

CITY OF FALMOUTH, KY
ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2015

CITY OF FALMOUTH, KENTUCKY

CITY OFFICIALS

June 30, 2015

Mayor

Elonda Hinson

Council Members

Randy Bastin

Ernie Richie

Jodi Chaplin-Ramey

Mary Ann Shields

April DeFalco

Ron Stinson

Legal Counsel

Michael A. Duncan

<p>CITY OF FALMOUTH, KY</p> <p>ANNUAL FINANCIAL REPORT</p> <p>For the Year Ended June 30, 2015</p>
--

CONTENTS

	Page	
Independent Auditor's Report	1-2	
Management's Discussion and Analysis	3-9	
 Basic Financial Statements		
Government Wide Statements		
Statement of Net Position.....	10	
Statement of Activities.....	11	
Fund Financial Statements		
Balance Sheet - Governmental Funds.....	12	
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	13	
Reconciliation of the Statement Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14	
Statement of Net Position - Proprietary Funds.....	15	
Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds.....	16	
Statement of Cash Flows - Proprietary Funds.....	17	
Notes to Financial Statements.....	18-34	
 Required Supplementary Information		
Budgetary Comparison Schedule - General Fund.....	35	
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure.....	36	
 Supplementary Information		
Combining Balance Sheets - Other Governmental Funds.....	37	
Statements of Revenues, Expenditures, and Changes in Fund Balance - Other Governmental Funds.....	38	
Schedule of Revenues and Expenses - Utility Fund.....	39	
 Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		40-42



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Falmouth, Kentucky (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

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

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

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Falmouth, Kentucky as of June 30, 2015 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3-9, the budgetary comparison schedule and the pension plan disclosure on pages 35-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining balance sheets and statements of revenue, expenditure and changes in fund balance of the minor funds and utility funds are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2016 on our consideration of City of Falmouth, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Falmouth, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
February 26, 2016

CITY OF FALMOUTH, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015

As management of the City of Falmouth, Kentucky, we offer readers of the City's financial statements this narrative overview as an analysis of the financial activities of the City of Falmouth, Kentucky, for the year ended June 30, 2015.

USING THIS ANNUAL REPORT

This report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 10 and 11) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

Reporting the City as a Whole

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent year by \$9,595,840 (net position).
- The City's total net position decreased \$1,559,672 this year. Net position of governmental activities decreased \$597,508 and net position of business-type activities decreased by \$962,164.
- As of June 30, 2015, the City's governmental funds reported a combined ending fund balance of \$2,323,861, a decrease of \$597,508 in comparison to the prior year.
- The City's total debt decreased by \$235,600 (7%) due to the payment of principal on outstanding debt.

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in them. You can think of the City's net position, the difference between assets, what the taxpayers own, and liabilities, what the taxpayers owe, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base, franchise fee base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities: most of the City's basic services are reported here, including the police, fire & emergency medical services, public works, information technology and general administration. Payroll license fees, insurance license fees, property taxes, and gross receipts license fees finance most of these activities.
- Business-type activities: the City charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analyses of the City's major funds begin on page 12 and provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes other funds to help it control and manage money for particular purposes. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

The City maintains three individual governmental funds. Information is presented separately in the Governmental Balance Sheet and in the Statement of Revenues, Expenditures and Changes in Fund Balance for the funds, all of which are considered major funds. The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental financial statements can be found on pages 12 - 13 of this report.

Proprietary funds: When the City charges customers for the full cost of the services it provides, whether to outside customers or to other units of the City, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The basic proprietary fund financial statements can be found on pages 15 - 17 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 18 - 34 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information. The statements can be found on pages 35 - 39 of this report.

THE CITY AS A WHOLE

The statement of net position presents information on all of the City of Falmouth's assets and liabilities, with the differences between the two reported as net position. For the year ended June 30, 2015, net position was stated as follows:

	Governmental Activities		Business-type Activities		Total	
	(Restated)		(Restated)			
	2015	2014	2015	2014	2015	2014
Current assets	\$ 382,738	\$ 213,656	\$ 1,516,472	\$ 1,635,838	\$ 1,899,210	\$ 1,849,494
Capital assets	3,578,256	3,692,971	9,394,571	9,733,449	12,972,827	13,426,420
Deferred outflows	91,375	109,635	78,049	85,941	169,424	195,576
Total assets	4,052,369	4,016,262	10,989,092	11,455,228	15,041,461	15,471,490
Long-term liabilities	1,113,859	1,260,911	3,380,785	3,640,162	4,494,644	4,901,073
Other liabilities	546,571	502,857	259,613	266,775	806,184	769,632
Deferred inflows	68,078	-	76,715	-	144,793	-
Total liabilities	1,728,508	1,763,768	3,717,113	3,906,937	5,445,621	5,670,705
Net investment in capital assets	3,156,608	3,210,570	6,701,049	6,865,080	9,857,657	10,075,650
Restricted	192,184	77,236	375,457	375,457	567,641	452,693
Committed	17,020	-	-	-	17,020	-
Unrestricted	(1,041,951)	(1,035,312)	195,473	307,754	(846,478)	(727,558)
Total net assets	\$ 2,323,861	\$ 2,252,494	\$ 7,271,979	\$ 7,548,291	\$ 9,595,840	\$ 9,800,785

There was an increase of \$71,367 or (3.2%) in net assets for governmental activities. Cash and cash equivalents increased \$88,281 but was offset by a \$30,128 increase in the liability other funds.

There was a decrease in net assets of \$466,136 (4.1%) for business-type activities. This decrease is attributable to a \$145,793 decrease in cash and cash equivalents plus the \$338,878 decrease in capital assets recognizing depreciation for the fiscal year.

Governmental Activities

Governmental activities increased the net assets of the City of Falmouth by \$71,367 during FY2015 as summarized on the following chart:

	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 61,967	\$ 65,787	\$ 2,987,986	\$ 3,054,562	\$ 3,049,953	\$ 3,120,349
Operating grants and contributions	158,583	134,095	-	-	158,583	134,095
Capital grants and contributions	-	3,750	-	-	-	3,750
General revenues:						
Property taxes	436,635	400,814	-	-	436,635	400,814
Public service taxes	34,018	31,894	-	-	34,018	31,894
Other taxes	33,189	33,851	-	-	9,945	33,851
Insurance premium tax	316,590	281,654	-	-	316,590	281,654
Occupational license	9,945	8,794	-	-	9,945	8,794
Other licenses, fees	6,296	4,864	-	-	6,296	4,864
Other	96,178	138,493	58,791	34,127	154,969	172,620
Total revenues	\$ 1,153,401	\$ 1,103,996	\$ 3,046,777	\$ 3,088,689	\$ 4,176,934	\$ 4,192,685
Expenses:						
General government	\$ 256,249	\$ 257,926	\$ -	\$ -	\$ 256,249	\$ 257,926
Police	612,858	672,080	-	-	612,858	672,080
Fire	154,641	185,425	-	-	154,641	185,425
Public works	41,359	46,797	-	-	41,359	46,797
Interest on debt	16,927	19,410	-	-	-	-
Utility fund	-	-	3,323,089	3,343,053	3,323,089	3,343,053
Total expenses	\$ 1,082,034	\$ 1,181,638	\$ 3,323,089	\$ 3,343,053	\$ 4,388,196	\$ 4,505,281
Increase in net position before transfers	71,367	(77,642)	(276,312)	(254,364)	(204,945)	(332,006)
Transfers	-	(20,000)	-	20,000	-	-
Increase in net position	\$ 71,367	\$ (97,642)	\$ (276,312)	\$ (234,364)	\$ (204,945)	\$ (332,006)
Net position-Beginning	2,252,494	2,350,136	7,548,291	7,782,655	9,800,785	10,132,791
Net position-End of year	\$ 2,323,861	\$ 2,252,494	\$ 7,271,979	\$ 7,548,291	\$ 9,595,840	\$ 9,800,785

- Revenues for the City's governmental activities totaled \$1,153,401, compared to \$1,103,996 last year, a 4.5% increase.
- Property tax revenue totaled \$436,635 or 37.8% of the total revenues.
- Insurance premium tax, the second largest category of governmental revenues, accounted for \$316,590 or 27.4% of total revenues, an increase of \$34,936.
- Total expenses for the City's governmental activities were \$1,082,034 compared to \$1,181,638 last year, an 8.4% decrease. The combined decrease in Police and Fire expenses was \$90,006.

Business-type Activities

- Revenues for business-type activities totaled \$3,046,777 compared to \$3,088,689 last year, a (1.4%) decrease.
- Expenses for business-type activities totaled \$3,323,089 compared to \$3,343,053 last year, a (.6%) decrease.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds

The focus of the City's governmental funds is to provide information on revenues, expenditures, and net spendable resources.

As of June 30, 2015, the City's governmental funds reported combined ending fund balance of (\$203,935) an increase of \$110,364 from the prior year. Both the General Fund and the Municipal Aid Road Fund realized a surplus during FY15, causing the overall increase the governmental fund balance.

The General Fund is the main operating fund of the City. At the end of the fiscal year, the total fund balance in the General Fund was \$(409,038), which represents an increase of \$80,614 over the prior year. The increase is attributable to a combination of factors, primarily, an increase in insurance premium tax revenues and less spending in Police and Fire activities.

Proprietary Funds

The city of Falmouth provides electric, water & sewer, and garbage collection services to residents and businesses located within the city limits through their one proprietary fund: the Utility Fund. The basic proprietary fund financial statements can be found on pages 15 - 17 of this report.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

The City's total long-term debt for governmental activities decreased by \$60,753 and decreased by \$174,847 for business-type activities during the fiscal year. At year-end, the City had \$3,141,001 in total outstanding notes, capital leases, compensated absences and bonds compared to \$3,377,414 last year.

That is a decrease of 7% as shown in the following table:

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Compensated absences PTO	\$ -	\$ -	\$ 25,831	\$ 26,644	\$ 25,831	\$ 26,644
Police Cruiser Leases	43,267	57,760	-	-	43,267	57,760
Fire Truck Lease	156,781	175,341	-	-	156,781	175,341
Klee Farm Lease	221,600	249,300	-	-	221,600	249,300
KIA Loans	-	-	2,693,522	2,868,369	2,693,522	2,868,369
	<u>\$ 421,648</u>	<u>\$ 482,401</u>	<u>\$ 2,719,353</u>	<u>\$ 2,895,013</u>	<u>\$ 3,141,001</u>	<u>\$ 3,377,414</u>

For additional information concerning the City's debt please refer to Note E to the financial statements, as well as note H for information regarding the unfunded pension obligations.

Capital Assets

At June 30, 2015 the City had \$14,786,746 invested in governmental net capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks and electric, water and sewer systems. This represents a net decrease of \$453,593 due to depreciation.

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land & construction in progress	\$ 638,514	\$ 638,514	\$ 30,000	\$ 30,000	\$ 668,514	\$ 668,514
Buildings	1,542,663	1,540,663	348,569	348,569	1,891,232	1,889,232
Improvements/infrastructure	1,990,186	1,990,186	14,932,722	14,932,722	16,922,908	16,922,908
Equipment	195,732	195,732	233,281	233,281	429,013	429,013
Vehicles	1,025,080	1,025,080	530,294	530,294	1,555,374	1,555,374
Subtotals	5,392,175	5,390,175	16,074,866	16,074,866	21,467,041	21,465,041
Accumulated depreciation	1,813,919	1,697,204	6,680,295	6,341,417	8,494,214	8,038,621
Net Assets	<u>\$ 3,578,256</u>	<u>\$ 3,692,971</u>	<u>\$ 9,394,571</u>	<u>\$ 9,733,449</u>	<u>\$ 12,972,827</u>	<u>\$ 13,426,420</u>

This year's major additions included:

Building purchase	\$ 2,000
	<u>\$ 2,000</u>

For additional information concerning the City's capital assets please refer to Note D to the financial statements.

GASB 68 PENSION LIABILITY RECOGNITION

As of June 30, 2015, the City is required, by Governmental Accounting Standards Board Statement No. 68, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the City is a participant. Due to this requirement, the 2014 Statement of Net Position above was restated by (\$1,354,727) to include the beginning balance of the net pension liability at June 30, 2014. The net pension liability, \$1,379,474, the deferred outflow of resources, \$164,424, and the deferred inflow of resources, \$144,793, on the Statement of Net Position at June 30, 2015 are a function of this required reporting. Detailed information on this pension recognition can be found in Note H in the Notes to the Financial Statements

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

City administration expects operating costs to rise as a result of general inflation, increases in medical insurance and state mandated pension costs. The General Fund budget has limited flexibility to address unanticipated expenditures. Finding more economical ways of delivering and paying for services to the citizens of Falmouth is an ongoing process but one in which City officials are fully committed to fulfilling.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mayor Elonda Hinson at 230 Main Street, Falmouth, Kentucky.

<p>CITY OF FALMOUTH, KENTUCKY STATEMENT OF NET POSITION June 30, 2015</p>
--

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 261,854	\$ 723,339	\$ 985,193
Receivables -			
Property taxes	28,884	-	28,884
Accounts	86,195	299,644	385,839
Intergovernmental	2,104	-	2,104
Due from other funds	3,701	493,489	497,190
Capital assets:			
Capital assets not being depreciated	638,514	30,000	668,514
Other capital assets, net	2,939,742	9,364,571	12,304,313
Total Assets	<u>3,960,994</u>	<u>10,911,043</u>	<u>14,872,037</u>
Deferred Outflows of Resources			
Pension contribution for fiscal year 2015	91,375	78,049	169,424
Total Assets and Deferred Outflows of Resources	<u>4,052,369</u>	<u>10,989,092</u>	<u>15,041,461</u>
Liabilities			
Accounts payable	7,992	135,119	143,111
Accrued liabilities	15,609	2,571	18,180
Due to other funds	497,190	-	497,190
Other current liabilities	-	11,832	11,832
Customer deposits	-	84,260	84,260
Compensated absences	-	25,831	25,831
Interfund payable	25,780	-	25,780
Noncurrent liabilities:			
Due within one year	62,789	176,599	239,388
Due in more than one year	358,859	2,516,923	2,875,782
Net pension liability	692,211	687,263	1,379,474
Total Liabilities	<u>1,660,430</u>	<u>3,640,398</u>	<u>5,300,828</u>
Deferred Inflows of Resources			
Deferred inflow related to pensions	68,078	76,715	144,793
Total Liabilities and Deferred Inflows of Resources	<u>1,728,508</u>	<u>3,717,113</u>	<u>5,445,621</u>
Net Position			
Net investment in capital assets	3,156,608	6,701,049	9,857,657
Restricted	192,184	375,457	567,641
Committed	17,020	-	17,020
Unrestricted	(1,041,951)	195,473	(846,478)
Total Net Position	<u>\$ 2,323,861</u>	<u>\$ 7,271,979</u>	<u>\$ 9,595,840</u>

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

CITY OF FALMOUTH, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating	Capital	Governmental Activities	Business-type Activities	Total
		Charges for Services	Grants and Contributions			
Primary government:						
Governmental activities:						
General government	\$ 256,249	\$ 53,168	\$ -	\$ (203,081)	\$ -	\$ (203,081)
Police	612,858	33,838	-	(579,020)	-	(579,020)
Fire/EMS	154,641	2,500	-	(90,174)	-	(90,174)
Public works	41,359	69,077	-	27,718	-	27,718
Interest on long-term debt and other bond costs	16,927	-	-	(16,927)	-	(16,927)
Total governmental activities	1,082,034	158,583	-	(861,484)	-	(861,484)
Business-type activities:						
Electric	1,616,951	-	-	-	30,763	30,763
Water	640,744	-	-	-	80,701	80,701
Sewer	595,306	-	-	-	(175,461)	(175,461)
Garbage	229,101	-	-	-	(30,119)	(30,119)
Unallocated	240,987	-	-	-	(240,987)	(240,987)
Total business-type activities	3,323,089	-	-	-	(335,103)	(335,103)
Total primary government	\$ 4,405,123	\$ 158,583	\$ -	(861,484)	(335,103)	(1,196,587)
General revenues:						
Taxes:						
Property taxes levied for general purposes				436,635	-	436,635
Public service taxes				34,018	-	34,018
Other taxes				33,189	-	33,189
Licenses:						
Occupational				9,945	-	9,945
Insurance premium				316,590	-	316,590
Other licenses, fees & permits				6,296	-	6,296
Other revenues				96,178	58,791	154,969
Transfers				-	-	-
Total general revenues and transfers				932,851	58,791	991,642
Change in net position				71,367	(276,312)	(204,945)
Net position - beginning of year				2,921,369	8,234,143	11,155,512
Prior period adjustment-net pension liability				(688,875)	(685,852)	(1,354,727)
Net position - ending of year				\$ 2,323,861	\$ 7,271,979	\$ 9,595,840

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

CITY OF FALMOUTH, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 51,846	\$ 192,093	\$ 17,915	\$ 261,854
Receivables:				
Taxes	28,884	-	-	28,884
Accounts	86,195	-	-	86,195
Intergovernmental	2,104	-	-	2,104
Interfund receivable	3,701	-	7,890	11,591
Total Assets	<u>\$ 172,730</u>	<u>\$ 192,093</u>	<u>\$ 25,805</u>	<u>\$ 390,628</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 7,992	\$ -	\$ -	\$ 7,992
Accrued liabilities	11,104	-	-	11,104
Deferred revenue	25,780	-	-	25,780
Interfund payable	40,102	-	-	40,102
Due to other funds	497,190	12,395	-	509,585
Total Liabilities	<u>582,168</u>	<u>12,395</u>	<u>-</u>	<u>594,563</u>
Fund Balances:				
Restricted	3,701	179,698	8,785	192,184
Committed	-	-	17,020	17,020
Unassigned	(413,139)	-	-	(413,139)
Total Fund Balances	<u>(409,438)</u>	<u>179,698</u>	<u>25,805</u>	<u>(203,935)</u>
Total Liabilities and Fund Balances	<u>\$ 172,730</u>	<u>\$ 192,093</u>	<u>\$ 25,805</u>	<u>\$ 390,628</u>

Reconciliation of fund Balances to the Statement of Net Position

Total Fund Balance for Governmental Funds \$ (203,935)

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of (\$5,392,175) 3,578,256

Deferred outflows and inflows of resources related to pensions are applicable to future periods, and therefore not reportable in the funds:

Deferred outflow of resources 131,477

Deferred inflow of resources (68,078)

Long-term liabilities, including capital leases and net pension liability are not due and payable in the current period and therefore are not reported in the funds (1,113,859)

Net Position of Governmental Activities \$ 2,323,861

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
For the Year Ended June 30, 2015

	General	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 433,910	\$ -	\$ 2,725	\$ 436,635
Insurance premium tax	316,590	-	-	316,590
Other taxes	67,207	-	-	67,207
Licenses and permits	16,241	-	-	16,241
Charges for services	74,367	-	-	74,367
Intergovernmental	63,274	69,077	26,232	158,583
Miscellaneous	83,778	-	-	83,778
Total Revenues	<u>1,055,367</u>	<u>69,077</u>	<u>28,957</u>	<u>1,153,401</u>
Expenditures				
Current:				
Mayor and council	177,139	-	36,544	213,683
Fire	135,508	-	-	135,508
Police	600,465	-	-	600,465
Animal control	13,701	-	-	13,701
Capital outlay	2,000	-	-	2,000
Debt service:				
Principal	46,260	-	14,493	60,753
Interest	14,480	-	2,447	16,927
Total Expenditures	<u>989,553</u>	<u>-</u>	<u>53,484</u>	<u>1,043,037</u>
Excess (deficiency) of revenues over (under) expenditures	65,814	69,077	(24,527)	110,364
Other Financing Sources (Uses)				
Transfers in	14,800	-	-	14,800
Transfers out	-	-	(14,800)	(14,800)
Total Other Financing Sources (Uses)	<u>14,800</u>	<u>-</u>	<u>(14,800)</u>	<u>-</u>
Net Change in Fund Balances	80,614	69,077	(39,327)	110,364
Fund Balances - Beginning	<u>(490,052)</u>	<u>110,621</u>	<u>65,132</u>	<u>(314,299)</u>
Fund Balances - Ending	<u>\$ (409,438)</u>	<u>\$ 179,698</u>	<u>\$ 25,805</u>	<u>\$ (203,935)</u>

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

CITY OF FALMOUTH, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$	110,364
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital asset additions		2,000
Depreciation expense		(116,715)
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		60,753
Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:		
Pension contributions		91,375
Cost of benefits earned		(91,415)
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, such as compensated absences.		
		15,005
Change in net position of governmental activities	\$	71,367

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

CITY OF FALMOUTH, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business-type Activities
	Proprietary Fund
	Utility Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 723,339
Receivables	299,644
Due from other funds	493,489
Total current assets	1,516,472
Noncurrent assets:	
Capital assets, net	
Improvements/infrastructure	15,311,292
Equipment	763,574
Less accumulated depreciation	(6,680,295)
Total noncurrent assets	9,394,571
Total Assets	10,911,043
Deferred Outflow of Resources	
Pension contribution for fiscal year 2015	78,049
Total Assets and Deferred Outflow of Resources	10,989,092
Liabilities	
Current liabilities:	
Accounts payable	135,119
Accrued liabilities	2,571
Compensated absences	25,831
Other current liabilities	11,832
Customer deposits	84,260
Due within one year	176,599
Total current liabilities	436,212
Noncurrent liabilities:	
Due in more than one year	2,516,923
Net unfunded pension liability	687,263
Total noncurrent liabilities	3,204,186
Total Liabilities	3,640,398
Deferred Inflow of Resources	
Deferred inflow related to pensions	76,715
Total Liabilities and Deferred Inflow of Resources	3,717,113
Net Position	
Net investment in capital assets	6,701,049
Restricted	375,457
Unrestricted	195,473
Total Net Position	\$ 7,271,979

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

CITY OF FALMOUTH, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-Type Activities Proprietary Fund
	Utility Fund
Operating Revenues	\$ 3,046,777
Operating Expenses	
Salaries and wages	569,746
Other employee expenses	246,105
Purchases	1,529,585
Operating expenses	638,775
Depreciation	338,878
Total Operating Expenses	3,323,089
Change in net position	(276,312)
Net Position - Beginning Of Year	8,234,143
Prior period adjustment	(685,852)
Net Position - End Of Year	\$ 7,271,979

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

CITY OF FALMOUTH, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-Type Activities Proprietary Fund <u>Utility Fund</u>
Cash flows from operating activities	
Cash received from interfund services provided	\$ -
Cash received from customers and users	3,039,571
Cash received from governments	7,203
Cash paid to employees	(560,666)
Cash paid to suppliers	(2,457,054)
Net cash provided (used) by operating activities	<u>29,054</u>
Cash flows from noncapital financing activities:	
Advances from other funds	-
Cash flows from capital and related financing activities	
Payments on capital lease obligation	(174,847)
Cash flows from investing activities	
Interest income	-
Net increase (decrease) in cash	<u>(145,793)</u>
Cash and Cash equivalents- beginning of year	<u>869,132</u>
Cash and Cash equivalents- end of year	<u>\$ 723,339</u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (276,312)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	338,878
Changes in assets and liabilities:	
Receivables	-
Accounts payable	7,225
Accrued liabilities	(5,616)
Customer deposits	(4,993)
Interfund liability	(30,128)
Deferred revenue	-
Net cash provided (used) by operating activities	<u>\$ 29,054</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u>\$ 33,897</u>

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

CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015
--

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Falmouth, Kentucky, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

REPORTING ENTITY – The City of Falmouth, Kentucky is a municipality governed by a mayor and six-member council. As defined by GAAP, and established by GASB, the financial reporting entity consists of the primary government (The City of Falmouth, Kentucky as legally defined). Potential component units were considered for inclusion in the financial reporting entity. Component units are separate organizations for which the elected officials of the primary government would be financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will be by the primary government, or b) the possibility that the component unit will provide a financial dependent upon the primary government even when the primary government does not have a voting majority of the component unit's board is also to be included in the statements of the primary government.

The City does not have any component units to be included in its financial report.

BASIS OF PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent, on fees and charges for services.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than as an expenditure.

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The City uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The City's major governmental funds are as follows:

General Fund – The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

ABC 2% Fund – This fund is used to account for revenues from the ABC tax.

Municipal Aid Road Fund – The Municipal Aid Road Fund accounts for the receipt and disbursement of funds allocated through Kentucky Revised Statutes (KRS 174) for design, right-of-way acquisitions, utilities, construction, and other municipal road expenditures.

Proprietary funds are used to account for the City's ongoing activities that are similar to those found in the private sector where the intent of the governing body is that the cost of providing goods and services to the general public be financed or recovered primarily through user charges. The government reports the following major proprietary fund:

Utility Fund – The Utility Fund accounts for the activities of the City's electric, water, and sewer sales, and garbage collection.

BASIS OF ACCOUNTING - The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, license fees and interest are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are

CITY OF FALMOUTH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, license taxes, and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. No allowance for doubtful accounts is required for any receivables as of June 30, 2015.

All proprietary funds – enterprise funds and internal service funds – are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accrual basis of accounting is utilized by the proprietary fund types. Under this method, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities
2. Certificates of deposits
3. Bankers acceptances
4. Commercial paper
5. Bonds of other state or local governments
6. Mutual funds

PROPERTY TAXES AND TAX CALENDAR - Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately October 1 and are due and payable on December 31. On January 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on January 1. Property tax rates for the year ended June 30, 2015, were \$.632 per \$100 valuation for real property and \$.75 per \$100 valuation for personal property. The assessed value of property on which the levy for 2015 was based was \$63,673,033 for real and personal property.

PREPAIDS - Payments made to vendors for services that will benefit periods reported as prepaid items under the purchases method.

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

INTERFUND ACTIVITY AND ADVANCE RECEIVABLE – Reciprocal interfund activity includes interfund loans – amounts provided with a requirement for repayment, reported as interfund receivables and payables in the respective funds and interfund services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value, recorded as revenues and expenses in the respective funds. Unpaid amounts would be reported as receivables and payables in the respective funds. Nonreciprocal interfund activity includes interfund transfers – flows of assets without equivalent flows of assets in return, and interfund reimbursements – repayments by the responsible fund.

CAPITAL ASSETS - General capital assets are those assets not specifically related to activities in the proprietary fund. These assets are reported in the governmental activities column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in the business-type activities column of the government-wide statement of net position.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial statements. Generally, capitalizable items with a cost of \$1,000 or more and two years of useful life are capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Prior to July 1, 2003, governmental funds infrastructure assets had not previously been capitalized. The City has opted to not retroactively report its major general infrastructure assets. Infrastructure assets (starting July 1, 2003) have been valued at cost.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

Buildings	40	years
Building Improvements/public domain infrastructure	10-25	years
Equipment	3-7	years
Furniture and fixtures	3-7	years
Vehicles	5	years

COMPENSTATED ABSENCES – The City reports compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations and retirements. The general fund has typically been used to liquidate compensated absences as they become due and payable.

CITY OF FALMOUTH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

LONG-TERM OBLIGATIONS - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principle and interest as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

FUND EQUITY – In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

Non-spendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form – long-term receivables and prepaid items; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - These amounts can only be used for specific purposes to constraints imposed by formal ordinances of the City Council (the government's highest level of decision making authority). Those committed amounts cannot be used for any other purposes unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources – committed, assigned and unassigned – in order as needed. The City has no outstanding encumbrances as of June 30, 2015.

CITY OF FALMOUTH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

ESTIMATES AND UNCERTAINTIES – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. In accordance with City ordinance, by May 15th, the City Administrative Officer submits to the Mayor and Council, a proposed operating budget on the modified accrual basis of accounting for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. A public meeting is conducted to obtain citizen comment.
- C. Prior to June 30, the budget is legally enacted through passage of an ordinance.
- D. The City Administrative Officer is required by Kentucky Revised Statutes to present a quarterly report to the Mayor and Council explaining any variance from the approved budget.
- E. Appropriations continue in effect until a new budget is adopted.
- F. The Council authorizes supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the department level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Council; however, with proper approval by the Council, budgetary transfers between departments can be made. The City did not pass a budget for fiscal year 2014-2015 per KRS 91A.030 they continued to operate under the latest approved budget. All appropriations lapse at fiscal year end. Annual budgets are adopted on a basis consistent with GAAP.

Deficit net position – the General Fund of the City ended the fiscal year in a deficit net position.

NOTE C – DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits – For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. As allowed by law, the depository bank must pledge securities in addition to FDIC insurance at least equal to the amount on deposit at all times. The City's deposit policy maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). The City's bank balances are entirely insured or collateralized with securities held by the financial institution in the City's behalf, as required by state legal requirements.

The City held no investments as of June 30, 2015.

CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015
--

NOTE D - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for governmental activities for the year ended June 30, 2015 is as follows:

	June 30, 2014	Additions	Retirements	June 30, 2015
Governmental activities:				
Assets not being depreciated				
Land	\$ 638,514	\$ -	\$ -	\$ 638,514
Construction in progress	-	-	-	-
	<u>638,514</u>	<u>-</u>	<u>-</u>	<u>638,514</u>
Other capital assets				
Buildings	1,540,663	2,000	-	1,542,663
Improvements/infrastructure	1,789,405	-	-	1,789,405
Equipment	195,732	-	-	195,732
Parks	200,781	-	-	200,781
Vehicles	1,025,080	-	-	1,025,080
Subtotal	<u>4,751,661</u>	<u>2,000</u>	<u>-</u>	<u>4,753,661</u>
Accumulated depreciation				
Buildings	(462,692)	(30,855)	-	(493,547)
Improvements/infrastructure	(711,354)	(36,120)	-	(747,474)
Equipment	(156,730)	(8,381)	-	(165,111)
Furniture and fixtures	(50,484)	(5,571)	-	(56,055)
Vehicles	(315,944)	(35,788)	-	(351,732)
Subtotal	<u>(1,697,204)</u>	<u>(116,715)</u>	<u>-</u>	<u>(1,813,919)</u>
Other capital assets, less depreciation	<u>3,054,457</u>	<u>(114,715)</u>	<u>-</u>	<u>2,939,742</u>
Governmental activities capital assets, net	<u><u>\$ 3,692,971</u></u>	<u><u>\$ (114,715)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,578,256</u></u>

CITY OF FALMOUTH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

Capital assets activity for business-type activities for the year ended June 30, 2015 is as follows:

	June 30, 2014	Additions	Retirements	June 30, 2015
Business-type activities:				
Capital assets not being depreciation				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Other capital assets				
Building & improvements	348,569	-	-	348,569
Water & sewer system	14,012,531	-	-	14,012,531
Electric system	920,191	-	-	920,191
Vehicles	530,294	-	-	530,294
Equipment	233,281	-	-	233,281
Subtotal	<u>16,044,866</u>	<u>-</u>	<u>-</u>	<u>16,044,866</u>
Total Capital Assets	<u>16,074,866</u>	<u>-</u>	<u>-</u>	<u>16,074,866</u>
Accumulated depreciation				
Building & improvements	(289,706)	(16,996)	-	(306,702)
Water & sewer system	(4,631,669)	(286,860)	-	(4,918,529)
Electric system	(727,228)	(11,840)	-	(739,068)
Vehicles	(480,302)	(19,962)	-	(500,264)
Equipment	(212,512)	(3,220)	-	(215,732)
Subtotal	<u>(6,341,417)</u>	<u>(338,878)</u>	<u>-</u>	<u>(6,680,295)</u>
Business-type activities capital assets, net	<u>\$ 9,733,449</u>	<u>\$ (338,878)</u>	<u>\$ -</u>	<u>\$ 9,394,571</u>

Depreciation was charged to the following activities:

Activity	Depreciation
General government	\$ 28,865
Police	27,358
Fire	19,133
Public works	41,359
Total governmental activities	<u>\$ 116,715</u>
Electric	\$ 19,471
Water	118,552
Sewer	173,598
Garbage	10,261
Unallocated	16,996
Total business-type activities	<u>\$ 338,878</u>

CITY OF FALMOUTH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

NOTE E – LONG-TERM OBLIGATIONS

A summary of the changes in the long-term debt obligations is as follows:

	Balance at June 30, 2014	Additions	Retirements	Balance at June 30, 2015	Current Portion
Governmental activities -					
Compenstated absences	\$ 15,005	\$ -	\$ (15,005)	\$ -	\$ -
Fire Truck Lease	175,341	-	(18,560)	156,781	19,432
Police Cruiser Lease II	31,292	-	(9,620)	21,672	10,582
Police Cruiser Lease III	26,468	-	(4,873)	21,595	5,075
Klee Farm	249,300	-	(27,700)	221,600	27,700
Total governmental activities	<u>\$ 497,406</u>	<u>\$ -</u>	<u>\$ (75,758)</u>	<u>\$ 421,648</u>	<u>\$ 62,789</u>
Business-type activities -					
Compensated absences	\$ 26,644	\$ -	\$ (813)	\$ 25,831	\$ 25,831
A07-02	2,096,165	-	(135,034)	1,961,131	136,386
A0209-39	245,935	-	(13,781)	232,154	13,919
B09-03	526,270	-	(26,033)	500,237	26,294
Total business-type activities	<u>\$ 2,895,014</u>	<u>\$ -</u>	<u>\$ (175,661)</u>	<u>\$ 2,719,353</u>	<u>\$ 202,430</u>

GOVERNMENTAL ACTIVITIES

Fire Truck Capital Lease

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

Police Cruiser II Capital Lease

Capital lease for the purchase of police cruisers financed at \$60,177. This lease is secured by the vehicles, carries an interest rate of 4.21% and requires an annual payment of \$11,090 each June. Final payment will be June 2017.

Police Cruiser III Capital Lease

Capital lease for the purchase of police cruisers financed at \$31,785. This lease is secured by the vehicles, carries an interest rate of 4.70% and requires an annual payment of \$5,848 each January. Final payment will be January 2019.

Klee Farm Lease

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

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

The following is a schedule of future debt service requirements to maturity for governmental activities at June 30, 2015:

Year ended June 30,	Fire Truck Lease		Police Cruiser Lease II		Police Cruiser Lease III	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 19,432	\$ 7,369	\$ 10,582	\$ 508	\$ 5,075	\$ 774
2017	20,345	6,455	11,090	-	5,284	564
2018	21,302	5,499	-	-	5,504	345
2019	22,303	4,497	-	-	5,732	117
2020	23,351	3,550	-	-	-	-
2021-2022	50,048	3,555	-	-	-	-
	<u>\$ 156,781</u>	<u>\$ 30,925</u>	<u>\$ 21,672</u>	<u>\$ 508</u>	<u>\$ 21,595</u>	<u>\$ 1,800</u>

Year ended June 30,	Klee Farm Lease		Total Governmental	
	Principal	Interest	Principal	Interest
2016	\$ 27,700	\$ 5,505	\$ 62,789	\$ 14,156
2017	27,700	4,771	64,419	11,790
2018	27,700	4,037	54,506	9,881
2019	27,700	3,304	55,735	7,918
2020	110,800	1,468	134,151	5,018
2021-2022	-	-	50,048	3,555
Total	<u>\$ 221,600</u>	<u>\$ 19,085</u>	<u>\$ 421,648</u>	<u>\$ 52,318</u>

BUSINESS-TYPE ACTIVITIES

The City has the following long-term debt payable to the Kentucky Infrastructure Authority in connection with water and sewer line improvements. Revenues from the water and sewer system are pledged for the payment of the principal and interest on the notes.

Debt Item	Date of Issuance	Interest Rate	Maturity Date	Semi-Annual Payments	Balance 06/30/2015
KIA Note A07-02	02/01/2008	1.00%	12/01/2028	\$ 77,829	\$ 1,961,131
KIA Note A209-39	01/01/2010	1.00%	12/01/2030	\$ 8,103	232,154
KIA Note B09-03	10/01/2011	1.00%	12/01/2032	\$ 31,230	500,237
					<u>\$ 2,693,522</u>

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

The following is a schedule of future debt service requirements to maturity for business-type activities at June 30, 2015:

Year ended June 30,	KIA Loan A07-02		KIA Loan A209-39	
	Principal	Interest	Principal	Interest
2016	\$ 136,386	\$ 19,271	\$ 13,919	\$ 2,287
2017	137,753	17,903	14,058	2,147
2018	139,135	16,523	14,199	2,006
2019	140,529	15,128	14,341	1,864
2020	141,938	13,719	14,485	1,720
2021-2025	731,324	46,965	74,636	6,393
2026-2029	534,066	10,734	78,453	2,577
2030-2034	-	-	8,063	40
	<u>\$ 1,961,131</u>	<u>\$ 140,243</u>	<u>\$ 232,154</u>	<u>\$ 19,034</u>

Year ended June 30,	KIA Loan B09-03		Total Business-Type	
	Principal	Interest	Principal	Interest
2016	\$ 26,294	\$ 4,937	\$ 176,599	\$ 26,495
2017	26,557	4,673	178,368	24,723
2018	26,823	4,407	180,157	22,936
2019	27,092	4,138	181,962	21,130
2020	27,364	3,866	183,787	19,305
2021-2025	140,989	15,162	946,949	68,520
2026-2029	148,200	7,951	760,719	21,262
2030-2034	76,918	1,157	84,981	1,197
Total	<u>\$ 500,237</u>	<u>\$ 46,291</u>	<u>\$ 2,693,522</u>	<u>\$ 205,568</u>

NOTE F – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances as of June 30, 2015. Interfund transfers for the year ended June 30, 2015, consisted of the following:

	Transfers In		Transfers Out	
General Fund	\$	14,800	\$	-
ABC Fund		-		14,800
	<u>\$</u>	<u>14,800</u>	<u>\$</u>	<u>14,800</u>

Transfers are used to move funds from the fund that statute or budget requires such funds to be received into the fund that statute or budget requires such funds to be disbursed from. Transfers are also used to move unrestricted funds collected in the General Fund to finance various programs

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to fund from which it was originally provided once a project is completed.

NOTE G – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

Governmental fund balances as of June 30, 2015, consist of the following:

	General Fund	Municipal Aid Road Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	3,701	179,698	8,785	192,184
Committed	-	-	17,020	17,020
Unassigned	(413,139)	-	-	(413,139)
Total Fund Balance	<u>\$ (409,438)</u>	<u>\$ 179,698</u>	<u>\$ 25,805</u>	<u>\$ (203,935)</u>

NOTE I – EMPLOYEE RETIREMENT SYSTEM

The City participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the City.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits.

Participating non-hazardous employees contribute 5% (8% for hazardous duty employees) of their creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of un-funded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium.

Contributions

The City contributed 17.67% of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2015.

The City of Falmouth made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2015 in the amount of \$169,424.

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

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

At June 30, 2015, the City reported a liability of \$1,379,474 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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 a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's employer allocation proportion was 0.00021183% of the total CERS non-hazardous duty and .00057597% of the total CERS hazardous duty. For the year ended June 30, 2015, the City's funds recognized pension expense of \$169,540. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on plan investments	-	144,793
Changes of assumptions	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	169,424	-
Total	<u>\$ 169,424</u>	<u>\$ 144,793</u>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

The \$169,424 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Net	
Deferral	
\$	35,494
	35,494
	35,494
	35,493
	35,493
\$	<u>177,468</u>

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015
--

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>CERS Hazardous & Non-Hazardous Target Allocation</u>	<u>Long Term Expected Nominal Return</u>
Domestic equity	30%	8.5%
International equity	22%	8.9%
Emerging market equity	5%	10.5%
Private equity	7%	11.3%
Real estate	5%	7.0%
Core US fixed income	10%	5.3%
HY US fixed income	5%	7.3%
Non US fixed income	5%	5.5%
Commodities	5%	7.8%
TIPS	5%	5.0%
Cash	1%	3.3%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% decrease	6.75%	\$ 1,809,914
Current discount rate	7.75%	\$ 1,379,474
1% increase	8.75%	\$ 1,006,517

Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

<p>CITY OF FALMOUTH, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2015</p>

NOTE J – 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. To obtain insurance for workers' compensation and general liability coverage, the City participates in the Kentucky League of Cities Insurance Services (KLCIS). This public entity operates as a common risk management and insurance program for all municipalities. The City pays an annual premium to KLCIS for its general insurance coverage. KLCIS is self-sustaining through member premiums and will reinsure through a commercial companies for claims in excess of \$10 million for each insured event. The City has effectively managed risk through various employee education and prevention programs.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2015, will not materially affect the financial condition of the City. Therefore, the General Fund reports no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE K – COMMITMENTS AND CONTIGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal or state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the government.

NOTE L – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 67 – *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25* – This statement is not currently applicable to the City of Falmouth, KY.

Statement No. 68 – *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27* – Requires the City to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on the City's Statement of Net Position. This statement is effect for the fiscal period June 30, 2015.

Statement No. 69 – *Government Combinations and Disposals of Government Operations* – This statement is not currently applicable to the City of Falmouth, Kentucky.

Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – This statement is not currently applicable to the City of Falmouth, Kentucky.

NOTE M – FUTURE ACCOUNTING STANDARDS

Statement No. 77 – *Tax Abatement Disclosures*

CITY OF FALMOUTH, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2015

Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

Statement No. 72 – *Fair Value Measurement and Application*

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

NOTE N – PRIOR PERIOD ADJUSTMENTS

The City has recorded an adjustment to the Beginning Net Position of (\$1,354,727) at June 30, 2014. Of this amount, (\$668,875) was recorded under *governmental activities* and (\$685,852) was recorded under *business-type activities*. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated events through February 26, 2016, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2015 through February 26, 2016 to disclose.

CITY OF FALMOUTH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2015

	Budgeted Amounts			Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Amendment	Final		
Budgetary fund balance, July 1	\$ -	\$ -	\$ -	\$ (490,052)	\$ (490,052)
Resources (inflows):					
Property taxes	394,000	-	394,000	433,910	39,910
Insurance premium tax	280,000	-	280,000	316,590	36,590
Motor Vehicle tax	16,000	-	16,000	15,452	(548)
Occupational license fees	11,000	-	11,000	9,945	(1,055)
Public service taxes and fees	66,500	-	66,500	58,051	(8,449)
Charges for services	73,500	-	73,500	74,367	867
Intergovernmental	57,750	-	57,750	45,274	(12,476)
Special revenue income	40,700	-	40,700	18,000	(22,700)
Interest	100	-	100	-	(100)
Uses of property	25,500	-	25,500	-	(25,500)
Miscellaneous	73,500	-	73,500	83,778	10,278
Transfers in	-	-	-	14,800	14,800
Amounts available for appropriation	1,038,550	-	1,038,550	580,115	(458,435)
Charges to appropriations (outflows):					
Mayor and council	240,000	-	240,000	177,139	62,861
Fire	177,415	-	177,415	135,508	41,907
Police	629,800	-	629,800	600,465	29,335
Animal control	14,000	-	14,000	13,701	299
Capital outlay	-	-	-	2,000	(2,000)
Debt service					
Principal	-	-	-	46,260	(46,260)
Interest	-	-	-	14,480	(14,480)
Total charges to appropriation	1,061,215	-	1,061,215	989,553	71,662
Budgetary fund balance, June 30	\$ (22,665)	\$ -	\$ (22,665)	\$ (409,438)	\$ (386,773)

**CITY OF FALMOUTH KENTUCKY
 MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE
 Last Ten Fiscal Years**

**Schedule of the City's Proportionate Share of the Net Pension Liability
 County Employees' Retirement System (CERS)**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
(New disclosure in 2015, will display additional years as time progresses)										
Proportion of net pension liability	0.031026%									
Proportionate share of the net pension liability (asset)	\$ 1,379,474									
Covered employee payroll in year of measurement	1,001,321									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	137.77%									
Plan fiduciary net position as a percentage of total pension liability	65.96%									

**Schedule of the City's Contributions
 County Employees' Retirement System (CERS)**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
(New disclosure in 2015, will display additional years as time progresses)										
Contractually required contribution	\$ 169,424	\$ 195,576								
Actual contribution	169,424	195,576								
Contribution deficiency (excess)	-	-								
Covered employee payroll	980,761	1,001,321								
Contributions as a percentage of covered employee payroll	17.27%	19.53%								

**Notes to Required Supplementary Information
 for the Year Ended June 30, 2015**

Changes of Assumptions

The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization.

CITY OF FALMOUTH, KENTUCKY COMBINING BALANCE SHEETS - OTHER GOVERNMENTAL FUNDS June 30, 2015

	ABC 2% Fund	Renaissance Grant Fund	LGEA Fund	Equitable Sharing Fund	Total Other Governmental Funds
Assets					
Cash and cash equivalents	\$ 16,643	\$ 377	\$ 831	\$ 64	\$ 17,915
Receivables:					
Taxes	-	-	-	-	-
Accounts	-	-	-	-	-
Prepays	-	-	-	-	-
Interfund receivable	-	-	7,890	-	7,890
Total Assets	<u>\$ 16,643</u>	<u>\$ 377</u>	<u>\$ 8,721</u>	<u>\$ 64</u>	<u>\$ 25,805</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Nonspendable	-	-	-	-	-
Restricted	-	-	8,721	64	8,785
Committed	16,643	377	-	-	17,020
Unassigned	-	-	-	-	-
Total Fund Balances	<u>16,643</u>	<u>377</u>	<u>8,721</u>	<u>64</u>	<u>25,805</u>
Total Liabilities and Fund Balance	<u>\$ 16,643</u>	<u>\$ 377</u>	<u>\$ 8,721</u>	<u>\$ 64</u>	<u>\$ 25,805</u>

CITY OF FALMOUTH, KENTUCKY
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	ABC 2%	Renaissance	LGEA	Equitable	Total Other
	Fund	Grant Fund	Fund	Sharing	Governmental
				Fund	Funds
Revenues					
Taxes	\$ 2,725	\$ -	\$ -	\$ -	\$ 2,725
Intergovernmental	-	26,232	-	-	26,232
Charges for services	-	-	-	-	-
Interest	-	-	-	-	-
Uses of property	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	<u>2,725</u>	<u>26,232</u>	<u>-</u>	<u>-</u>	<u>28,957</u>
Expenditures					
Current:					
General government	1,206	26,338	9,000	-	36,544
Debt service					
Principal	14,493				14,493
Interest	2,447	-	-	-	2,447
Total Expenditures	<u>18,146</u>	<u>26,338</u>	<u>9,000</u>	<u>-</u>	<u>53,484</u>
Excess (deficiency) of revenues over (under) expenditures	(15,421)	(106)	(9,000)	-	(24,527)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	(14,800)	-	-	-	(14,800)
Total Other Financing Sources (Uses)	<u>(14,800)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,800)</u>
Net Change in Fund Balances	(30,221)	(106)	(9,000)	-	(39,327)
Fund Balances - Beginning	<u>46,864</u>	<u>483</u>	<u>17,721</u>	<u>64</u>	<u>65,132</u>
Fund Balances - Ending	<u>\$ 16,643</u>	<u>\$ 377</u>	<u>\$ 8,721</u>	<u>\$ 64</u>	<u>\$ 25,805</u>

CITY OF FALMOUTH, KENTUCKY
SCHEDULE OF REVENUES AND EXPENSES - UTILITY FUND
June 30, 2015

	Office	Electric Service	Water System	Sewer System	Waste Collection	Total
Charges for services	\$ 58,791	\$ 1,647,714	\$ 721,445	\$ 419,845	\$ 198,982	3,046,777
Operating expenses	240,909	1,616,951	640,822	595,306	229,101	3,323,089
Change in Net Position	<u>\$ (182,118)</u>	<u>\$ 30,763</u>	<u>\$ 80,623</u>	<u>\$ (175,461)</u>	<u>\$ (30,119)</u>	<u>\$ (276,312)</u>



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCEA
Licensed in Kentucky & Ohio

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

**To the Honorable Mayor and
Members of the Council
City of Falmouth, Kentucky**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Erlanger, Kentucky, as of and for the year ended June 30, 2015, which collectively comprise the City of Falmouth, Kentucky's basic financial statements and have issued our report thereon dated February 26, 2016. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify three deficiencies in internal control, described below, that we consider to be significant deficiencies.



Lack of Control of Financial Reporting

We noted that while daily receipts and payables are being managed effectively and efficiently by the clerks, the higher level accounting functions, such as transfers between accounts, balancing inter-fund payables/receivables, bank reconciliations, etc. are not being addressed by the city, which can result in an inability to provide reliable financial reports.

Recommendation: The City should hire a consultant accountant to assist with monthly financial reporting.

Lack of Segregation of Duties

We noted that, due to the size of the City and financial considerations, the executing and recording of special revenue transactions are performed by the same person.

Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the City and expenses not attributed to the City could be paid for from the City's cash account.

Recommendation: Check signers should not perform recordkeeping functions. Accounts payable clerk should attach checks to invoice packet and pass to signators for review and signatures. Insurance premium checks and other revenue received, other than property taxes and utility payments, can be deposited in a Lockbox at the bank.

Lack of Timely Preparation and Review of Bank Reconciliations

We noted that no bank reconciliations have been performed since the June 30, 2015 bank statements were received. Failure to timely reconcile bank accounts may result in material misstatements of the cash accounts, may allow misappropriations of cash to occur and not be prevented or detected, and may allow concealed errors or irregularities go continue undetected.

As part of reliable financial reporting the City should have all bank accounts reconciled within weeks of receiving statements from the banks.

Recommendation: The City should require the reconciliation of all bank accounts be completed each month either by an independent person who does not have bookkeeping or check signing responsibilities or require supervisory review of the reconciliation.

Compliance and Other Matters

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



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

We noted certain matters that we reported to management of the City of Falmouth, Kentucky in a separate letter dated February 26, 2016.

This report is intended solely for the information and use by the Mayor, City Council, and City management and is not intended to be and should not be used by anyone other than these specified parties.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
February 26, 2016