

**CITY OF FALMOUTH, KENTUCKY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2023**



**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, 2023, 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 of June 30, 2023, 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 40, pension schedules on pages 41-42, and OPEB schedules on pages 43-44 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 and 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 purposed of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The utility fund activity schedule is 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 December 27, 2023 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

December 27, 2023

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, 2023. 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 \$12,381,498 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 \$(1,150,426). 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, 2023, the City had liabilities of \$2,947,839 for postemployment benefits, which has caused the deficit balance in the unrestricted net position. The City's total net position increased \$203,591.

At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$472,644 an increase of \$187,023 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 7-8 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 9-15 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 16-39 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 40-44 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Current assets	\$ 3,855,851	\$ 3,562,972
Non-current assets	15,894,048	18,041,792
Total assets	<u>19,749,899</u>	<u>21,604,764</u>
Deferred outflows	733,100	11,179,966
Current liabilities	1,395,990	1,483,202
Non-current liabilities	5,954,788	8,086,243
Total liabilities	<u>7,350,778</u>	<u>9,569,445</u>
Deferred inflows	756,432	1,125,898
Net investment in capital assets	12,630,182	12,733,380
Restricted	896,033	917,603
Unrestricted	<u>(1,150,426)</u>	<u>(1,623,596)</u>
Total net position	<u>\$ 12,375,789</u>	<u>\$ 12,027,387</u>

**Governmental Funds – Revenues and Expenditures**

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
<b>Revenues</b>		
Property tax	\$ 454,556	\$ 391,261
Insurance premium tax	353,980	354,574
Other tax	156,428	96,558
Licenses and permits	9,055	48,856
Charges for services	85,000	85,000
Intergovernmental	127,206	132,806
Rental revenue	7,954	7,954
Investment income and other revenue	35,325	27,045
Total revenues	<u>\$ 1,229,504</u>	<u>\$ 1,144,054</u>
<b>Expenditures</b>		
Current		
Mayor and council	\$ 238,193	\$ 225,460
Public safety -police	618,394	638,747
Public safety - fire	200,239	211,976
Public works	3,582	13,646
Debt service		
Debt service - principal	23,675	48,161
Debt service - interest	3,047	5,362
Total expenditures	<u>\$ 1,087,130</u>	<u>\$ 1,143,352</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, 2023**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 883,328	\$ 871,512	\$ 1,754,840
Receivables	107,551	312,169	419,720
Intergovernmental receivables	1,453	-	1,453
Due from other funds	-	783,805	783,805
Restricted cash	293,723	602,310	896,033
Capital assets, net	2,783,619	13,110,429	15,894,048
<b>Total assets</b>	<b>4,069,674</b>	<b>15,680,225</b>	<b>19,749,899</b>
<b>Deferred outflows of resources</b>			
Deferred outflows related to pensions	101,658	314,648	416,306
Deferred outflows related to OPEB	29,484	287,310	316,794
<b>Total deferred outflows of resources</b>	<b>131,142</b>	<b>601,958</b>	<b>733,100</b>
<b>Liabilities</b>			
Accounts payable	18,011	135,978	153,989
Accrued expenses	10,496	42,835	53,331
Customer deposits	-	116,512	116,512
Due to other funds	784,904	-	784,904
Noncurrent liabilities:			
Due within one year:			
Notes payable	24,648	232,269	256,917
Compensated absences	5,450	24,887	30,337
Due in more than one year:			
Notes payable	34,563	2,972,386	3,006,949
Net pension liability	-	2,315,742	2,315,742
Net OPEB liability	-	632,097	632,097
<b>Total liabilities</b>	<b>878,072</b>	<b>6,472,706</b>	<b>7,350,778</b>
<b>Deferred inflows of resources</b>			
Deferred inflows related to pensions	242,106	140,515	382,621
Deferred inflows related to OPEB	81,143	292,668	373,811
<b>Total deferred inflows of resources</b>	<b>323,249</b>	<b>433,183</b>	<b>756,432</b>
<b>Net position</b>			
Net investment in capital assets	2,724,408	9,905,774	12,630,182
Restricted	293,723	602,310	896,033
Unrestricted	(18,636)	(1,131,790)	(1,150,426)
<b>Total net position</b>	<b>\$ 2,999,495</b>	<b>\$ 9,376,294</b>	<b>\$12,375,789</b>

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

City of Falmouth, Kentucky  
Statement of Activities  
Year Ended June 30, 2023

	Program Revenues				Net Revenue (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
General government	\$ 270,467	\$ -	\$ 53,648	\$ -	\$ (216,819)
Public safety - police	573,381	-	29,519	-	(543,862)
Public safety - fire	209,216	85,000	11,500	-	(112,716)
Public works	44,941	-	44,039	-	(902)
Interest	3,047	-	-	-	(3,047)
<b>Total governmental activities</b>	<b>1,101,052</b>	<b>85,000</b>	<b>138,706</b>	<b>-</b>	<b>(877,346)</b>
<b>Business-type activities</b>					
Electric	1,587,922	2,025,244	-	-	437,322
Water	1,094,874	845,594	-	-	(249,280)
Sewer	961,846	720,290	-	283,108	41,552
Garbage	192,889	220,458	-	-	27,569
Unallocated	379,549	133,874	-	-	(245,675)
Change in pension	-	-	-	-	-
Change in OPEB	-	-	-	-	-
<b>Total business-type activities</b>	<b>4,217,080</b>	<b>3,945,460</b>	<b>-</b>	<b>283,108</b>	<b>11,488</b>
<b>Total city</b>	<b>\$ 5,318,132</b>	<b>\$ 4,030,460</b>	<b>\$ 138,706</b>	<b>\$ 283,108</b>	<b>\$ (865,858)</b>
			Governmental Activities	Business-Type Activities	Total
<b>Net revenue (expense)</b>			<b>\$ (877,346)</b>	<b>\$ 11,488</b>	<b>(865,858)</b>
<b>General revenues</b>					
Property tax			454,556	-	454,556
Insurance tax			353,980	-	353,980
Other taxes			156,428	-	156,428
Licenses			9,055	-	9,055
Other revenues			64,502	-	64,502
Transfers			-	-	-
Investment income			11,926	13,293	25,219
<b>Total general revenues</b>			<b>1,050,447</b>	<b>13,293</b>	<b>1,063,740</b>
Change in net position			173,101	24,781	197,882
Net position - beginning			2,826,394	9,351,513	12,177,907
<b>Net position - ending</b>			<b>\$ 2,999,495</b>	<b>\$ 9,376,294</b>	<b>\$ 12,375,789</b>

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

**City of Falmouth, Kentucky**  
**Balance Sheet – Governmental Funds**  
**Year Ended June 30, 2023**

	General Fund	Municipal Road Aid Fund	ABC 2% Fund	LGEA Fund	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 678,674	\$ -	\$ 158,793	\$ 45,861	\$ 883,328
Receivables:					
Taxes	100,913	-	6,638	-	107,551
Accounts Intergovernmental	-	-	-	-	-
Intergovernmental	1,453	-	-	-	1,453
Restricted cash	-	293,723	-	-	293,723
Interfund receivable	-	-	-	29,533	29,533
<b>Total assets</b>	<b>\$ 781,040</b>	<b>\$ 293,723</b>	<b>\$ 165,431</b>	<b>\$ 75,394</b>	<b>\$ 1,315,588</b>
<b>Liabilities</b>					
Accounts payable	\$ 7,120	\$ -	\$ 10,891	\$ -	\$ 18,011
Accrued payroll liabilities	10,496	-	-	-	10,496
Due to other funds	798,538	15,899	-	-	814,437
<b>Total liabilities</b>	<b>816,154</b>	<b>15,899</b>	<b>10,891</b>	<b>-</b>	<b>842,944</b>
<b>Fund balances</b>					
Restricted	-	277,824	-	-	277,824
Unassigned	(35,114)	-	154,540	75,394	194,820
<b>Total fund balances</b>	<b>(35,114)</b>	<b>277,824</b>	<b>154,540</b>	<b>75,394</b>	<b>472,644</b>
<b>Total liabilities and fund balances</b>	<b>\$ 781,040</b>	<b>\$ 293,723</b>	<b>\$ 165,431</b>	<b>\$ 75,394</b>	<b>\$ 1,315,588</b>

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

City of Falmouth, Kentucky  
**Reconciliation of Balance Sheet – Governmental Funds to Statement of Net Position**  
**June 30, 2023**

Total governmental fund balances	\$ 472,644
<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.	2,783,619
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	101,658
Deferred outflows - OPEB related	29,484
Deferred inflows - pension related	(242,106)
Deferred inflows - OPEB related	(81,143)
Total deferred outflow and inflow related to post-retirement benefits	(192,107)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	
Long-term debt	(59,211)
Compensated absences	(5,450)
Total long-term liabilities	(64,661)
Net position of governmental activities	\$2,999,495

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

City of Falmouth, Kentucky  
**Statement of Revenues, Expenditures and Changes in  
Fund Balances – Governmental Funds**  
Year Ended June 30, 2023

	General Fund	Municipal Road Aid Fund	ABC 2% Fund	LGEA Fund	Total Governmental Funds
<b>Revenues</b>					
Property tax	\$ 454,556	\$ -	\$ -	\$ -	\$ 454,556
Insurance premium tax	353,980	-	-	-	353,980
Other tax	108,637	-	47,791	-	156,428
Licenses and permits	9,055	-	-	-	9,055
Charges for services	85,000	-	-	-	85,000
Intergovernmental	29,519	44,039	-	53,648	127,206
Rental revenue	7,954	-	-	-	7,954
Investment income	6,453	3,204	1,821	448	11,926
Grants	11,500	-	-	-	11,500
Other	11,899	-	-	-	11,899
<b>Total revenues</b>	<b>1,078,553</b>	<b>47,243</b>	<b>49,612</b>	<b>54,096</b>	<b>1,229,504</b>
<b>Expenditures</b>					
Current					
Mayor and council	190,349	-	-	47,844	238,193
Public safety -police	570,777	-	47,617	-	618,394
Public safety - fire	200,239	-	-	-	200,239
Public works	-	3,582	-	-	3,582
Debt service					
Debt service - principal	23,675	-	-	-	23,675
Debt service - interest	3,047	-	-	-	3,047
<b>Total expenditures</b>	<b>988,087</b>	<b>3,582</b>	<b>47,617</b>	<b>47,844</b>	<b>1,087,130</b>
Net change in fund balances	90,466	43,661	1,995	6,252	142,374
<b>Other financing sources (uses)</b>					
Sale of assets	44,649	-	-	-	44,649
<b>Total other financing sources (uses)</b>	<b>44,649</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,649</b>
Net change in fund balances	135,115	43,661	1,995	6,252	187,023
Beginning fund balances	(170,229)	234,163	152,545	69,142	285,621
<b>Ending fund balances</b>	<b>\$ (35,114)</b>	<b>\$ 277,824</b>	<b>\$ 154,540</b>	<b>\$ 75,394</b>	<b>\$ 472,644</b>

The accompanying notes are an integral part of these 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, 2023

Net change in fund balances - total governmental funds	\$ 187,023
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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	10,655	
Depreciation expense	(97,711)	
Total capital asset activities		(87,056)

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	56,788	
Changes in OPEB liabilities and related deferred outflows and inflows	(5,579)	
Changes in compensated absences	(1,750)	
Total expense activities		49,459

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	23,675	
		23,675
Change in net position of governmental activities		\$ 173,101

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

City of Falmouth, Kentucky  
Statement of Net Position – Proprietary Fund  
June 30, 2023

	Utility Fund
<b>Assets</b>	
Cash	\$ 871,512
Customer receivables	312,169
Due from other funds	783,805
Restricted cash	602,310
Depreciable capital assets	13,110,429
<b>Total assets</b>	<b>15,680,225</b>
<b>Deferred outflows</b>	
Pension related	314,648
OPEB related	287,310
<b>Total deferred outflows</b>	<b>601,958</b>
<b>Liabilities</b>	
Accounts payable	135,978
Accrued expenses	42,835
Customer deposits	116,512
Due to other funds	-
Noncurrent liabilities:	
Due within one year:	
Notes payable	232,269
Compensated absences	24,887
Due in more than one year:	
Notes payable	2,972,386
Net pension liability	2,315,742
Net OPEB liability - <i>Medical Portion</i>	632,097
<b>Total liabilities</b>	<b>6,472,706</b>
<b>Deferred inflows of resources:</b>	
Deferred inflows related to pensions	140,515
Deferred inflows related to OPEB	292,668
<b>Total deferred outflows</b>	<b>433,183</b>
<b>Net position</b>	
Net investment in capital assets	9,905,774
Restricted	602,310
Unrestricted	(1,131,790)
<b>Total net position</b>	<b>\$ 9,376,294</b>

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

City of Falmouth, Kentucky  
**Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund**  
**Year Ended June 30, 2023**

<b>Operating revenues</b>	\$ 3,945,460
<b>Operating expenses</b>	
Salaries and wages	747,467
Other employee expenses	414,483
Purchases	1,596,881
Operating expenses	1,038,172
<b>Total operating expenses</b>	<b>3,797,003</b>
<b>Operating income</b>	<b>148,457</b>
<b>Non-operating income (expense)</b>	
Depreciation	(403,611)
Interest expense	(16,467)
Interest income	13,294
Grants	283,108
<b>Total non-operating income (expense)</b>	<b>(123,676)</b>
<b>Change in net position</b>	<b>24,781</b>
<b>Net position - beginning</b>	<b>9,351,513</b>
<b>Net position - ending</b>	<b>\$ 9,376,294</b>

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



City of Falmouth, Kentucky  
Statement of Cash Flows – Proprietary Fund  
Year Ended June 30, 2023

	Utility Fund
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 3,962,324
Payments to suppliers and service proviers	(2,610,648)
Payments to employees for salaries and benefits	(1,422,133)
Net cash provided by operating activities	(70,457)
<b>Cash flows from investing activities</b>	
Interest income	13,294
Net cash provided by investing activities	13,294
<b>Cash flows from capital and related financing activities</b>	
Acquistion of property	1,657,077
Grants and transfers	348,339
Principal payments on bonds	(2,070,871)
Debt proceeds	-
Interest payments on bonds	(16,467)
Net cash provided by capital activities	(81,922)
Net increase in cash and cash equivalentents	(139,085)
Cash and cash equivalentents, beginning of year	1,010,597
Cash and cash equivalentents, end of year	\$ 871,512

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

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

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**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

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 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.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

**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)**

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

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**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***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.

***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.

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**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***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.

***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.

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**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***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.

**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.

**NOTE 1: ACCOUNTING POLICIES (CONTINUED)**

***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.

***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 December 27, 2023, 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	\$ 678,674	\$
Road Aid Fund		293,723
ABC 2%	158,793	
LGEA	45,861	
Total cash	\$ 883,328	\$ 293,723



**NOTE 2: CASH AND CASH EQUIVALENTS (CONTINUED)**

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

	<u>Unrestricted</u>	<u>Restricted</u>
Utility Fund	\$ 227,902	
Meter Deposit Fund		112,246
Reserve for Depr - Garbage	78,175	
Reserve for Depr - Water	48,199	
Reserve for Depr - Sewer	199,892	
Reserve for Depr - Electric	317,344	
CDBG	-	10,050
Rural development	-	35
ARPA		479,874
CWP		105
<b>Total</b>	<b>\$ 871,512</b>	<b>\$ 602,310</b>

**Concentrations of Credit Risk**

At June 30, 2023, 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.

**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, 2023 is summarized below:

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets :				
Land	\$ 638,514	\$ -	\$ -	\$ 638,514
Buildings	1,545,663	-	-	1,545,663
Vehicles	1,009,081	-	-	1,009,081
Equipment	253,894	10,655	-	264,549
Parks	200,781	-	-	200,781
Improvements/infrastructure	1,789,405	-	-	1,789,405
<b>Total capital assets</b>	<b>5,437,338</b>	<b>10,655</b>	<b>-</b>	<b>5,447,993</b>
Less accumulated depreciation for:				
Buildings	710,864	31,188	-	742,052
Vehicles	948,813	15,067	-	963,880
Equipment	209,684	10,097	-	219,781
Parks	95,052	5,571	-	100,623
Improvements/infrastructure	602,250	35,788	-	638,038
<b>Total accumulated depreciation</b>	<b>2,566,663</b>	<b>97,711</b>	<b>-</b>	<b>2,664,374</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 2,870,675</b>	<b>\$ (87,056)</b>	<b>\$ -</b>	<b>\$ 2,783,619</b>

Depreciation was charged to the following governmental funds:

General government	\$ 32,274
Public safety - police	4,446
Public safety - fire	19,632
Streets	41,359
<b>Total depreciation</b>	<b>\$ 97,711</b>

**NOTE 3: CAPITAL ASSETS - CONTINUED**

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
<b>Capital assets:</b>				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Buildings and improvements	348,569	-	-	348,569
Water and sewer system	19,839,074	118,311	-	19,957,385
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)	-
<b>Total capital assets</b>	<b>22,246,353</b>	<b>118,311</b>	<b>(118,311)</b>	<b>22,246,353</b>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	348,569	-	-	348,569
Water and sewer system	6,792,330	379,776	-	7,172,106
Electric system	832,026	13,085	-	845,111
Vehicles	525,799	8,543	-	534,342
Equipment	233,589	2,207	-	235,796
<b>Total accumulated depreciation</b>	<b>8,732,313</b>	<b>403,611</b>	<b>-</b>	<b>9,135,924</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 13,514,040</b>	<b>\$ (285,300)</b>	<b>\$ (118,311)</b>	<b>\$ 13,110,429</b>

Depreciation was charged to the following proprietary funds:

Electric	\$ 14,298
Water	166,205
Sewer	215,699
Garbage	7,409
<b>Total depreciation</b>	<b>\$ 403,611</b>

**NOTE 4: LONG-TERM LIABILITIES**

Changes in the City's long-term liabilities for the year ended June 30, 2023 are as follows:

	Balance 6/30/2022	Additions	Retirements	Balance 6/30/2023	Amount Due Within One Year	Long-Term
<b>Governmental activities</b>						
Heritage lease	\$ 82,886	\$ -	\$ (23,675)	\$ 59,211	\$ 24,648	\$ 34,563
Compensated absences	3,700	1,750	-	5,450	-	5,450
Net pension liability	129,381	-	-	129,381	-	129,381
Net OPEB liability	39,296	-	-	39,296	-	39,296
<b>Total governmental activities</b>	<b>\$ 255,263</b>	<b>\$ 1,750</b>	<b>\$ (23,675)</b>	<b>\$ 233,338</b>	<b>\$ 24,648</b>	<b>\$ 208,690</b>
<b>Business-type activities</b>						
KIA A07-02	\$ 977,230	\$ -	\$ (146,250)	\$ 830,980	\$ 147,716	\$ 683,264
KIA A0209-39	131,742	-	(14,926)	116,816	15,075	101,741
KIA B09-03	310,554	-	(28,195)	282,359	28,478	253,881
USDA 93-01	1,627,500	-	(32,500)	1,595,000	33,000	1,562,000
USDA 93-03	387,500	-	(8,000)	379,500	8,000	371,500
Compensated absences	38,515	-	(13,628)	24,887	-	24,887
Net pension liability	2,201,303	114,439	-	2,315,742	-	2,315,742
Net OPEB liability	660,830	-	(28,733)	632,097	-	632,097
<b>Total business-type activities</b>	<b>\$ 6,335,174</b>	<b>\$ 114,439</b>	<b>\$ (272,232)</b>	<b>\$ 6,177,381</b>	<b>\$ 232,269</b>	<b>\$ 5,945,112</b>

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**NOTE 4: LONG-TERM LIABILITIES (CONTINUED)**

Future minimum principal and interest payments are as follows:

	Heritage Lease		Total Governmental			
	Principal	Interest	Principal	Interest		
2024	\$ 24,648	\$ 2,074	\$ 24,648	\$ 2,074		
2025	25,736	986	25,736	986		
2026	9,327	80	9,327	80		
	<u>\$ 59,711</u>	<u>\$ 3,140</u>	<u>\$ 59,711</u>	<u>\$ 3,140</u>		
	KIA Loan A07-02		KIA Loan A209-39		KIA Loan B09-03	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 147,716	\$ 9,529	\$ 15,075	\$ 1,357	\$ 28,478	\$ 3,303
2025	149,197	7,753	15,226	1,175	28,763	2,960
2026	150,692	5,958	15,378	992	29,051	2,614
2027	152,203	4,145	15,533	807	29,343	2,264
2028	153,729	2,314	15,689	620	29,637	1,912
2029 - 2033	77,443	387	39,915	721	137,087	4,140
	<u>\$ 830,980</u>	<u>\$ 30,086</u>	<u>\$ 116,816</u>	<u>\$ 5,672</u>	<u>\$ 282,359</u>	<u>\$ 17,193</u>
	RD 93-01		RD 93-03		Total Business-Type	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 8,000	\$ 4,744	\$ 33,000	\$ 19,938	\$ 232,269	\$ 38,871
2025	8,000	4,644	33,500	19,525	234,686	36,057
2026	8,000	4,544	34,000	19,106	237,121	33,214
2027	8,000	4,444	34,500	18,681	239,579	30,341
2028	8,500	4,291	35,000	18,250	242,555	27,387
2029 - 2033	43,000	19,966	180,000	84,625	477,445	109,839
2034 - 2038	46,000	17,369	192,500	73,063	238,500	90,432
2039 - 2043	48,500	14,431	205,000	60,719	253,500	75,150
2044 - 2048	51,500	11,325	217,500	47,594	269,000	58,919
2049 - 2053	55,000	8,025	231,500	33,669	286,500	41,694
2054 - 2058	58,500	4,494	246,000	18,838	304,500	23,332
2059 - 2063	36,500	913	152,500	3,800	189,000	4,713
	<u>\$ 379,500</u>	<u>\$ 99,190</u>	<u>\$ 1,595,000</u>	<u>\$ 417,808</u>	<u>\$ 3,204,655</u>	<u>\$ 569,949</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, 2023, accrued compensated absences are \$30,337.

**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, 2023 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, 2023 participating employers contributed 23.40% of wages for non-hazardous covered employees and 42.81% of wages for hazardous covered employees. The City made all required contributions for fiscal year in the amount of \$180,293 for non-hazardous and \$68,914 for hazardous.

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

At June 30, 2023, the City reported a liability for its proportionate share of the net pension liability as follows:

Nonhazardous	\$ 2,315,742
Hazardous	-
<u>Total proportionate share of the net pension liability</u>	<u>\$ 2,315,742</u>

**NOTE 6: RETIREMENT PLANS (CONTINUED)**

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of 2022 contributions to the pension plan relative to the 2022 contributions of all participating employers, actuarially determined. The City's proportionate share at June 30, 2022 was:

Nonhazardous	0.0320%
Hazardous	0.0000%

For the year ended June 30, 2023 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:

<b>Nonhazardous</b>	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 2,476	\$ 20,623	
Change of assumptions	-	-	
Change in investment experience	59,367	-	
Change in proportionate share of contributions	72,512	119,892	
Total deferred resources	134,355	<u>\$ 140,515</u>	<u>\$ (6,160)</u>
Subsequent contributions	180,293		
Total	<u>\$ 314,648</u>		
<b>Hazardous</b>	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ -	
Change of assumptions	-	-	
Change in investment experience	-	-	
Change in proportionate share of contributions	32,744	242,106	
Total deferred resources	32,744	<u>\$ 242,106</u>	<u>\$ (209,362)</u>
Subsequent contributions	68,914		
Total	<u>\$ 101,658</u>		
<b>Total nonhazardous and hazardous</b>	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 2,476	\$ 20,623	
Change of assumptions	-	-	
Change in investment experience	59,367	-	
Change in proportionate share of contributions	105,256	361,998	
Total deferred resources	167,099	<u>\$ 382,621</u>	<u>\$ (215,522)</u>
Subsequent contributions	249,207		
Total	<u>\$ 416,306</u>		



**NOTE 6: RETIREMENT PLANS (CONTINUED)**

The contributions subsequent to the measurement date of 249,207 will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. The net deferral of \$(215,522) will be recognized as pension expense as follows:

Year Ending June 30	Net Deferral
2024	\$ (69,986)
2025	(128,755)
2026	(74,138)
2027	57,357
Total net deferral	\$(215,522)

**Actuarial assumptions**

The total pension liability, net pension liability, and sensitivity information as of June 30, 2022 were based on an actuarial valuation date of June 30, 2022. The total pension liability was rolled forward from the valuation date to the plan’s fiscal year ending June 30, 2022, 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, 2022 was determined using these updated assumptions.

The actuarial assumptions are:

Employer fiscal year end	2023
Plan year end	2022
Valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amotrization method	Level percent of pay
Remaining amortization period	30 years, closed period at June 30, 2019
Payroll growth rate	2.00%
Investment return	6.25%
Inflation	2.30%
Salary increase rate - nonhazardous	3.30% - 10.30%
Salary increase rate - hazardous	3.05% - 18.55%
Phase-in provision	system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates form P-2014 mortality improvement scale using a base year of 2019. Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2019.

**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
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
<u>Expected real return</u>	<u>100.00%</u>	<u>4.28%</u>
<u>Long-term inflation assumption</u>		<u>2.30%</u>
<u>Expected nominal return for portfolio</u>		<u>6.58%</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	\$ 2,894,390	\$ 2,315,742	\$ 1,837,152
Hazardous	-	-	-
<u>Total proportionate share of the net pension liability</u>	<u>\$ 2,894,390</u>	<u>\$ 2,315,742</u>	<u>\$ 1,837,152</u>

**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 provide 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](http://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:

<b>Tier 1</b>	
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
<b>Tier 2</b>	
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
<b>Tier 3</b>	
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, 2023, the employer’s contribution was 3.39% to the insurance trust for non-hazardous job classifications and 6.78% 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, 2023, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Nonhazardous	\$	632,097
Hazardous		-
<b>Total proportionate share of the net OPEB liability</b>	<b>\$</b>	<b>632,097</b>

The net OPEB liability was measured as of June 30, 2022, 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, 2022 was as follows:

Nonhazardous	0.0320%
Hazardous	0.0000%

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

For the year ended June 30, 2023, the City recognized OPEB expense of \$108,737. At June 30, 2023 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<b>Nonhazardous</b>	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 63,626	\$ 144,954	
Change of assumptions	99,971	82,375	
Change in investment experience	25,655	-	
Change in proportionate share of contributions	71,938	65,339	
Total deferred resources	261,190	<u>\$ 292,668</u>	<u>\$ (31,478)</u>
Subsequent contributions	26,120		
Total	<u>\$ 287,310</u>		
<b>Hazardous</b>	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ -	
Change of assumptions	-	-	
Change in investment experience	-	-	
Change in proportionate share of contributions	18,570	81,143	
Total deferred resources	18,570	<u>\$ 81,143</u>	<u>\$ (62,573)</u>
Subsequent contributions	10,914		
Total	<u>\$ 29,484</u>		
<b>Total nonhazardous and hazardous</b>	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 63,626	\$ 144,954	
Change of assumptions	99,971	82,375	
Change in investment experience	25,655	-	
Change in proportionate share of contributions	90,508	146,482	
Total deferred resources	279,760	<u>\$ 373,811</u>	<u>\$ (94,051)</u>
Subsequent contributions	37,034		
Total	<u>\$ 316,794</u>		

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

The contributions subsequent to the measurement date of \$37,034 will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. The net deferral of \$(94,051) will be recognized in OPEB expense as follows:

Year Ending June 30	Net Deferral
2024	\$ (3,640)
2025	(11,846)
2026	(49,205)
2027	(29,360)
Total net deferral	<u>\$ (94,051)</u>

**Actuarial Assumptions**

The total OPEB liability, net OPEB liability, and sensitivity as of June 30, 2022 were based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date (June 30, 2022) to the plan's fiscal year ending June 30, 2022, 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.

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

The actuarial assumptions are:

Employer fiscal year end	2023
Plan year end	2022
Valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method	Level percent of pay
Remaining amortization period	30 years, closed period at June 30, 2019
Payroll growth rate	2.00%
Investment return	6.25%
Inflation	2.30%
Salary increase rate - nonhazardous	3.30% - 10.30%
Salary increase rate - hazardous	3.05% - 18.55%
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from P-2014 mortality improvement scale using a base year of 2019. Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2019.
Health care cost trends:	
	Initial trend starting at 6.40% at January 1, 2022 gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Pre-65	Initial trend starting at 6.30% at January 1, 2023 gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. Additionally, Humana provided a "Not to Exceed" 2022 Medicare premiums which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022.
Post-65	

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

Asset Class	Target Allocation	Long-term Expected Nominal Return
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
<u>Expected real return</u>	<u>100.00%</u>	<u>4.28%</u>
<u>Long-term inflation assumption</u>		<u>2.30%</u>
<u>Expected nominal return for portfolio</u>		<u>6.58%</u>

**Discount rate**

The projection of cash flows used to determine the discount rate of 5.70% for non-hazardous and hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in statute as last amended by House Bill 362 (passed in 2018). The discount rate determination used an expected rate of return of 6.58%, 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 5.70% for non-hazardous and 5.70% 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 4.70%	Current Rate 5.70%	1% Increase 6.70%
Nonhazardous	\$ 845,012	\$ 632,097	\$ 456,086
Hazardous	-	-	-
<u>Total proportionate share of the net OPEB liability</u>	<u>\$ 845,012</u>	<u>\$ 632,097</u>	<u>\$ 456,086</u>



**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	\$ 469,950	\$ 632,097	\$ 826,804
Hazardous	-	-	-
<b>Total proportionate share of the net pension liability</b>	<b>\$ 469,950</b>	<b>\$ 632,097</b>	<b>\$ 826,804</b>

**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, 2023, 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, 2023

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Property taxes	\$ 410,000	\$ 410,000	\$ 454,556	\$ 44,556
Insurance premium tax	339,000	339,000	353,980	14,980
Other taxes	80,000	80,000	156,428	76,428
Licenses and permits	31,650	31,650	9,055	(22,595)
Charges for services	105,000	105,000	85,000	(20,000)
Intergovernmental	31,900	31,900	127,206	95,306
Rental revenue	-	-	7,954	7,954
Other	24,750	24,750	35,325	10,575
Total revenues	1,022,300	1,022,300	1,229,504	207,204
Expenditures				
General government	214,250	214,250	238,193	(23,943)
Public safety - police	686,750	686,750	618,394	68,356
Public safety - fire	282,015	282,015	200,239	81,776
Public works	-	-	3,582	(3,582)
Debt service	-	-	26,722	(26,722)
Total expenditures	1,183,015	1,183,015	1,087,130	95,885
Other financing sources	-	-	44,649	44,649
Net change in fund balance	(160,715)	(160,715)	187,023	347,738
Fund balance - beginning	324,222	324,222	285,621	(38,601)
Fund balance - ending	\$ 163,507	\$ 163,507	\$ 472,644	\$ 309,137

**City of Falmouth, Kentucky**  
**Schedule of City's Share of the Net Pension Liability and Contributions - Nonhazardous**  
**June 30, 2023**

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

As of June 30, Measurement period as of June 30,	2023	2022	2021	2020	2019	2018	2017	2016
	2022	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.0320%	0.0345%	0.0317%	0.0347%	0.0292%	0.2750%	0.2760%	0.2230%
City's proportionate share of the net pension liability	\$ 2,315,742	\$ 2,201,303	\$ 2,427,605	\$ 2,442,436	\$ 1,781,353	\$ 1,607,435	\$ 1,359,102	\$ 957,661
City's covered payroll	\$ 953,188	\$ 1,040,415	\$ 837,964	\$ 590,197	\$ 1,675,811	\$ 1,181,269	\$ 647,399	\$ 612,149
City's proportionate share of the net pension liability as a percentage of its covered payroll	242.95%	211.58%	289.70%	413.83%	106.30%	136.08%	209.93%	156.44%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	55.95%	50.45%	50.45%	53.54%	53.32%	55.50%	59.97%

**Schedule of City Contributions - CERS**

As of June 30,	2023	2022	2021	2020	2019	2018	2017	2016	2015
	Contractually required contribution	\$ 180,293	\$ 201,790	\$ 200,800	\$ 161,727	\$ 95,730	\$ 237,630	\$ 164,787	\$ 80,407
Actual contribution	180,293	201,790	200,800	161,727	95,730	237,630	164,787	80,407	78,049
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 770,483	\$ 953,188	\$ 1,040,415	\$ 837,964	\$ 590,197	\$ 1,675,811	\$ 1,181,269	\$ 647,399	\$ 612,149
Contributions as a percentage of covered payroll	23.40%	21.17%	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, 2023**

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

As of June 30, Measurement period as of June 30,	2023	2022	2021	2020	2019	2018	2017	2016
	2022	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.0000%	0.0049%	0.0140%	0.0098%	0.0043%	0.0000%	0.0066%	0.0472%
City's proportionate share of the net pension liability	\$ -	\$ 129,381	\$ 422,767	\$ 270,235	\$ 104,622	\$ -	\$ 112,768	\$ 723,910
City's covered payroll	\$ 191,763	\$ 308,955	\$ 325,146	\$ 236,766	\$ 197,545	\$ 111,433	\$ 212,241	\$ 240,562
City's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	41.88%	130.02%	114.14%	52.96%	0.00%	53.13%	300.92%
Plan fiduciary net position as a percentage of the total pension liability	47.11%	55.95%	46.63%	46.63%	49.26%	49.78%	53.95%	57.52%

**Schedule of City Contributions - CERS**

As of June 30,	2023	2022	2021	2020	2019	2018	2017	2016	2015
	Contractually required contribution	\$ 68,914	\$ 64,931	\$ 92,842	\$ 97,739	\$ 58,860	\$ 43,855	\$ 24,192	\$ 43,000
Actual contribution	68,914	64,931	92,872	97,739	58,860	43,855	24,192	43,000	55,209
Contribution deficiency (excess)	\$ -	\$ -	\$ (30)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 160,976	\$ 191,763	\$ 308,955	\$ 325,146	\$ 236,766	\$ 197,545	\$ 111,433	\$ 212,241	\$ 240,562
Contributions as a percentage of covered payroll	42.81%	33.86%	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, 2023**

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

As of June 30, Measurement period as of June 30,	2023		2022		2021		2020		2019		2018	
	2023	2022	2022	2021	2021	2020	2020	2019	2018	2018	2017	
City's proportion of the net pension liability	0.0320%	0.0320%	0.0345%	0.0317%	0.0317%	0.0350%	0.0293%	0.0293%	0.2750%			
City's proportionate share of the net pension liability	\$ 632,097	\$ 660,830	\$ 764,855	\$ 589,122	\$ 589,122	\$ 633,365	\$ 1,760,745	\$ 552,080	\$ 1,262,072			
City's covered payroll	97.25%	60.14%	86.42%	93.01%	29.56%	43.74%						
City's proportionate share of the net pension liability as a percentage of its covered payroll	60.95%	64.16%	60.44%	60.44%	57.62%	52.39%						

**Schedule of City Contributions - CERS**

As of June 30,	2023		2022		2021		2020		2019		2018		2017	
	2023	2022	2022	2021	2021	2020	2020	2019	2018	2018	2017			
Contractually required contribution	\$ 26,120	\$ 37,567	\$ 52,307	\$ 42,128	\$ 42,128	\$ 82,755	\$ 59,696							
Actual contribution	26,120	37,567	52,307	42,128	42,128	82,755	59,696							
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -							
City's covered payroll	\$ 770,501	\$ 649,948	\$ 1,098,887	\$ 885,042	\$ 885,042	\$ 1,760,745	\$ 1,262,072							
Contributions as a percentage of covered payroll	3.39%	5.78%	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, 2023**

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

As of June 30, Measurement period as of June 30,	2023		2022		2021		2020		2019		2018	
	2023	2022	2022	2021	2021	2020	2019	2019	2018	2018	2017	2017
City's proportion of the net pension liability	0.0000%	0.0000%	0.0049%	0.0140%	0.0098%	0.0043%	0.0000%	0.0098%	0.0043%	0.0000%	0.0000%	0.0000%
City's proportionate share of the net pension liability	\$ -	\$ 191,767	\$ 39,296	\$ 129,532	\$ 72,366	\$ 30,843	\$ -	\$ 72,366	\$ 30,843	\$ -	\$ -	\$ -
City's covered payroll	\$ 191,767	\$ 191,767	\$ 308,855	\$ 325,137	\$ 236,695	\$ 197,540	\$ 197,540	\$ 236,695	\$ 197,540	\$ 111,422	\$ 111,422	\$ 111,422
City's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	0.00%	12.72%	39.84%	30.57%	15.61%	0.00%	30.57%	15.61%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	64.13%	64.13%	64.16%	64.44%	64.44%	64.24%	64.44%	64.44%	64.24%	58.99%	58.99%	58.99%

**Schedule of City Contributions - CERS**

As of June 30,	2023		2022		2021		2020		2019		2018		2017	
	2023	2022	2022	2021	2021	2020	2019	2019	2018	2018	2017	2017	2017	2017
Contractually required contribution	\$ 10,914	\$ 10,914	\$ 20,078	\$ 29,403	\$ 30,953	\$ 24,782	\$ 30,953	\$ 24,782	\$ 24,782	\$ 18,470	\$ 18,470	\$ 10,418	\$ 10,418	\$ 10,418
Actual contribution	10,914	10,914	20,078	29,403	30,953	24,782	30,953	24,782	24,782	18,470	18,470	10,418	10,418	10,418
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered payroll	\$ 160,973	\$ 160,973	\$ 191,767	\$ 308,855	\$ 325,137	\$ 236,695	\$ 325,137	\$ 236,695	\$ 197,540	\$ 197,540	\$ 111,422	\$ 111,422	\$ 111,422	\$ 111,422
Contributions as a percentage of covered payroll	6.78%	6.78%	10.47%	9.52%	9.52%	10.47%	9.52%	10.47%	10.47%	9.35%	9.35%	9.35%	9.35%	9.35%

**City of Falmouth, Kentucky**  
**Utility Fund Activity**  
**June 30, 2023**

	Electric	Water	Sewer	Waste Collection	Unallocated	Total
Charges for services	\$2,025,244	\$ 845,594	\$ 720,290	\$220,458	\$ 133,874	\$ 3,945,460
Salaries and benefits	87,725	376,344	338,019	89,752	286,472	1,178,312
Purchases	1,232,319	197,428	121,543	45,592	-	1,596,882
Operating expenses	254,889	360,133	274,699	51,445	97,004	1,038,170
<b>Total operating expenses</b>	<b>1,574,933</b>	<b>933,905</b>	<b>734,261</b>	<b>186,789</b>	<b>383,476</b>	<b>3,813,364</b>
<b>Operating income</b>	<b>450,311</b>	<b>(88,311)</b>	<b>(13,971)</b>	<b>33,669</b>	<b>(249,602)</b>	<b>132,096</b>
Depreciation	14,298	166,205	215,699	7,409	-	403,611
Interest expense	-	-	16,467	-	-	16,467
Interest income	-	-	-	-	(13,294)	(13,294)
Grants	-	-	(283,108)	-	-	(283,108)
Change in pension liability	(5,917)	(23,668)	(20,710)	(5,917)	(17,751)	(73,963)
Change in OPEB liability	4,608	18,432	16,128	4,608	13,825	57,601
<b>Total other expenses</b>	<b>12,989</b>	<b>160,969</b>	<b>(55,524)</b>	<b>6,100</b>	<b>(17,220)</b>	<b>107,314</b>
<b>Net income (loss)</b>	<b>\$ 437,322</b>	<b>\$(249,280)</b>	<b>\$ 41,553</b>	<b>\$ 27,569</b>	<b>\$(232,382)</b>	<b>\$ 24,782</b>

**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, 2023 and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated December 27, 2023.

**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

December 27, 2023