

**CITY OF FALMOUTH, KENTUCKY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2025**



**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 Audit of the Financial Statements**

#### ***Opinions***

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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund, of the City, as of June 30, 2025 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis of Opinions***

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

#### ***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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.

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

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky

August 4, 2025

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, 2025. 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 \$13,172,895 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 \$(728,054). 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, 2025, the City had liabilities of \$1,516,037 for postemployment benefits. The City's total net position increased \$13,449.

At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$199,670 an change of \$(567,834) 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 8-9 of this report.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have be 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 10-16 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 17-40 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 40-44 of this report.

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Current assets	\$ 2,973,395	\$ 4,168,308
Non-current assets	<u>16,461,077</u>	<u>16,376,230</u>
Total assets	<u>19,434,472</u>	<u>20,544,538</u>
Deferred outflows	<u>379,025</u>	<u>500,396</u>
Current liabilities	1,447,054	1,986,226
Non-current liabilities	<u>4,062,298</u>	<u>4,858,265</u>
Total liabilities	<u>5,509,352</u>	<u>6,844,491</u>
Deferred inflows	<u>1,131,250</u>	<u>1,040,997</u>
Net investment in capital assets	13,670,647	10,120,357
Restricted	230,302	735,054
Unrestricted	<u>(728,054)</u>	<u>2,304,035</u>
Total net position	<u>\$ 13,172,895</u>	<u>\$ 13,159,446</u>

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**Governmental Funds – Revenues and Expenditures**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
<b>Revenues</b>		
Property tax	\$ 492,869	\$ 469,321
Insurance premium tax	439,153	401,824
Other tax	121,860	150,520
Licenses and permits	10,135	10,405
Charges for services	37,500	175,000
Intergovernmental	186,013	128,395
Rental revenue	-	7,954
Investment income	16,316	18,753
Grants	-	256,157
Other revenue	24,819	88,490
<b>Total revenues</b>	<b><u>\$ 1,328,665</u></b>	<b><u>\$ 1,706,819</u></b>
<b>Expenditures</b>		
Current		
Mayor and council	\$ 371,193	\$ 278,265
Public safety - police	1,134,506	648,092
Public safety - fire	127,057	482,857
Public works	332,335	8,694
Capital outlay	73,686	-
Debt service	26,722	26,721
<b>Total expenditures</b>	<b><u>\$ 2,065,499</u></b>	<b><u>\$ 1,444,629</u></b>

**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, 2025

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 924,225	\$ 509,092	\$ 1,433,317
Receivables	116,148	311,696	427,844
Due from other funds	-	881,932	881,932
Restricted cash	57,207	173,095	230,302
Net OPEB asset	-	43,894	43,894
Capital assets, net	3,552,497	12,864,686	16,417,183
<b>Total assets</b>	<b>4,650,077</b>	<b>14,784,395</b>	<b>19,434,472</b>
<b>Deferred outflows of resources</b>			
Deferred outflows related to pensions	68,066	215,116	283,182
Deferred outflows related to OPEB	8,499	87,344	95,843
<b>Total deferred outflows of resources</b>	<b>76,565</b>	<b>302,460</b>	<b>379,025</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	10,792	152,182	162,974
Accrued expenses	-	28,355	28,355
Accrued payroll liabilities	5,186	13,861	19,047
Customer deposits	-	108,288	108,288
Due to other funds	881,932	-	881,932
Bonds and notes payable	8,836	237,622	246,458
Noncurrent liabilities			
Compensated absences	31,803	14,380	46,183
Bonds and notes payable	-	2,500,078	2,500,078
Net pension liability	-	1,516,037	1,516,037
<b>Total liabilities</b>	<b>938,549</b>	<b>4,570,803</b>	<b>5,509,352</b>
<b>Deferred inflows of resources</b>			
Deferred inflows related to pensions	63,106	488,595	551,701
Deferred inflows related to OPEB	42,762	536,787	579,549
<b>Total deferred inflows of resources</b>	<b>105,868</b>	<b>1,025,382</b>	<b>1,131,250</b>
<b>Net position</b>			
Net investment in capital assets	3,543,661	10,126,986	13,670,647
Restricted	57,207	173,095	230,302
Unrestricted	81,357	(809,411)	(728,054)
<b>Total net position</b>	<b>\$ 3,682,225</b>	<b>\$ 9,490,670</b>	<b>\$13,172,895</b>

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

City of Falmouth, Kentucky  
Statement of Activities  
Year Ended June 30, 2025

	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
General government	\$ 405,020	\$ -	\$ 76,786	\$ -	\$ (328,234)
Public safety - police	1,008,210	-	42,222	-	(965,988)
Public safety - fire	168,936	37,500	15,000	-	(116,436)
Public works	86,058	-	52,005	-	(34,053)
Interest	994	-	-	-	(994)
<b>Total governmental activities</b>	<b>1,669,218</b>	<b>37,500</b>	<b>186,013</b>	<b>-</b>	<b>(1,445,705)</b>
<b>Business-type activities</b>					
Electric	1,783,536	2,095,834	-	-	312,298
Water	745,272	818,008	-	-	72,736
Sewer	646,916	727,358	-	186,970	267,412
Garbage	205,358	212,354	-	-	6,996
Unallocated	169,755	53,919	-	-	(115,836)
Depreciation	425,374	-	-	-	(425,374)
<b>Total business-type activities</b>	<b>3,976,211</b>	<b>3,907,473</b>	<b>-</b>	<b>186,970</b>	<b>118,232</b>
<b>Total city</b>	<b>\$5,645,429</b>	<b>\$ 3,944,973</b>	<b>\$ 186,013</b>	<b>\$ 186,970</b>	<b>\$ (1,327,473)</b>
			Governmental Activities	Business-Type Activities	Total
<b>Net revenue (expense)</b>			<b>\$ (1,445,705)</b>	<b>\$ 118,232</b>	<b>(1,327,473)</b>
<b>General revenues</b>					
Property tax			492,869	-	492,869
Insurance tax			439,153	-	439,153
Other taxes			121,860	-	121,860
Licenses			10,135	-	10,135
Other revenues			24,819	39,205	64,024
Investment income			16,316	14,433	30,749
Gain on sale of assets			169,000	13,132	182,132
<b>Total general revenues</b>			<b>1,274,152</b>	<b>66,770</b>	<b>1,340,922</b>
Change in net position			(171,553)	185,002	13,449
Net position - beginning as restated			3,853,778	9,305,668	13,159,446
Net position - ending			<b>\$ 3,682,225</b>	<b>\$ 9,490,670</b>	<b>\$ 13,172,895</b>

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

City of Falmouth, Kentucky  
Balance Sheet – Governmental Funds  
June 30, 2025

	General Fund	Municipal Road Aid Fund	ABC 2% Fund	LGEA Fund	Asset Forfeiture Fund	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 609,142	\$ -	\$ 150,781	\$ 157,141	\$ 7,161	\$ 924,225
Receivables	112,140	-	4,008	-	-	116,148
Restricted cash	-	57,207	-	-	-	57,207
Due from other funds	70,865	-	-	-	-	70,865
<b>Total assets</b>	<b>\$ 792,147</b>	<b>\$ 57,207</b>	<b>\$ 154,789</b>	<b>\$ 157,141</b>	<b>\$ 7,161</b>	<b>\$ 1,168,445</b>
<b>Liabilities</b>						
Accounts payable	\$ 10,792	\$ -	\$ -	\$ -	\$ -	\$ 10,792
Accrued payroll liabilities	5,186	-	-	-	-	5,186
Due to other funds	928,931	15,899	-	7,967	-	952,797
<b>Total liabilities</b>	<b>944,909</b>	<b>15,899</b>	<b>-</b>	<b>7,967</b>	<b>-</b>	<b>968,775</b>
<b>Fund balances</b>						
Restricted	-	41,308	-	-	-	41,308
Unassigned	(152,762)	-	154,789	149,174	7,161	158,362
<b>Total fund balances</b>	<b>(152,762)</b>	<b>41,308</b>	<b>154,789</b>	<b>149,174</b>	<b>7,161</b>	<b>199,670</b>
<b>Total liabilities and fund balances</b>	<b>\$ 792,147</b>	<b>\$ 57,207</b>	<b>\$ 154,789</b>	<b>\$ 157,141</b>	<b>\$ 7,161</b>	<b>\$ 1,168,445</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, 2025

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Total governmental fund balances \$ 199,670

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

Capital assets of used in governmental activities are not financial resources and therefore are not reported in the funds. 3,552,497

Net pension and OPEB liabilities are not due and payable in the current year, therefore, the liability and related deferred inflows/outflows are not reported in the funds

Deferred outflows - pension	68,066	
Deferred outflows - OPEB	8,499	
Deferred inflows - pension	(63,106)	
Deferred inflows - OPEB	(42,762)	
		(29,303)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds

Bonds and notes payable	(8,836)	
Compensated absences	(31,803)	
		(40,639)

Net position of governmental activities	\$ 3,682,225
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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, 2025

	General Fund	Municipal Road Aid Fund	ABC 2% Fund	LGEA Fund	Asset Forfeiture Fund	Total Governmental Funds
<b>Revenues</b>						
Property tax	\$ 492,869	\$ -	\$ -	\$ -	\$ -	\$ 492,869
Insurance premium tax	439,153	-	-	-	-	439,153
Other tax	79,057	-	42,803	-	-	121,860
Licenses and permits	10,135	-	-	-	-	10,135
Charges for services	37,500	-	-	-	-	37,500
Intergovernmental	57,222	52,005	-	76,786	-	186,013
Investment income	10,023	2,533	1,816	1,794	150	16,316
Other	18,472	-	-	-	6,347	24,819
<b>Total revenues</b>	<b>1,144,431</b>	<b>54,538</b>	<b>44,619</b>	<b>78,580</b>	<b>6,497</b>	<b>1,328,665</b>
<b>Expenditures</b>						
Current						
Mayor and council	336,392	-	-	34,801	-	371,193
Public safety -police	1,076,420	-	32,693	-	25,393	1,134,506
Public safety - fire	127,057	-	-	-	-	127,057
Public works	-	332,335	-	-	-	332,335
Capital outlay	73,686	-	-	-	-	73,686
Debt service	26,722	-	-	-	-	26,722
<b>Total expenditures</b>	<b>1,640,277</b>	<b>332,335</b>	<b>32,693</b>	<b>34,801</b>	<b>25,393</b>	<b>2,065,499</b>
Net change in fund balances	(495,846)	(277,797)	11,926	43,779	(18,896)	(736,834)
<b>Other financing sources (uses)</b>						
Sale of assets	169,000	-	-	-	-	169,000
<b>Total other financing sources</b>	<b>169,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>169,000</b>
Net change in fund balances	(326,846)	(277,797)	11,926	43,779	(18,896)	(567,834)
Beginning fund balances	174,084	319,105	142,863	105,395	26,057	767,504
<b>Ending fund balances</b>	<b>\$ (152,762)</b>	<b>\$ 41,308</b>	<b>\$ 154,789</b>	<b>\$ 149,174</b>	<b>\$ 7,161</b>	<b>\$ 199,670</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, 2025

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Net change in fund balances - total governmental funds \$(567,834)

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	627,680	
Depreciation expense	(168,598)	
		459,082

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	(33,481)	
Changes in OPEB liabilities and related deferred outflows and inflows	(36,675)	
Changes in compensated absences	(19,719)	
		(89,875)

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	25,728	
Amortization of operating lease liability	1,346	
		27,074

Change in net position of governmental activities \$(171,553)

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

City of Falmouth, Kentucky  
Statement of Net Position – Proprietary Fund  
June 30, 2025

	Utility Fund
<b>Assets</b>	
Cash	\$ 509,092
Customer receivables	311,696
Due from other funds	881,932
Restricted cash	173,095
Net OPEB asset	43,894
Depreciable capital assets	12,864,686
<b>Total assets</b>	<b>14,784,395</b>
<b>Deferred outflows</b>	
Pension related	215,116
OPEB related	87,344
<b>Total deferred outflows</b>	<b>302,460</b>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	152,182
Accrued expenses	28,355
Accrued payroll liabilities	13,861
Customer deposits	108,288
Bonds and notes payable	237,622
Noncurrent liabilities:	
Bonds and notes payable	2,500,078
Compensated absences	14,380
Net pension liability	1,516,037
<b>Total liabilities</b>	<b>4,570,803</b>
<b>Deferred inflows of resources:</b>	
Deferred inflows related to pensions	488,595
Deferred inflows related to OPEB	536,787
<b>Total deferred outflows</b>	<b>1,025,382</b>
<b>Net position</b>	
Net investment in capital assets	10,126,986
Restricted	173,095
Unrestricted	(809,411)
<b>Total net position</b>	<b>\$ 9,490,670</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, 2025

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	Utility Fund
	<u>                    </u>
<b>Operating revenues</b>	\$ 3,907,473
<b>Operating expenses</b>	
Salaries and wages	714,099
Taxes and benefits	(145,439)
Purchases	1,476,099
Operating expenses	1,469,575
<u>Total operating expenses</u>	<u>3,514,334</u>
Operating income	393,139
<b>Non-operating income (expense)</b>	
Depreciation	(425,374)
Interest expense	(36,503)
Interest income	14,433
Grants	186,970
Other revenue	52,337
Transfers	0
<u>Total non-operating income (expense)</u>	<u>(208,137)</u>
Change in net position	185,002
<u>Net position - beginning</u>	<u>9,305,668</u>
<u>Net position - ending</u>	<u>\$ 9,490,670</u>

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

City of Falmouth, Kentucky  
Statement of Cash Flows – Proprietary Fund  
Year Ended June 30, 2025

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	<u>Utility Fund</u>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$3,969,016
Payments to suppliers and service proviers	(2,744,323)
Payments to employees for salaries and benefits	(984,056)
<u>Net cash provided by operating activities</u>	<u>240,637</u>
<b>Cash flows from investing activities</b>	
Interest income	14,433
<u>Net cash provided by investing activities</u>	<u>14,433</u>
<b>Cash flows from capital and related financing activities</b>	
Acquistion of property	(346,194)
Grants and transfers	186,970
Principal payments on bonds	(234,685)
Debt proceeds	-
Interest payments on bonds	(36,503)
<u>Net cash provided by capital activities</u>	<u>(430,412)</u>
Net increase in cash and cash equivalentents	(175,342)
Cash and cash equivalentents, beginning of year	684,434
<u>Cash and cash equivalentents, end of year</u>	<u>\$ 509,092</u>

The accompanying notes are an integral part of these 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 statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

**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.

*Asset Forfeiture Fund* – The asset forfeiture fund is used to account for assets that are forfeited to the City.

**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, 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

**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.

**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.

**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.

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**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 August 4, 2025, 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	\$ 609,142	\$ -
Road aid	-	57,207
ABC 2%	150,781	-
LGEA	157,141	-
Asset forfeiture	7,161	-
<u>Total cash</u>	<u>\$ 924,225</u>	<u>\$ 57,207</u>

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**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	\$ 27,998	\$ -
Electric reserve	212,265	-
Water reserve	121,538	-
Sewer reserve	44,881	-
Garbage reserve	102,410	-
Meter deposit fund	-	106,375
CDBG	-	10,050
Rural development	-	100
ARPA	-	55,389
CWP	-	1,181
<u>Total cash</u>	<u>\$ 509,092</u>	<u>\$ 173,095</u>

**Concentrations of Credit Risk**

At June 30, 2025, 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, 2025 is summarized below:

	Balance July 1, 2024	Increases	Decreases	Balance June 30, 2025
Capital assets :				
Land	\$ 638,514	\$ -	\$ -	\$ 638,514
Buildings and improvements	1,674,274	20,134	-	1,694,408
Vehicles	1,017,681	296,300	-	1,313,981
Equipment	560,494	17,879	-	578,373
Parks	200,781	-	-	200,781
Improvements/infrastructure	1,789,405	293,367	-	2,082,772
<b>Total capital assets</b>	<b>5,881,149</b>	<b>627,680</b>	<b>-</b>	<b>6,508,829</b>
Less accumulated depreciation for:				
Buildings and improvements	777,208	36,498	-	813,706
Vehicles	980,022	53,179	-	1,033,201
Equipment	250,620	31,831	-	282,451
Parks	106,058	5,435	-	111,493
Improvements/infrastructure	673,826	41,655	-	715,481
<b>Total accumulated depreciation</b>	<b>2,787,734</b>	<b>168,598</b>	<b>-</b>	<b>2,956,332</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 3,093,415</b>	<b>\$ 459,082</b>	<b>\$ -</b>	<b>\$ 3,552,497</b>

Depreciation was charged to the following governmental funds:

Governmental activities:	
General government	\$ 33,827
Public safety - police	46,354
Public safety - fire	41,327
Streets	47,090
<b>Total depreciation</b>	<b>\$ 168,598</b>

**NOTE 3: CAPITAL ASSETS - CONTINUED**

	Balance July 1, 2024	Increases	Decreases	Balance June 30, 2025
<b>Capital assets:</b>				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Buildings and improvements	488,979	-	-	488,979
Water and sewer system	20,052,748	302,558	-	20,355,306
Electric system	1,044,742	-	-	1,044,742
Vehicles	636,798	7,957	-	644,755
Equipment	239,569	35,679	-	275,248
<b>Total capital assets</b>	<b>22,492,836</b>	<b>346,194</b>	<b>-</b>	<b>22,839,030</b>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	355,589	7,020	-	362,609
Water and sewer system	7,557,581	395,205	-	7,952,786
Electric system	858,254	12,006	-	870,260
Vehicles	541,122	7,576	-	548,698
Equipment	236,424	3,567	-	239,991
<b>Total accumulated depreciation</b>	<b>9,548,970</b>	<b>425,374</b>	<b>-</b>	<b>9,974,344</b>
<b>Business-type activities capital assets, net</b>	<b>\$12,943,866</b>	<b>\$ (79,180)</b>	<b>-</b>	<b>\$12,864,686</b>

Depreciation was charged to the following proprietary funds:

<b>Business-type activities:</b>	
Electric	\$ 12,006
Water	167,708
Sewer	230,702
Garbage	7,938
Unallocated	7,020
<b>Total depreciation</b>	<b>\$ 425,374</b>

**NOTE 4: LONG-TERM LIABILITIES**

Changes in the City’s long-term liabilities for the year ended June 30, 2025 are as follows:

	Balance 6/30/2024	Additions	Retirements	Balance 6/30/2025	Amount Due Within One Year	Long-Term
<b>Governmental activities</b>						
Heritage lease	\$ 34,572	\$ -	\$ 25,736	\$ 8,836	\$ 8,836	\$ -
Operating lease	\$ 184,787	\$ -	\$ 184,787	-	-	-
Compensated absences	12,084	19,719	-	31,803	-	31,803
Net pension liability	-	-	-	-	-	-
Net OPEB liability	-	-	-	-	-	-
<b>Total governmental activities</b>	<b>\$ 231,443</b>	<b>\$ 19,719</b>	<b>\$ 210,523</b>	<b>\$ 40,639</b>	<b>\$ 8,836</b>	<b>\$ -</b>
<b>Business-type activities</b>						
Bonds						
KIA A07-02	\$ 683,264	\$ -	\$ 149,197	\$ 534,067	\$ 150,692	\$ 383,375
KIA A0209-39	101,741	-	15,226	86,515	15,378	71,137
KIA B09-03	253,881	-	28,763	225,118	29,052	196,066
USDA 93-01	1,562,000	-	33,500	1,528,500	34,500	1,494,000
USDA 93-03	371,500	-	8,000	363,500	8,000	355,500
Total bonds	2,972,386	-	234,686	2,737,700	237,622	2,500,078
Operating lease	158,029	-	158,029	-	-	-
Compensated absences	32,323	-	17,943	14,380	-	14,380
Net pension liability	2,111,737	-	595,700	1,516,037	-	1,516,037
Net OPEB liability	-	-	-	-	-	-
<b>Total business-type activities</b>	<b>\$ 5,274,475</b>	<b>\$ -</b>	<b>\$ 1,006,358</b>	<b>\$ 4,268,117</b>	<b>\$ 237,622</b>	<b>\$ 4,030,495</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		
2026	\$ 8,836	\$ 80	\$ 8,836	\$ 80		
	<u>\$ 8,836</u>	<u>\$ 80</u>	<u>\$ 8,836</u>	<u>\$ 80</u>		
	KIA Loan A07-02		KIA Loan A209-39		KIA Loan B09-03	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 151,193	\$ 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	76,942	387	15,846	431	29,934	1,555
2030			16,005	241	30,234	1,195
2031 - 2035			8,064	48	76,919	1,389
	<u>\$ 534,067</u>	<u>\$ 12,804</u>	<u>\$ 86,515</u>	<u>\$ 3,139</u>	<u>\$ 225,118</u>	<u>\$ 10,929</u>
	RD 93-01		RD 93-03		Total Business-Type	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 34,000	\$ 19,106	\$ 8,000	\$ 4,544	\$ 237,622	\$ 27,971
2027	34,500	18,681	8,000	4,444	239,579	27,971
2028	35,000	18,250	8,500	4,291	242,555	24,914
2029	35,000	17,813	8,500	4,184	166,222	23,433
2030	35,500	17,375	8,500	4,078	90,239	22,889
2031 - 2035	185,000	80,094	44,000	18,991	313,983	100,522
2036 - 2040	197,500	68,219	47,000	16,213	244,500	84,432
2041 - 2045	210,000	58,156	49,500	13,213	259,500	71,369
2046 - 2050	222,500	42,125	53,000	10,031	275,500	52,156
2051 - 2055	237,500	27,844	56,500	6,638	294,000	34,482
2056 - 2060	252,000	12,650	60,000	3,025	312,000	15,675
2061 - 2066	50,000	625	12,000	150	62,000	775
	<u>\$ 1,528,500</u>	<u>\$ 380,938</u>	<u>\$ 363,500</u>	<u>\$ 89,802</u>	<u>\$ 2,737,700</u>	<u>\$ 486,589</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, 2025, accrued compensated absences are \$46,183.

**NOTE 6: RETIREMENT PLANS**

The City is a participating employer of the County Employees’ Retirement System (CERS) or (Plan). Under provision of Kentucky Revised Statue 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

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

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	At least one month service and 55 years old, or at least 20 years service at any age
	Reduced retirement	At least 15 years service and 50 years old
Tier 2	Participation date	September 1, 2008 to December 31, 2013
	Unreduced retirement	At least 5 years service and 60 years old, or at least 25 years service at any age
	Reduced retirement	At least 15 years service and 50 years old
Tier 3	Participation date	On or after January 1, 2014
	Unreduced retirement	At least 5 years service and 60 years old, or at least 25 years service at any age
	Reduced retirement	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, 2025 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, 2025 participating employers contributed 19.71% of wages for non-hazardous covered employees and 36.49% of wages for hazardous covered employees. The City made all required contributions for fiscal year.

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

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

The net pension liability was measured as of June 30, 2024, 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 2024 contributions to the pension plan relative to the 2024 contributions of all participating employers, actuarially determined. The City's proportionate share at June 30, 2022 was:

	<u>Liability</u>	<u>Share</u>
Nonhazardous	\$ 1,516,037	0.0329%
Hazardous	-	0.0254%
<u>Proportionate share</u>	<u>\$ 1,516,037</u>	

For the year ended June 30, 2025 the City recognized pension expense of \$120,598. At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

<b>Nonhazardous</b>	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>	<u>Net Deferral</u>
Change in liability experience	\$ 73,379	\$ -	
Change of assumptions	-	68,495	
Change in investment experience	-	97,473	
Change in proportionate share of contributions	<u>16,762</u>	<u>322,627</u>	
Total deferred resources	90,141	<u>\$488,595</u>	<u>\$ (398,454)</u>
Subsequent contributions	<u>124,975</u>		
Total	<u>\$ 215,116</u>		

<b>Hazardous</b>	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>	<u>Net Deferral</u>
Change in liability experience	\$ -	\$ -	
Change of assumptions	-	-	
Change in investment experience	-	-	
Change in proportionate share of contributions	<u>-</u>	<u>63,106</u>	
Total deferred resources	-	<u>\$ 63,106</u>	<u>\$ (63,106)</u>
Subsequent contributions	<u>68,066</u>		
Total	<u>\$ 68,066</u>		

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

<b>Total nonhazardous and hazardous</b>	Deferred <u>Ouflow</u>	Deferred <u>Inflow</u>	Net <u>Deferral</u>
Change in liability experience	\$ 73,379	\$ -	
Change of assumptions	-	68,495	
Change in investment experience	-	97,473	
Change in proportionate share of contributions	<u>16,762</u>	<u>385,733</u>	
Total deferred resources	90,141	<u>\$551,701</u>	<u>\$ (461,560)</u>
Subsequent contributions	<u>193,041</u>		
Total	<u>\$ 283,182</u>		

The contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent year. The net deferral will be recognized as pension expense as follows:

Year Ending <u>June 30</u>	Net <u>Deferral</u>
2026	\$(297,240)
2027	(105,127)
2028	(37,470)
2029	<u>(21,723)</u>
Total net deferral	<u>\$ (461,560)</u>

**Actuarial assumptions**

The total pension liability, net pension liability, and sensitivity information as of June 30, 2024 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, 2024, 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:

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

Employer fiscal year end	2025
Plan year end	2024
Actuarial valuation date	June 30, 2022
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
Amortization period	30-year closed period at June 30, 2019
Payroll growth rate	2.00%
Investment return	6.50%
Inflation	2.30%
Salary increase - nonhazardous	3.30% to 10.30%
Salary increase - hazardous	3.55% to 19.05%
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
Phase-in provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

**Discount rate**

The projection of cash flows used to determine the discount rate of 6.50% 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 6.55%, 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:

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

	1% Decrease 5.50%	Current Rate 6.50%	1% Increase 7.50%
Nonhazardous	\$ 1,954,420	\$ 1,516,037	\$ 1,152,295
Hazardous	-	-	-
<u>Total proportionate share of the net pension liability (asset)</u>	<u>\$ 1,954,420</u>	<u>\$ 1,516,037</u>	<u>\$ 1,152,295</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:

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

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

**Contributions**

For the year ending June 30, 2025, the employer's contribution was 0.00% to the insurance trust for non-hazardous job classifications and 2.12% 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.

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

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

The net OPEB liability was measured as of June 30, 2024, 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, 2024 was as follows:

Nonhazardous	\$ (43,894)	0.0254%
Hazardous	-	0.0000%
<u>Proportionate share</u>	<u>\$ (43,894)</u>	

For the year ended June 30, 2025, the City recognized OPEB expense of \$108,737. At June 30, 2025 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following

<b>Nonhazardous</b>	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ 24,352	\$345,357	
Change of assumptions	39,773	30,972	
Change in investment experience	-	40,055	
Change in proportionate share of contributions	23,219	120,403	
Total deferred resources	87,344	<u>\$536,787</u>	<u>\$ (449,443)</u>
Subsequent contributions	-		
Total	<u>\$ 87,344</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	4,545	42,762	
Total deferred resources	4,545	<u>\$ 42,762</u>	<u>\$ (38,217)</u>
Subsequent contributions	3,954		
Total	<u>\$ 8,499</u>		

sources:

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

<b>Total nonhazardous and hazardous</b>	Deferred <u>Outflow</u>	Deferred <u>Inflow</u>	Net <u>Deferral</u>
Change in liability experience	\$ 24,352	\$345,357	
Change of assumptions	39,773	30,972	
Change in investment experience	-	40,055	
Change in proportionate share of contributions	<u>27,764</u>	<u>163,165</u>	
Total deferred resources	91,889	<u>\$579,549</u>	<u>\$ (487,660)</u>
Subsequent contributions	<u>3,954</u>		
Total	<u>\$ 95,843</u>		

The contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2025. The net deferral will be recognized in OPEB expense as follows:

Year Ending <u>June 30</u>	Net <u>Deferral</u>
2026	\$ (178,344)
2027	(161,340)
2028	(127,265)
2029	<u>(20,711)</u>
Total net deferral	<u>\$ (487,660)</u>

**Actuarial Assumptions**

The total OPEB liability, net OPEB liability, and sensitivity as of June 30, 2024 were based on an actuarial valuation date of June 30, 2022. The total OPEB liability was rolled-forward from the valuation date to the plan’s fiscal year ending June 30, 2024, 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.

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

The actuarial assumptions are:

Employer fiscal year end	2025
Plan year end	2024
Actuarial valuation date	June 30, 2022
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-year closed period at June 30, 2019
Payroll growth rate	2.00%
Investment return	6.25%
Inflation	2.30%
Salary increase - nonhazardous	3.30% - 10.30%
Salary increase - hazardous	3.55% - 19.05%
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
Healthcare trend rates:	
Pre-65	Initial trend starting at 6.20% at January 1, 2024, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2023 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post-65	Initial trend starting at 9.00% at January 1, 2024, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2023 premiums were known at the time of the valuation and were incorporated into the liability measurement.

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

Asset Class	Target Allocation	Long-term Expected Nominal Return
Public equity	50.00%	5.90%
Private Equity	10.00%	11.73%
Core Bonds	10.00%	2.45%
Specialty credit/high yield	10.00%	3.65%
Cash	0.00%	1.39%
Real Estate	7.00%	4.99%
Real Return	13.00%	5.15%
<b>Expected real return</b>	<b>100.00%</b>	<b>5.75%</b>
Long-term inflation assumption		2.50%

**Discount rate**

The projection of cash flows used to determine the discount rate of 5.75% 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 4.93%	Current Rate 5.93%	1% Increase 6.93%
Nonhazardous	\$ 59,349	\$ (43,894)	\$ (130,701)
Hazardous	-	-	-
<b>Total proportionate share of the net OPEB liability (asset)</b>	<b>\$ 59,349</b>	<b>\$ (43,894)</b>	<b>\$ (130,701)</b>

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**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	\$ (105,603)	\$ (43,894)	\$ 27,993
Hazardous	-	-	-
<u>Total proportionate share of the net OPEB liability (asset)</u>	<u>\$ (105,603)</u>	<u>\$ (43,894)</u>	<u>\$ 27,993</u>

**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, 2025, 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 Schedule – General Fund  
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance
	Original	Final		
Beginning fund balance	\$ 1,178,642	\$ 1,178,642	\$ 174,082	(1,004,560)
Revenues				
Property taxes	490,000	490,000	492,869	2,869
Insurance premium tax	375,000	375,000	439,153	64,153
Other taxes	85,000	85,000	79,057	(5,943)
Licenses and permits	33,650	33,650	10,135	(23,515)
Charges for services	155,000	155,000	37,500	(117,500)
Intergovernmental	38,600	38,600	57,222	18,622
Other	13,600	13,600	28,495	14,895
Total revenues	<u>1,190,850</u>	<u>1,190,850</u>	<u>1,144,431</u>	<u>(46,419)</u>
Total resources available	2,369,492	2,369,492	1,318,513	(1,050,979)
Expenditures				
General government	210,800	350,800	336,392	14,408
Public safety - police	770,014	1,100,014	1,076,420	23,594
Public safety - fire	198,000	208,000	127,057	80,943
Capital outlay	-	-	73,686	(73,686)
Debt service	-	-	26,722	(26,722)
Contingency	<u>1,178,642</u>	<u>698,642</u>	<u>-</u>	<u>698,642</u>
Total expenditures	<u>2,357,456</u>	<u>1,658,814</u>	<u>1,640,277</u>	<u>717,179</u>
Other financing sources	<u>-</u>	<u>-</u>	<u>169,000</u>	<u>169,000</u>
Ending fund balance	<u>\$ 12,036</u>	<u>\$ (467,964)</u>	<u>\$ (326,846)</u>	<u>\$ 141,118</u>

City of Falmouth, Kentucky  
 Schedule of City's Share of the Net Pension Liability and Contributions - Nonhazardous  
 June 30, 2025

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

Year ended June 30	Measurement period June 30	City's proportion of the net pension liability	City's proportionate share of the net pension liability	City's covered payroll	City's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2025	2024	0.0254%	\$ 1,516,037	\$ 576,403	263.02%	-42.52%
2024	2023	0.0322%	\$ 2,111,737	\$ 770,483	274.08%	57.48%
2023	2022	0.0320%	\$ 2,315,742	\$ 953,188	242.95%	52.42%
2022	2021	0.0345%	\$ 2,201,303	\$ 1,040,415	211.58%	55.95%
2021	2020	0.0317%	\$ 2,427,605	\$ 837,964	289.70%	47.81%
2020	2019	0.0347%	\$ 2,442,436	\$ 590,197	413.83%	50.45%
2019	2018	0.0292%	\$ 1,781,353	\$ 1,675,811	106.30%	53.54%
2018	2017	0.2750%	\$ 1,607,435	\$ 1,181,269	136.08%	53.32%
2017	2016	0.2760%	\$ 1,359,102	\$ 647,399	209.93%	55.50%
2016	2015	0.2230%	\$ 957,661	\$ 612,149	156.44%	59.97%

**Schedule of District's Contributions - CERS Nonhazardous**

Year ended June 30	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	District's covered payroll	Contributions as a percentage of covered payroll
2025	\$ 124,975	\$ 124,975	\$ -	\$ 634,069	19.71%
2024	\$ 133,956	\$ 133,956	\$ -	\$ 576,403	23.24%
2023	\$ 180,293	\$ 180,293	\$ -	\$ 770,483	23.40%
2022	\$ 201,790	\$ 201,790	\$ -	\$ 953,188	21.17%
2021	\$ 200,800	\$ 200,800	\$ -	\$ 1,040,415	19.30%
2020	\$ 161,727	\$ 161,727	\$ -	\$ 837,964	19.30%
2019	\$ 95,730	\$ 95,730	\$ -	\$ 590,197	16.22%
2018	\$ 237,630	\$ 237,630	\$ -	\$ 1,675,811	14.18%
2017	\$ 164,787	\$ 164,787	\$ -	\$ 1,181,269	13.95%
2016	\$ 80,407	\$ 80,407	\$ -	\$ 647,399	12.42%

City of Falmouth, Kentucky  
 Schedule of City's Share of the Net Pension Liability and Contributions - Hazardous  
 June 30, 2025

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

Year ended June 30	Measurement period June 30	City's proportion of the net pension liability	City's proportionate share of the net pension liability	City's covered payroll	City's proportionate share of the net pension liability as a percentage covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2025	2024	0.0000%	\$ -	\$ 93,508	0.00%	61.61%
2024	2023	0.0000%	\$ -	\$ 160,976	0.00%	52.96%
2023	2022	0.0000%	\$ -	\$ 191,763	0.00%	47.11%
2022	2021	0.0049%	\$ 129,381	\$ 308,955	41.88%	55.95%
2021	2020	0.0140%	\$ 422,767	\$ 325,146	130.02%	46.63%
2020	2019	0.0098%	\$ 270,235	\$ 236,766	114.14%	46.63%
2019	2018	0.0043%	\$ 104,622	\$ 197,545	52.96%	49.26%
2018	2017	0.0000%	\$ -	\$ 111,433	0.00%	49.78%
2017	2016	0.0066%	\$ 112,768	\$ 212,241	53.13%	53.95%
2016	2015	0.0472%	\$ 723,910	\$ 240,562	300.92%	57.52%

**Schedule of District's Contributions - CERS Hazardous**

Year ended June 30	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	District's covered payroll	Contributions as a percentage of covered payroll
2025	\$ 68,066	\$ 68,066	\$ -	\$ 186,533	36.49%
2024	\$ 38,441	\$ 38,441	\$ -	\$ 93,508	41.11%
2023	\$ 68,914	\$ 68,914	\$ -	\$ 160,976	42.81%
2022	\$ 64,931	\$ 64,931	\$ -	\$ 191,763	33.86%
2021	\$ 92,842	\$ 92,842	\$ -	\$ 308,955	30.05%
2020	\$ 97,739	\$ 97,739	\$ -	\$ 325,146	30.06%
2019	\$ 58,860	\$ 58,860	\$ -	\$ 236,766	24.86%
2018	\$ 43,855	\$ 43,855	\$ -	\$ 197,545	22.20%
2017	\$ 24,192	\$ 24,192	\$ -	\$ 111,433	21.71%
2016	\$ 43,000	\$ 43,000	\$ -	\$ 212,241	20.26%

City of Falmouth, Kentucky  
 Schedule of City's Share of the Net OPEB Liability and Contributions - Nonhazardous  
 June 30, 2025

**Schedule of City's Proportionate Share of the Net OPEB Liability (Asset) - CERS Nonhazardous**

Year ended June 30	Measurement period June 30	City's proportion of the net OPEB liability (asset)	City's proportionate share of the net OPEB liability (asset)	City's covered payroll	City's	Plan
					proportionate share of the net OPEB liability (asset) as a percentage covered payroll	fiduciary net position as a percentage of the total OPEB liability (asset)
2025	2024	0.0254%	\$ (43,894)	\$ 576,403	-7.62%	104.89%
2024	2023	0.0329%	\$ (4,438)	\$ 770,501	-0.58%	104.23%
2023	2022	0.0320%	\$ 632,097	\$ 649,948	97.25%	64.13%
2022	2021	0.0345%	\$ 660,830	\$ 1,098,887	60.14%	64.16%
2021	2020	0.0317%	\$ 764,855	\$ 885,042	86.42%	64.44%
2020	2019	0.0350%	\$ 589,122	\$ 633,365	93.01%	64.44%
2019	2018	0.0293%	\$ 520,533	\$ 1,760,745	29.56%	64.24%
2018	2017	0.2750%	\$ 552,080	\$ 1,262,072	43.74%	58.99%

**Schedule of District's Contributions - CERS Nonhazardous**

Year ended June 30	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	District's covered payroll	Contributions as a percentage of covered payroll
2025	\$ -	\$ -	\$ -	\$ 634,069	0.00%
2024	\$ -	\$ -	\$ -	\$ 576,403	0.00%
2023	\$ 26,120	\$ 26,120	\$ -	\$ 770,501	3.39%
2022	\$ 37,567	\$ 37,567	\$ -	\$ 649,948	5.78%
2021	\$ 52,307	\$ 52,307	\$ -	\$ 1,098,887	4.76%
2020	\$ 42,128	\$ 42,128	\$ -	\$ 885,042	4.76%
2019	\$ 33,315	\$ 33,315	\$ -	\$ 633,365	5.26%
2018	\$ 82,755	\$ 82,755	\$ -	\$ 1,760,745	4.70%
2017	\$ 59,696	\$ 59,696	\$ -	\$ 1,262,072	4.73%

City of Falmouth, Kentucky  
 Schedule of City's Share of the Net OPEB Liability and Contributions - Hazardous  
 June 30, 2025

**Schedule of City's Proportionate Share of the Net OPEB Liability (Asset) - CERS Hazardous**

Year ended June 30	Measurement period June 30	City's proportion of the net OPEB liability (asset)	City's proportionate share of the net OPEB liability (asset)	City's covered payroll	City's proportionate share of the net OPEB liability (asset) as a percentage covered payroll	Plan fiduciary net position as a percentage of the total OPEB liability (asset)
2025	2024	0.0329%	\$ -	\$ 186,533	0.00%	93.53%
2024	2023	0.0329%	\$ -	\$ 160,973	0.00%	92.97%
2023	2022	0.0000%	\$ -	\$ 191,767	0.00%	64.13%
2022	2021	0.0049%	\$ 39,296	\$ 308,855	12.72%	64.16%
2021	2020	0.0140%	\$ 129,532	\$ 325,137	39.84%	64.44%
2020	2019	0.0098%	\$ 72,366	\$ 236,695	30.57%	64.44%
2019	2018	0.0043%	\$ 30,843	\$ 197,540	15.61%	64.24%
2018	2017	0.0000%	\$ -	\$ 111,422	0.00%	58.99%

**Schedule of District's Contributions - CERS**

Year ended June 30	Contractually required contribution	Actual contribution	Contribution deficiency (excess)	District's covered payroll	Contributions as a percentage of covered payroll
2025	\$ 3,954	\$ 3,954	\$ -	\$ 186,533	2.12%
2024	\$ 2,412	\$ 2,412	\$ -	\$ 93,508	2.58%
2023	\$ 10,914	\$ 10,914	\$ -	\$ 160,973	6.78%
2022	\$ 20,078	\$ 20,078	\$ -	\$ 191,767	10.47%
2021	\$ 29,403	\$ 29,403	\$ -	\$ 308,855	9.52%
2020	\$ 30,953	\$ 30,953	\$ -	\$ 325,137	9.52%
2019	\$ 24,782	\$ 24,782	\$ -	\$ 236,695	10.47%
2018	\$ 18,470	\$ 18,470	\$ -	\$ 197,540	9.35%
2017	\$ 10,418	\$ 10,418	\$ -	\$ 111,422	9.35%

City of Falmouth, Kentucky  
Utility Fund Activity  
June 30, 2025

	Electric	Electric Reserve	Water	Water Reserve	Sewer	Sewer Reserve
Charges for services	\$ 2,143,731	\$ -	\$ 818,008	\$ -	\$ 727,358	\$ -
Expenses	1,511,343	268,584	900,315	66,604	650,500	99,305
<u>Operating income</u>	<u>632,388</u>	<u>(268,584)</u>	<u>(82,307)</u>	<u>(66,604)</u>	<u>76,858</u>	<u>(99,305)</u>
Interest expense	-	-	-	-	(36,503)	-
Interest income	3,775	3,996	-	712	-	1,398
Grants	-	-	-	-	-	-
Other revenue	13,132	-	-	-	-	-
Transfers	(194,221)	101,154	-	39,152	-	82,649
<u>Total other income (expenses)</u>	<u>(177,314)</u>	<u>105,150</u>	<u>-</u>	<u>39,864</u>	<u>(36,503)</u>	<u>84,047</u>
<u>Cash basis net income (loss)</u>	<u>\$ 455,074</u>	<u>\$ (163,434)</u>	<u>\$ (82,307)</u>	<u>\$ (26,740)</u>	<u>\$ 40,355</u>	<u>\$ (15,258)</u>
Accounts receivable	(8,692)	-	-	-	-	-
Accounts payable	(8,546)	-	17,393	-	29,533	-
Depreciation	(12,006)	-	(167,708)	-	(230,702)	-
Capital purchases	-	-	-	19,278	-	83,130
Other	-	-	-	-	-	-
Pension	3,186	-	121,082	-	101,964	-
OPEB	1,751	-	66,519	-	56,016	-
<u>Net income (loss)</u>	<u>\$ 430,767</u>	<u>\$ (163,434)</u>	<u>\$ (45,021)</u>	<u>\$ (7,462)</u>	<u>\$ (2,834)</u>	<u>\$ 67,872</u>

City of Falmouth, Kentucky  
Utility Fund Activity - Continued  
June 30, 2025

	<u>Garbage</u>	<u>Garbage Reserve</u>	<u>Unallocated</u>	<u>Meter Deposit</u>	<u>ARPA</u>	<u>CWP</u>	<u>Total</u>
Charges for services	\$ 212,354	\$ -	\$ 53,919	\$ -	\$ -	\$ -	\$ 3,955,370
Operating expenses	244,031	23,695	286,494	-	365,977	2,625	4,419,473
Operating income	(31,677)	(23,695)	(232,575)	-	(365,977)	(2,625)	(464,103)
Interest expense	-	-	-	-	-	-	(36,503)
Interest income	-	1,233	-	1,324	1,995	-	14,433
Grants	-	-	-	-	134,048	52,922	186,970
Other revenue	-	-	-	-	-	-	13,132
Transfers	-	20,488	-	-	-	(49,222)	-
Total other income (expenses)	-	21,721	-	1,324	136,043	3,700	178,032
Net income (loss)	<u>\$ (31,677)</u>	<u>\$ (1,974)</u>	<u>\$ (232,575)</u>	<u>\$ 1,324</u>	<u>\$ (229,934)</u>	<u>\$ 1,075</u>	<u>\$ (286,071)</u>
Accounts receivable	-	-	-	-	-	-	(8,692)
Accounts payable	6,354	-	-	-	-	-	44,734
Depreciation	(7,938)	-	(7,020)	-	-	-	(425,374)
Capital purchases	11,582	-	-	-	232,205	-	346,195
Other	-	-	20,522	-	-	-	20,522
Pension	28,677	-	63,728	-	-	-	318,637
OPEB	15,755	-	35,010	-	-	-	175,051
Net income (loss)	<u>\$ 22,753</u>	<u>\$ (1,974)</u>	<u>\$ (120,335)</u>	<u>\$ 1,324</u>	<u>\$ 2,271</u>	<u>\$ 1,075</u>	<u>\$ 185,002</u>

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

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, 2025 and the related notes to the financial statements, which collectively comprise the City basic financial statements and have issued our report thereon dated August 4, 2025.

**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

August 4, 2025