultimate rate of 4.05% in 12 years |
| Post-65 | 5.00% decreasing to an ultimate rate of 4.05% in 12 years | 5.00% decreasing to an ultimate rate of 4.05% in 12 years |

**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***

Honorable Mayor
and Members of City Council
City of Falmouth, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Falmouth, Kentucky (City) as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated April 26, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

April 26, 2022