

**CITY OF FALMOUTH, KY**  
**ANNUAL FINANCIAL REPORT**  
**For the Year Ended June 30, 2016**

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**CITY OF FALMOUTH, KENTUCKY**

**CITY OFFICIALS**

**June 30, 2016**

**Mayor**

Elonda Hinson

**Council Members**

Randy Bastin

Ernie Richie

April DeFalco

Mary Ann Shields

Stan Love

Ron Stinson

**Legal Counsel**

Michael A. Duncan



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, 2016, 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, 2016 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 37-39 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 May 5, 2017, 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  
May 5, 2017

**CITY OF FALMOUTH, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Year Ended June 30, 2016**

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, 2016.

**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 \$9,531,088 (net position).
- The City's total net position decreased (\$64,752) this year. Net position of governmental activities decreased (\$52,747) and net position of business-type activities decreased by \$(12,005).
- As of June 30, 2016, the City's governmental funds reported a combined ending fund balance of \$2,271,114 business-type activities net position was \$7,259,974.
- The City's total debt decreased by \$239,388 (7.7%) 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 - 36 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 37 - 42 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, 2016, net position was stated as follows:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current assets	\$ (79,917)	\$ 382,738	\$ 1,717,471	\$ 1,516,472	\$ 1,637,554	\$ 1,899,210
Capital assets	3,453,774	3,578,256	9,088,866	9,394,571	12,542,640	12,972,827
Deferred outflows	125,827	91,375	199,775	78,049	325,602	169,424
Total assets	<u>3,499,684</u>	<u>4,052,369</u>	<u>11,006,112</u>	<u>10,989,092</u>	<u>14,505,796</u>	<u>15,041,461</u>
Long-term liabilities	1,082,769	1,113,859	3,474,584	3,380,785	4,557,353	4,494,644
Other liabilities	36,234	546,571	271,554	259,613	307,788	806,184
Deferred inflows	109,567	68,078	-	76,715	109,567	144,793
Total liabilities	<u>1,228,570</u>	<u>1,728,508</u>	<u>3,746,138</u>	<u>3,717,113</u>	<u>4,974,708</u>	<u>5,445,621</u>
Net investment in capital assets	3,094,915	3,156,608	6,571,943	6,701,049	9,666,858	9,857,657
Restricted	248,965	192,184	375,459	375,457	624,424	567,641
Committed	25,389	17,020	-	-	25,389	17,020
Unrestricted	(1,098,155)	(1,041,951)	312,572	195,473	(785,583)	(846,478)
Total net assets	<u>\$ 2,271,114</u>	<u>\$ 2,323,861</u>	<u>\$ 7,259,974</u>	<u>\$ 7,271,979</u>	<u>\$ 9,531,088</u>	<u>\$ 9,595,840</u>



There was a decrease of \$52,747 or (2.3%) in net position for governmental activities. Cash and cash equivalents increased \$26,534 but was offset by the increase in the liability related to GASB 68 pension recognition.

There was a decrease in net position of \$12,005 (.002%) for business-type activities. This increase in cash of \$241,131 was offset by the \$319,529 decrease in capital assets recognizing depreciation for the fiscal year.

**Governmental Activities**

Governmental activities decreased the net position of the City of Falmouth by \$52,747 during FY2016 as summarized on the following chart:

	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 53,320	\$ 61,967	\$ 3,023,699	\$ 2,987,986	\$ 3,077,019	\$ 3,049,953
Operating grants and contributions	114,040	158,583	-	-	114,040	158,583
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	457,968	436,635	-	-	457,968	436,635
Public service taxes	35,089	34,018	-	-	35,089	34,018
Other taxes	35,146	33,189	-	-	10,095	33,189
Insurance premium tax	262,282	316,590	-	-	262,282	316,590
Occupational license	10,095	9,945	-	-	10,095	9,945
Other licenses, fees	4,264	6,296	-	-	4,264	6,296
Other	31,661	96,178	108,786	58,791	140,447	154,969
Total revenues	\$ 1,003,865	\$ 1,153,401	\$ 3,132,485	\$ 3,046,777	\$ 4,111,299	\$ 4,200,178
Expenses:						
General government	\$ 233,685	\$ 256,249	\$ -	\$ -	\$ 233,685	\$ 256,249
Police	586,200	612,858	-	-	586,200	612,858
Fire	132,608	154,641	-	-	132,608	154,641
Public works	53,609	41,359	-	-	53,609	41,359
Interest on debt	14,156	16,927	-	-	-	-
Utility fund	-	-	3,128,564	3,323,089	3,128,564	3,323,089
Total expenses	\$ 1,020,258	\$ 1,082,034	\$ 3,128,564	\$ 3,323,089	\$ 4,134,666	\$ 4,388,196
Increase in net position before transfers	(16,393)	71,367	3,923	(276,312)	(12,470)	(204,945)
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	\$ (16,393)	\$ 71,367	\$ 3,922	\$ (276,312)	\$ (12,470)	\$ (204,945)
Net position-Beginning	2,323,861	2,252,494	7,271,979	7,548,291	9,595,840	9,800,785
Prior period adjustment	(36,353)	-	(15,927)	-	(52,280)	-
Net position-End of year	\$ 2,271,114	\$ 2,323,861	\$ 7,259,974	\$ 7,271,979	\$ 9,583,370	\$ 9,595,840

- Revenues for the City’s governmental activities totaled \$1,003,865, compared to \$1,153,401 last year, a 12.9% decrease.
- Property tax revenue totaled \$457,968 or 45.6% of the total revenues.
- Insurance premium tax, the second largest category of governmental revenues, accounted for \$262,282 or 26.1% of total revenues, a decrease of \$54,308.

- Total expenses for the City's governmental activities were \$1,020,258 compared to \$1,082,034 last year, a 5.7% decrease. The combined decrease in Police and Fire expenses was \$48,691.

### **Business-type Activities**

- Revenues for business-type activities totaled \$3,032,699 compared to \$3,046,777 last year, a 2.8% increase.
- Expenses for business-type activities totaled \$3,128,564 compared to \$3,323,089 last year, a (5.8%) 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, 2016, the City's governmental funds reported combined ending fund balance of (\$114,225) an increase of \$89,710 from the prior year. The Municipal Aid Road Fund, LGEA and ABC 2% Funds all realized a surplus during FY16, plus eliminating old general fund liabilities accounted for 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 \$(388,579), which represents an increase of \$20,859 over the prior year. The change is attributable to eliminating old current liabilities offset by a decrease in insurance premium tax revenues.

### *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 \$62,789 and decreased by \$176,599 for business-type activities during the fiscal year. At year-end, the City had \$2,901,513 in total outstanding notes, capital leases, compensated absences and bonds compared to \$3,141,001 last year.

That is a decrease of 7.7% as shown in the following table:

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Compensated absences PTO	\$ 1,926	\$ -	\$ 23,805	\$ 25,831	\$ 25,731	\$ 25,831
Police Cruiser Leases	27,610	43,267	-	-	27,610	43,267
Fire Truck Lease	137,349	156,781	-	-	137,349	156,781
Klee Farm Lease	193,900	221,600	-	-	193,900	221,600
KIA Loans	-	-	2,516,923	2,693,522	2,516,923	2,693,522
	<u>\$ 360,785</u>	<u>\$ 421,648</u>	<u>\$ 2,540,728</u>	<u>\$ 2,719,353</u>	<u>\$ 2,901,513</u>	<u>\$ 3,141,001</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, 2016 the City had \$116,021,096 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.

	Activities		Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land & construction in prog	\$ 638,514	\$ 638,514	\$ 30,000	\$ 30,000	\$ 668,514	\$ 668,514
Buildings	1,540,663	1,542,663	348,569	348,569	1,889,232	1,891,232
Improvements/infrastructure	1,209,861	1,990,186	14,938,047	14,932,722	16,147,908	16,922,908
Equipment	195,732	195,732	233,281	233,281	429,013	429,013
Vehicles	1,789,405	1,025,080	501,199	530,294	2,290,604	1,555,374
Subtotals	<u>5,374,175</u>	<u>5,392,175</u>	<u>16,051,096</u>	<u>16,074,866</u>	<u>21,425,271</u>	<u>21,467,041</u>
Accumulated depreciation	<u>1,920,401</u>	<u>1,813,919</u>	<u>6,962,228</u>	<u>6,680,295</u>	<u>8,882,629</u>	<u>8,494,214</u>
Net Assets	<u>\$ 3,453,774</u>	<u>\$ 3,578,256</u>	<u>\$ 9,088,868</u>	<u>\$ 9,394,571</u>	<u>\$ 12,542,642</u>	<u>\$ 12,972,827</u>

This year's major additions included:

2006 Chevrolet truck	\$ 6,500
Care Unit equipment	7,325
	<u>\$ 13,825</u>

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

### PRIOR PERIOD ADJUSTMENT

The City has recorded a prior period adjustment of (\$52,280) to the beginning net position. This adjustment accounts for the health insurance fund portion of the pension contributions for 2015 which is being recorded in accordance with Government Accounting Standards Board Statement No. 68 and the elimination of prior year General fund current liabilities which were recorded as revenue in other governmental funds.

## **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.

**CITY OF FALMOUTH, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 288,388	\$ 964,470	\$ 1,252,858
Receivables -			
Property taxes	35,301	-	35,301
Accounts	81,309	263,143	344,452
Intergovernmental	4,943	-	4,943
Internal balances	(489,858)	489,858	-
Capital assets:			
Capital assets not being depreciated	638,514	30,000	668,514
Other capital assets, net	2,815,260	9,058,866	11,874,126
<b>Total Assets</b>	<b>3,373,857</b>	<b>10,806,337</b>	<b>14,180,194</b>
<b>Deferred Outflows of Resources</b>			
Pension contribution for fiscal year 2015	125,827	199,775	325,602
<b>Total Assets and Deferred Outflows of Resources</b>	<b>3,499,684</b>	<b>11,006,112</b>	<b>14,505,796</b>
<b>Liabilities</b>			
Accounts payable	23,636	143,297	166,933
Accrued liabilities	10,672	889	11,561
Other current liabilities	-	10,544	10,544
Customer deposits	-	93,019	93,019
Compensated absences	1,926	23,805	25,731
Interfund payable	-	-	-
Noncurrent liabilities:			
Due within one year	64,421	178,369	242,790
Due in more than one year	294,438	2,338,554	2,632,992
Net pension liability	723,910	957,661	1,681,571
<b>Total Liabilities</b>	<b>1,119,003</b>	<b>3,746,138</b>	<b>4,865,141</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflow related to pensions	109,567	-	109,567
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>1,228,570</b>	<b>3,746,138</b>	<b>4,974,708</b>
<b>Net Position</b>			
Net investment in capital assets	3,094,915	6,571,943	9,666,858
Restricted	248,965	375,459	624,424
Committed	25,389	-	25,389
Unrestricted	(1,098,155)	312,572	(785,583)
<b>Total Net Position</b>	<b>\$ 2,271,114</b>	<b>\$ 7,259,974</b>	<b>\$ 9,531,088</b>

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

**CITY OF FALMOUTH, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2016**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating		Capital	Governmental	Primary Government	
		Charges for Services	Grants and Contributions			Grants and Contributions	Business-type Activities
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 233,685	\$ -	\$ 2,500	\$ -	\$ (231,185)	\$ -	\$ (231,185)
Police	586,200	-	21,744	-	(564,456)	-	(564,456)
Fire/EMS	132,608	53,320	7,500	-	(71,788)	-	(71,788)
Public works	53,609	-	82,296	-	28,687	-	28,687
Interest on long-term debt and other bond costs	14,156	-	-	-	(14,156)	-	(14,156)
<b>Total governmental activities</b>	<b>1,020,258</b>	<b>53,320</b>	<b>114,040</b>	<b>-</b>	<b>(852,898)</b>	<b>-</b>	<b>(852,898)</b>
<b>Business-type activities:</b>							
Electric	1,439,888	1,635,175	-	-	-	195,287	195,287
Water	648,596	734,951	-	-	-	86,355	86,355
Sewer	596,772	462,967	-	-	-	(133,805)	(133,805)
Garbage	210,077	190,606	-	-	-	(19,471)	(19,471)
Unallocated	233,231	-	-	-	-	(233,231)	(233,231)
<b>Total business-type activities</b>	<b>3,128,564</b>	<b>3,023,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(104,865)</b>	<b>(104,865)</b>
<b>Total primary government</b>	<b>\$ 4,148,822</b>	<b>\$ 3,077,019</b>	<b>\$ 114,040</b>	<b>\$ -</b>	<b>(852,898)</b>	<b>(104,865)</b>	<b>(957,763)</b>
<b>General revenues:</b>							
<b>Taxes:</b>							
Property taxes levied for general purposes					457,968	-	457,968
Public service taxes					35,089	-	35,089
Other taxes					35,146	-	35,146
<b>Licenses:</b>							
Occupational					10,095	-	10,095
Insurance premium					262,282	-	262,282
Other licenses, fees & permits					4,264	-	4,264
Other revenues					28,002	105,757	133,759
Gain on Sale of Equipment					3,659	3,029	6,688
<b>Total general revenues and transfers</b>					<b>836,505</b>	<b>108,786</b>	<b>945,291</b>
<b>Change in net position</b>					<b>(16,393)</b>	<b>3,921</b>	<b>(12,472)</b>
<b>Net position - beginning of year</b>					<b>2,323,861</b>	<b>7,271,979</b>	<b>9,595,840</b>
<b>Prior period adjustment-net pension liability</b>					<b>(36,353)</b>	<b>(15,927)</b>	<b>(52,280)</b>
<b>Net position - ending of year</b>					<b>\$ 2,271,115</b>	<b>\$ 7,259,973</b>	<b>\$ 9,531,088</b>

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

**CITY OF FALMOUTH, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2016**

	General	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 32,611	\$ 222,469	\$ 33,308	\$ 288,388
Receivables:				
Taxes	35,301	-	-	35,301
Accounts	81,309	-	-	81,309
Intergovernmental	-	4,943	-	4,943
Interfund receivable	-	-	21,524	21,524
<b>Total Assets</b>	<u>\$ 149,221</u>	<u>\$ 227,412</u>	<u>\$ 54,832</u>	<u>\$ 431,465</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 23,636	\$ -	\$ -	\$ 23,636
Accrued liabilities	10,672	-	-	10,672
Due to other funds	503,492	7,890	-	511,382
<b>Total Liabilities</b>	<u>537,800</u>	<u>7,890</u>	<u>-</u>	<u>545,690</u>
<b>Fund Balances:</b>				
Restricted	-	219,522	29,443	248,965
Committed	-	-	25,389	25,389
Unassigned	(388,579)	-	-	(388,579)
<b>Total Fund Balances</b>	<u>(388,579)</u>	<u>219,522</u>	<u>54,832</u>	<u>(114,225)</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 149,221</u>	<u>\$ 227,412</u>	<u>\$ 54,832</u>	<u>\$ 431,465</u>

**Reconciliation of fund Balances to the Statement of Net Position**

**Total Fund Balance for Governmental Funds** \$ (114,225)

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 (\$5,374,175) 3,453,774

Sale of property reduces capital assets -

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

Deferred outflow of resources 125,827

Deferred inflow of resources (109,567)

Long-term liabilities, including capital leases, compensated absences and net pension liability are not due and payable in the current period and therefore are not reported in the funds (1,084,695)

**Net Position of Governmental Activities** \$ 2,271,114

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, 2016**

	General	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 428,837	\$ -	\$ 29,131	\$ 457,968
Insurance premium tax	262,282	-	-	262,282
Other taxes	70,235	-	-	70,235
Licenses and permits	14,359	-	-	14,359
Charges for services	65,320	-	-	65,320
Intergovernmental	29,244	52,074	32,722	114,040
Miscellaneous	19,661	-	-	19,661
<b>Total Revenues</b>	<u>889,938</u>	<u>52,074</u>	<u>61,853</u>	<u>1,003,865</u>
<b>Expenditures</b>				
Current:				
Mayor and council	181,177	-	15,490	196,667
Fire	113,475	-	-	113,475
Police	553,290	-	-	553,290
Animal control	3,443	-	-	3,443
Streets	-	12,250	-	12,250
Capital outlay	-	-	-	-
Debt service:				
Principal	47,132	-	15,657	62,789
Interest	12,874	-	1,282	14,156
<b>Total Expenditures</b>	<u>911,391</u>	<u>12,250</u>	<u>32,429</u>	<u>956,070</u>
Excess (deficiency) of revenues over (under) expenditures	(21,453)	39,824	29,424	47,795
<b>Other Financing Sources (Uses)</b>				
Transfers in	397	-	-	397
Transfers out	-	-	(397)	(397)
<b>Total Other Financing Sources (Uses)</b>	<u>397</u>	<u>-</u>	<u>(397)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(21,056)	39,824	29,027	47,795
<b>Fund Balances - Beginning</b>	(409,438)	179,698	25,805	(203,935)
Prior Period Adjustment	41,915	-	-	41,915
<b>Fund Balances - Ending</b>	<u>\$ (388,579)</u>	<u>\$ 219,522</u>	<u>\$ 54,832</u>	<u>\$ (114,225)</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, 2016**

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

**Net change in fund balances - total governmental funds** \$ 47,795

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	0
Depreciation expense	(122,481)

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. 62,789

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	43,000
Cost of benefits earned	(45,570)

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. (1,926)

**Change in net position of governmental activities** \$ (16,393)

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

**CITY OF FALMOUTH, KENTUCKY**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**June 30, 2016**

	<b>Business-type Activities</b>
	<b>Utility Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 964,470
Receivables	263,143
Due from other funds	489,858
Total current assets	<u>1,717,471</u>
Noncurrent assets:	
Capital assets, net	
Improvements/infrastructure	15,316,617
Equipment	734,479
Less accumulated depreciation	<u>(6,962,230)</u>
Total noncurrent assets	<u>9,088,866</u>
<b>Total Assets</b>	<u>10,806,337</u>
<b>Deferred Outflow of Resources</b>	
Pension contribution for fiscal year 2015	199,775
<b>Total Assets and Deferred Outflow of Resources</b>	<u>11,006,112</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	143,297
Accrued liabilities	889
Compensated absences	23,805
Other current liabilities	10,544
Customer deposits	93,019
Due within one year	178,369
Total current liabilities	<u>449,923</u>
Noncurrent liabilities:	
Due in more than one year	2,338,554
Net unfunded pension liability	<u>957,661</u>
Total noncurrent liabilities	<u>3,296,215</u>
<b>Total Liabilities</b>	<u>3,746,138</u>
<b>Deferred Inflow of Resources</b>	
Deferred inflow related to pensions	-
<b>Total Liabilities and Deferred Inflow of Resources</b>	<u>3,746,138</u>
<b>Net Position</b>	
Net investment in capital assets	6,571,943
Restricted	375,459
Unrestricted	<u>312,572</u>
<b>Total Net Position</b>	<u>\$ 7,259,974</u>

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

<p><b>CITY OF FALMOUTH, KENTUCKY</b>  <b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -</b>  <b>PROPRIETARY FUNDS</b>  <b>For the Year Ended June 30, 2016</b></p>
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	<b>Business-Type Activities</b>
	<b>Utility Fund</b>
<b>Operating Revenues</b>	<u>\$ 3,108,530</u>
<b>Operating Expenses</b>	
Salaries and wages	530,802
Other employee expenses	226,297
Purchases	1,440,386
Operating expenses	523,725
Depreciation	319,529
<b>Total Operating Expenses</b>	<u>3,040,739</u>
<b>Operating Income (Expense)</b>	<u>67,791</u>
<b>Non-Operating Income (Expense)</b>	
Reimbursement from FEMA	20,926
Sale of assets	3,029
Interest on long-term debt	(31,794)
Net change in share of pension expense	(56,030)
<b>Total Non-Operating Income (Expense)</b>	<u>(63,869)</u>
<b>Change in net position</b>	3,922
<b>Net Position - Beginning Of Year</b>	7,271,979
<b>Prior period adjustment</b>	(15,927)
<b>Net Position - End Of Year</b>	<u>\$ 7,259,974</u>

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

<p><b>CITY OF FALMOUTH, KENTUCKY</b>  <b>STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS</b>  <b>For the Year Ended June 30, 2016</b></p>
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	<b>Business-Type Activities</b>
	<b>Utility Fund</b>
<b>Cash flows from operating activities</b>	
Cash received from interfund services provided	\$ -
Cash received from customers and users	3,145,031
Cash received from governments	20,926
Cash paid to employees	(530,802)
Cash paid to suppliers	(2,174,835)
<b>Net cash provided (used) by operating activities</b>	<u>460,320</u>
<b>Cash flows from noncapital financing activities:</b>	
Advances from other funds	-
<b>Cash flows from capital and related financing activities</b>	
Payments on capital lease obligation	(208,393)
Acquisition of capital assets	(11,825)
Cash received on sale of assets	1,029
<b>Cash flows from investing activities</b>	
Interest income	-
<b>Net increase (decrease) in cash</b>	<u>241,131</u>
<b>Cash and Cash equivalents- beginning of year</b>	<u>723,339</u>
<b>Cash and Cash equivalents- end of year</b>	<u>\$ 964,470</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>	
Operating income (loss)	\$ 67,791
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	319,529
Changes in assets and liabilities:	
Receivables	36,501
Accounts payable	8,178
Accrued liabilities	(4,996)
Customer deposits	4,857
Interfund liability	28,460
<b>Net cash provided (used) by operating activities</b>	<u>\$ 460,320</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u>\$ 31,794</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, 2016**

**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.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

***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 mayor 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, 2016**

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, 2016.

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, 2016, 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 2016 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.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

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, 2016**

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, 2016.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

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 15<sup>th</sup>, 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 2015-2016 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, 2016.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

**NOTE D - CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for governmental activities for the year ended June 30, 2016 is as follows:

	June 30, 2015	Additions	Retirements	June 30, 2016
<b>Governmental activities:</b>				
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	1,542,663	-	(2,000)	1,540,663
Improvements/infrastructure	1,789,405	-	(16,000)	1,773,405
Equipment	195,732	-	-	195,732
Parks	200,781	-	-	200,781
Vehicles	1,025,080	-	-	1,025,080
Subtotal	<u>4,753,661</u>	<u>-</u>	<u>(18,000)</u>	<u>4,735,661</u>
Accumulated depreciation				
Buildings	(493,547)	(30,855)	-	(524,402)
Improvements/infrastructure	(747,474)	(43,121)	16,000	(774,595)
Equipment	(165,111)	(7,147)	-	(172,258)
Furniture and fixtures	(56,055)	(5,571)	-	(61,626)
Vehicles	(351,732)	(35,788)	-	(387,520)
Subtotal	<u>(1,813,919)</u>	<u>(122,482)</u>	<u>16,000</u>	<u>(1,920,401)</u>
Other capital assets, less depreciation	<u>2,939,742</u>	<u>(122,482)</u>	<u>(2,000)</u>	<u>2,815,260</u>
<b>Governmental activities capital assets, net</b>	<u><u>\$ 3,578,256</u></u>	<u><u>\$ (122,482)</u></u>	<u><u>\$ (2,000)</u></u>	<u><u>\$ 3,453,774</u></u>

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

Capital assets activity for business-type activities for the year ended June 30, 2016 is as follows:

	June 30, 2015	Additions	Retirements	June 30, 2016
<b>Business-type activities:</b>				
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	7,323	(2,000)	14,017,854
Electric system	920,191	-	-	920,191
Vehicles	530,294	6,500	(35,595)	501,199
Equipment	233,281	-	-	233,281
Subtotal	<u>16,044,866</u>	<u>13,823</u>	<u>(37,595)</u>	<u>16,021,094</u>
Total Capital Assets	<u>16,074,866</u>	<u>13,823</u>	<u>(37,595)</u>	<u>16,051,094</u>
Accumulated depreciation				
Building & improvements	(306,702)	(16,998)	-	(323,700)
Water & sewer system	(4,918,529)	(273,664)	2,000	(5,190,193)
Electric system	(739,068)	(11,840)	-	(750,908)
Vehicles	(500,264)	(13,806)	35,595	(478,475)
Equipment	(215,732)	(3,220)	-	(218,952)
Subtotal	<u>(6,680,295)</u>	<u>(319,528)</u>	<u>37,595</u>	<u>(6,962,228)</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 9,394,571</u>	<u>\$ (305,705)</u>	<u>\$ -</u>	<u>\$ 9,088,866</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	\$ 14,401
Water	105,367
Sewer	172,501
Garbage	10,261
Unallocated	16,998
Total business-type activities	<u>\$ 319,528</u>

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

**NOTE E – LONG-TERM OBLIGATIONS**

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

	Balance at June 30, 2015	Additions	Retirements	Balance at June 30, 2016	Current Portion
<b>Governmental activities -</b>					
Compenstated absences	\$ -	\$ 1,926	\$ -	\$ 1,926	\$ 1,926
Fire Truck Lease	156,781	-	(19,432)	137,349	20,346
Police Cruiser Lease II	21,672	-	(10,582)	11,090	11,090
Police Cruiser Lease III	21,595	-	(5,075)	16,520	5,285
Klee Farm	221,600	-	(27,700)	193,900	27,700
Total governmental activities	<u>\$ 421,648</u>	<u>\$ 1,926</u>	<u>\$ (62,789)</u>	<u>\$ 360,785</u>	<u>\$ 66,347</u>
<b>Business-type activities -</b>					
Compensated absences	\$ 25,831	\$ -	\$ (2,026)	\$ 23,805	\$ 23,805
A07-02	1,961,131	-	(136,386)	1,824,745	137,754
A0209-39	232,154	-	(13,919)	218,235	14,058
B09-03	500,237	-	(26,294)	473,943	26,557
Total business-type activities	<u>\$ 2,719,353</u>	<u>\$ -</u>	<u>\$ (178,625)</u>	<u>\$ 2,540,728</u>	<u>\$ 202,174</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.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

The following is a schedule of future debt service requirements to maturity for governmental activities at June 30, 2016:

Year ended June 30,	Fire Truck Lease		Police Cruiser Lease II		Police Cruiser Lease III	
	Principal	Interest	Principal	Interest	Principal	Interest
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	24,450	2,352	-	-	-	-
2022	25,598	1,203	-	-	-	-
	<u>\$ 137,349</u>	<u>\$ 23,556</u>	<u>\$ 11,090</u>	<u>\$ -</u>	<u>\$ 16,520</u>	<u>\$ 1,026</u>

Year ended June 30,	Klee Farm Lease		Total Governmental	
	Principal	Interest	Principal	Interest
2017	\$ 27,700	\$ 4,771	\$ 64,419	\$ 11,790
2018	27,700	4,037	55,735	8,651
2019	27,700	3,304	51,051	6,854
2020	110,800	1,468	135,250	3,820
2021-2022	-	-	25,598	1,203
Total	<u>\$ 193,900</u>	<u>\$ 13,580</u>	<u>\$ 332,053</u>	<u>\$ 32,318</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 06/30/2016
KIA Note A07-02	02/01/2008	1.00%	12/01/2028	\$ 77,829	\$ 1,824,745
KIA Note A209-39	01/01/2010	1.00%	12/01/2030	\$ 8,103	218,235
KIA Note B09-03	10/01/2011	1.00%	12/01/2032	\$ 31,230	473,943
					<u>\$ 2,516,923</u>

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

The following is a schedule of future debt service requirements to maturity for business-type activities at June 30, 2016:

Year ended June 30,	KIA Loan A07-02		KIA Loan A209-39	
	Principal	Interest	Principal	Interest
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	143,361	12,296	14,631	1,575
2022-2026	738,656	39,634	75,384	5,645
2027-2030	383,373	5,769	71,137	1,790
2031-2034	-	-	-	-
	<u>\$ 1,824,745</u>	<u>\$ 120,972</u>	<u>\$ 218,235</u>	<u>\$ 16,747</u>

  

Year ended June 30,	KIA Loan B09-03		Total Business-Type	
	Principal	Interest	Principal	Interest
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	27,638	3,592	185,630	17,463
2022-2026	142,403	13,749	956,443	59,028
2027-2030	149,685	6,465	604,195	14,024
2031-2034	46,381	464	46,381	464
Total	<u>\$ 473,943</u>	<u>\$ 41,354</u>	<u>\$ 2,516,923</u>	<u>\$ 179,073</u>

**NOTE F – INTERFUND RECEIVABLES AND PAYABLES**

Interfund transfers for the year ended June 30, 2016, consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 397	\$ -
Equitable Sharing Fund		\$ (64)
Renaissance Grant Fund	-	(333)
	<u>\$ 397</u>	<u>\$ (397)</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

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

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, 2016, consist of the following:

	General Fund	Municipal Aid Road Fund	Other Governmental Funds	Total
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted		219,522	29,443	248,965
Committed	-	-	25,389	25,389
Unassigned	(388,579)	-	-	(388,579)
<b>Total Fund Balance</b>	<b>¶\$ (388,579)</b>	<b>¶\$ 219,522</b>	<b>¶\$ 54,832</b>	<b>\$ (114,225)</b>

**NOTE H – EMPLOYEE RETIREMENT SYSTEM**

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

**General information about the County Employees Retirement System Non-Hazardous ("CERS")**

*Plan description* - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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



**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of year's service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Contributions* - Required contributions by the employee are based on the tier:

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

**Contributions**

For non-hazardous duty employees, the City contributed 17.06%, of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2016. For hazardous duty employees, the City contributed 32.95%, of which 20.26% was for the pension fund and 12.69% was for the health insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2016.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$80,407, of which \$58,838 was for the pension fund and \$21,869 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$69,934 of which \$43,000 was for the pension fund and \$26,934 was for the health insurance fund.

<p><b>CITY OF FALMOUTH, KENTUCKY</b>  <b>NOTES TO THE FINANCIAL STATEMENTS</b>  <b>Year Ended June 30, 2016</b></p>
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**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the City reported a liability of \$1,681,571 (\$957,661 – non-hazardous and \$723,910–hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the City's non-hazardous employer allocation proportion was 0.022274% of the total CERS non-hazardous duty employees and 0.047157% of the total CERS hazardous duty employees. For the year ended June 30, 2016, the City recognized pension expense of \$160,274.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 23,682	\$ -
Net difference between projected and actual earnings on plan investments	13,131	-
Changes of assumptions	159,128	-
Changes in proportion and differences between City contributions and proportionate share of contributions	28,123	109,567
City contributions subsequent to the measurement date	101,538	-
Total	<u>\$ 325,602</u>	<u>\$ 109,567</u>

In FY 2016, \$325,602 was recognized as a net deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) contributions subsequent to the measurement date. There were no net deferred inflows of resources.

The City's contributions subsequent to the measurement date of \$101,538 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<p><b>CITY OF FALMOUTH, KENTUCKY</b>  <b>NOTES TO THE FINANCIAL STATEMENTS</b>  <b>Year Ended June 30, 2016</b></p>
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Fiscal Year Ending June 30,	Net Deferral
2017	\$ 39,542
2018	39,542
2019	13,647
2020	21,766
	<u>\$ 114,497</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
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	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

**Changes of Assumptions**

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. 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 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

**Sensitivity of the District'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 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.5%	\$ 2,149,203
Current discount rate	7.5%	1,681,571
1% increase	8.5%	1,286,740

**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.

**NOTE I – 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 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, 2016, 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 J – COMMITMENTS AND CONTINGENCIES**

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.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

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 K – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

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

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

**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. 76** – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

**Statement No. 79** – *Certain External Investment Pools and Pool Participants*

**NOTE L – FUTURE ACCOUNTING STANDARDS**

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

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

**Statement No. 77** – *Tax Abatement Disclosures*

**Statement No. 78** – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

**Statement No. 80** – *Blending Requirements for Certain Component Unites – an Amendment of GASB Statement No. 14*

**Statement No. 81** – *Irrevocable Split-Interest Agreements*

**Statement No. 82** – *Pension Issues – an Amendment of GASB Statements No. 67, 68, and 73*

**NOTE M – PRIOR PERIOD ADJUSTMENTS**

The City has recorded a prior period adjustment to the beginning net position for a total of (\$52,280). This reduction accounts for the health insurance fund portion of the pension contributions for 2015 which is being recorded in accordance with Government Accounting Standards Board Statement No. 68 and the elimination of prior period current liabilities which were recorded as revenue in other governmental funds.

**CITY OF FALMOUTH, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2016**

**NOTE N – SUBSEQUENT EVENTS**

Management has evaluated events through May 5, 2017, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2016 through May 5, 2017 to disclose.

**CITY OF FALMOUTH, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended June 30, 2016**

	Budgeted Amounts			Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Amendments	Final		
<b>Budgetary fund balance, July 1</b>	\$ 24,000	\$ -	\$ 24,000	\$ (409,438)	\$ (433,438)
<b>Resources (inflows):</b>					
Property taxes	394,000	-	394,000	428,837	34,837
Insurance premium tax	280,000	-	280,000	262,282	(17,718)
Motor Vehicle tax	16,000	-	16,000	17,410	1,410
Occupational license fees	11,000	-	11,000	10,655	(345)
Public service taxes and fees	67,500	-	67,500	35,089	(32,411)
Charges for services	90,500	-	90,500	65,320	(25,180)
Intergovernmental	57,750	-	57,750	29,244	(28,506)
Special revenue income	40,700	-	40,700	-	(40,700)
Uses of property	25,500	-	25,500	3,704	(21,796)
Miscellaneous	-	-	-	37,397	37,397
Transfers in	70,000	-	70,000	397	(69,603)
<b>Amounts available for appropriation</b>	<u>1,076,950</u>	<u>-</u>	<u>1,076,950</u>	<u>480,897</u>	<u>(596,053)</u>
<b>Charges to appropriations (outflows):</b>					
Mayor and council	220,000	-	220,000	214,382	5,618
Fire	177,415	-	177,415	140,276	37,139
Police	629,800	-	629,800	553,290	76,510
Animal control	14,000	-	14,000	3,443	10,557
Capital outlay	-	-	-	-	-
Transfers out	20,000	-	20,000	-	20,000
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
<b>Total charges to appropriation</b>	<u>1,061,215</u>	<u>-</u>	<u>1,061,215</u>	<u>911,391</u>	<u>149,824</u>
<b>Prior period adjustment</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,915</u>	<u>41,915</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 15,735</u>	<u>\$ -</u>	<u>\$ 15,735</u>	<u>\$ (388,579)</u>	<u>\$ (404,314)</u>



**CITY OF FALMOUTH KENTUCKY**

**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-NON-HAZARDOUS**

Last Ten Fiscal Years

	Schedule of the City's Proportionate Share of the Net Pension Liability County Employees' Retirement System (CERS)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.022740%	0.021138%								
Proportionate share of the net pension liability (asset)	\$ 957,661	\$ 692,211								
Covered employee payroll in year of measurement	5,627,741	519,530								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	17.02%	133.24%								
Plan fiduciary net position as a percentage of total pension liability	59.97%	66.80%								
	Schedule of the City's Contributions County Employees' Retirement System (CERS)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 80,407	\$ 78,049	\$ 91,801							
Actual contribution	80,407	78,049	91,801							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	528,774	457,497	519,530							
Contributions as a percentage of covered employee payroll	15.21%	17.06%	17.67%							

**Notes to Required Supplementary Information  
For the Year Ended June 30, 2016**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial

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

	Schedule of the City's Proportionate Share of the Net Pension Liability									
	County Employees' Retirement System (CERS)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.047157%	0.057597%								
Proportionate share of the net pension liability (asset)	\$ 723,910	\$ 692,211								
Covered employee payroll in year of measurement	319,565	-								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	226.53%	#DIV/0!								
Plan fiduciary net position as a percentage of total pension liability	57.52%	63.46%								

	Schedule of the City's Contributions									
	County Employees' Retirement System (CERS)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
(New disclosure in 2015, will display additional years as time progresses)										
Contractually required contribution	\$ 43,000	\$ 55,209	\$ -							
Actual contribution	43,000	55,209	-							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	280,398	319,565	-							
Contributions as a percentage of covered employee payroll	15.34%	17.28%								

**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2016**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial Statements.

<b>CITY OF FALMOUTH, KENTUCKY</b> <b>COMBINING BALANCE SHEETS - OTHER GOVERNMENTAL FUNDS</b> <b>June 30, 2016</b>
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	ABC 2% Fund	Renaissance Grant Fund	LGEA Fund	Equitable Sharing Fund	Total Other Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 25,389	\$ -	\$ 7,919	\$ -	\$ 33,308
Receivables:					
Taxes	-	-	-	-	-
Accounts	-	-	-	-	-
Prepays	-	-	-	-	-
Interfund receivable	-	-	21,524	-	21,524
<b>Total Assets</b>	<u>\$ 25,389</u>	<u>\$ -</u>	<u>\$ 29,443</u>	<u>\$ -</u>	<u>\$ 54,832</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances:</b>					
Nonspendable	-	-	-	-	-
Restricted	-	-	29,443	-	29,443
Committed	25,389	-	-	-	25,389
Unassigned	-	-	-	-	-
<b>Total Fund Balances</b>	<u>25,389</u>	<u>-</u>	<u>29,443</u>	<u>-</u>	<u>54,832</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 25,389</u>	<u>\$ -</u>	<u>\$ 29,443</u>	<u>\$ -</u>	<u>\$ 54,832</u>

**CITY OF FALMOUTH, KENTUCKY**  
**COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2016**

	ABC 2% Fund	Renaissance Grant Fund	LGEA Fund	Equitable Sharing Fund	Total Other Governmental Funds
<b>Revenues</b>					
Taxes	\$ 29,131	\$ -	\$ -	\$ -	\$ 29,131
Intergovernmental	-	2,500	30,222	-	32,722
Charges for services	-	-	-	-	-
Interest	-	-	-	-	-
Uses of property	-	-	-	-	-
Miscellaneous	-	-	-	-	-
<b>Total Revenues</b>	<u>29,131</u>	<u>2,500</u>	<u>30,222</u>	<u>-</u>	<u>61,853</u>
<b>Expenditures</b>					
Current:					
General government	3,446	2,544	9,500	-	15,490
Debt service					
Principal	15,657	-	-	-	15,657
Interest	1,282	-	-	-	1,282
<b>Total Expenditures</b>	<u>20,385</u>	<u>2,544</u>	<u>9,500</u>	<u>-</u>	<u>32,429</u>
Excess (deficiency) of revenues over (under) expenditures	8,746	(44)	20,722	-	29,424
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	-	-
Transfers out	-	(333)	-	(64)	(397)
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>(333)</u>	<u>-</u>	<u>(64)</u>	<u>(397)</u>
<b>Net Change in Fund Balances</b>	8,746	(377)	20,722	(64)	29,027
<b>Fund Balances - Beginning</b>	<u>16,643</u>	<u>377</u>	<u>8,721</u>	<u>64</u>	<u>25,805</u>
<b>Fund Balances - Ending</b>	<u>\$ 25,389</u>	<u>\$ -</u>	<u>\$ 29,443</u>	<u>\$ -</u>	<u>\$ 54,832</u>

**CITY OF FALMOUTH, KENTUCKY**  
**SCHEDULE OF REVENUES AND EXPENSES - UTILITY FUND**  
**June 30, 2016**

	Office	Electric Service	Water System	Sewer System	Waste Collection	Total
Charges for services	\$ 130,587	\$ 1,612,296	\$ 712,074	\$ 462,967	\$ 190,606	3,108,530
Operating expenses	220,698	1,421,244	629,345	564,978	204,474	3,040,739
<b>Change in Net Position</b>	<u>\$ (90,111)</u>	<u>\$ 191,052</u>	<u>\$ 82,729</u>	<u>\$ (102,011)</u>	<u>\$ (13,868)</u>	<u>\$ 67,791</u>



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

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Lori A. Owen, CPA  
John R. Chamberlin, CPA, MBA  
Members of AICPA & KyCPA  
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, 2016, which collectively comprise the City of Falmouth, Kentucky's basic financial statements and have issued our report thereon dated May 5, 2017. 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 since June, 2015 there has consistently been a long delay in reconciling bank statements. 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 May 5, 2017.

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  
May 5, 2017