

CITY OF FT. THOMAS, KENTUCKY

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2011



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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council City of Fort Thomas, Kentucky

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fort Thomas, Kentucky, as of, and for the year ended June 30, 2011, which collectively comprise the City of Fort Thomas's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Fort Thomas, Kentucky's, management. Our responsibility is to express an opinions on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Fort Thomas, Kentucky, as of June 30, 2011, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 10, 2012 on our consideration of the City of Fort Thomas, Kentucky's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and certain required budgetary comparison information 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

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fort Thomas, Kentucky's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate 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.

RANKIN, RANKIN, & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
January 10, 2012**

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"Founded in 1867"

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Ft. Thomas, Kentucky, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Ft. Thomas, Kentucky for the year ended June 30, 2011.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$19,514,955 (net assets).

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$12,128,513. This total represents an increase of \$3,320,940 in comparison to the prior fiscal year. The increase was primarily attributable to capital project bonds issued which were not expended by June 30, 2011.

At the end of the current fiscal year, total fund balance for the general fund was \$8,863,230.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The basic financial statements encompass three components: 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases and decreases in net assets are one indicator of whether the City's financial position is improving or deteriorating. Other nonfinancial factors such as changes in the City's property tax base and the condition of the City's infrastructure will also assist in assessing the overall financial health of the City.

The statement of activities presents how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows for future fiscal periods (e.g. uncollected revenue and earned by unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes, license fees and intergovernmental activities which are considered governmental activities from those functions that are intended to cover all or a significant portion of their costs through user fees and charges which are considered business-type activities. The governmental activities include most of the City's basic services. These include but are not limited to police, fire, street maintenance, parks and recreation, and general administration.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for grant funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. 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.

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

The City of Ft. Thomas maintains individual governmental funds. (Information is presented separately in the governmental balance sheet and in the statement of revenues, expenditures and changes in fund balances for the general fund, public works/KDOT, central business district and Tower Park funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Ft. Thomas' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Ft. Thomas, assets exceeded liabilities by \$19,514,955 at the close of the most recent year.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt to finance those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the years ended June 30, 2011 and 2010, net assets changed as follows:

	Governmental Activities	
	2011	2010
Current and other assets	\$ 13,956,028	\$ 10,644,921
Capital assets, net	15,489,166	12,587,352
Total assets	<u>29,445,194</u>	<u>23,232,273</u>
Other liabilities	1,492,509	1,645,784
Long-term liabilities	8,437,730	2,469,696
Total liabilities	<u>9,930,239</u>	<u>4,115,480</u>
Net assets:		
Invested in capital assets, net of debt	7,344,470	10,424,654
Restricted	2,120,526	145,597
Unrestricted	10,049,959	8,546,542
Total net assets	<u>\$ 19,514,955</u>	<u>\$ 19,116,793</u>

Net assets of the City increased slightly by \$398,162 during the current fiscal year.

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 near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the City's government funds reported combined ending fund balances of \$12,128,513 an increase of \$3,320,940 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance of the general fund was \$8,863,230.

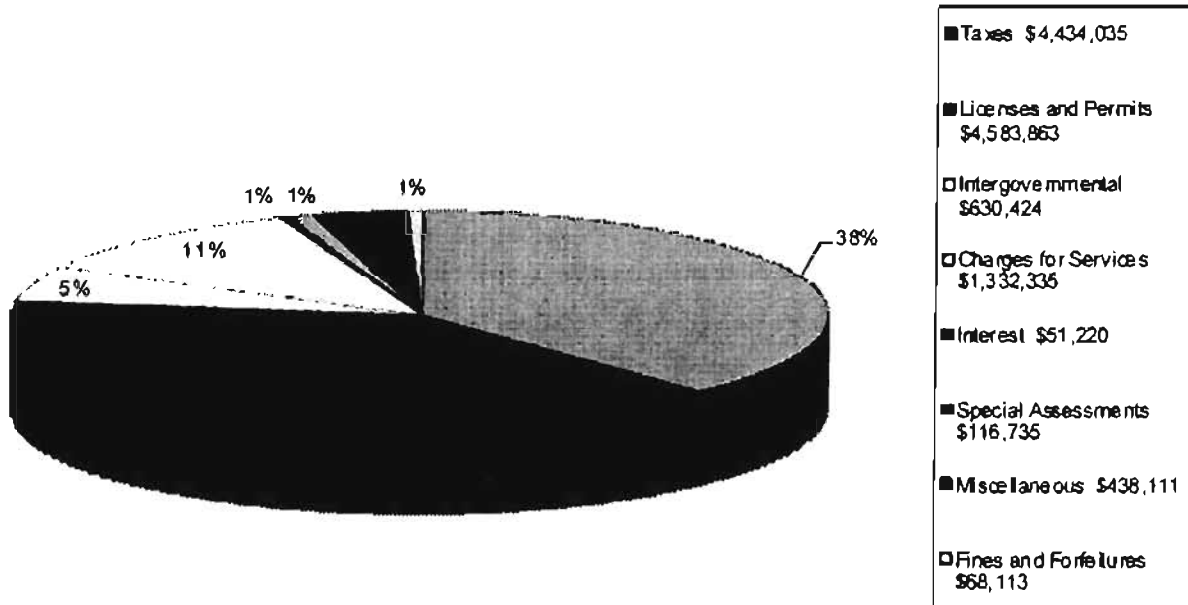
The fund balance of the City's general fund increased by \$494,003 during the current fiscal year. Key factors in this change are as follows:

Significant activity in funds other than the City's General Fund includes Special Revenue (Public Works/KDOT Fund and Central Business District Fund), Capital Projects (Tower Park Fund) and Other Governmental Funds (Cable TV and Debt Service). These funds account for the majority of non-operating activity including, but not limited to, capital infrastructure projects, special projects, debt repayment and activity that must be segregated from the General Fund. The Public Works/KDOT Special Revenue Fund included total expenditures of \$313,991 primarily representing infrastructure reinvestment such as street resurfacing, curb repair and sidewalk rehabilitation. The Capital Projects/Tower Park Fund represents activity from revenues restricted by City ordinance, earmarked for recreation and similar community projects as authorized by Council. In FY 2011 this fund incurred total expenditures of \$161,645 utilizing corresponding revenue and carry over funds from prior fiscal years. Significant activity under the Central Business District Fund included operating and capital expenditures associated with efforts to enhance business districts within the city. The primary source of revenue in this fund includes a portion of the city's occupational license fee (.25%), which totaled approximately \$450,000. Significant expenditures in this fund include capital construction activity involving streetscape improvements, and operating expenditures associated with business district revitalization programs and services. Overall activity in this fund should continue in future fiscal periods as the city focuses upon business district revitalization efforts throughout the community. Park improvement projects are paid from this fund from the proceeds of new debt.

Activity within the Debt Service Fund included total expenditures of \$654,382, representing repayment of borrowed funds associated with the CBD revitalization, purchase of a soccer facility, a gateway park, Towne Center revitalization and general obligation bonds and park improvements.

The following schedules present a summary of general, special revenue, debt service and capital projects revenues and expenditures for the fiscal year ended June 30, 2011, and the amount and percentage of increases and decreases in relation to the prior year.

2011 Revenues by Source

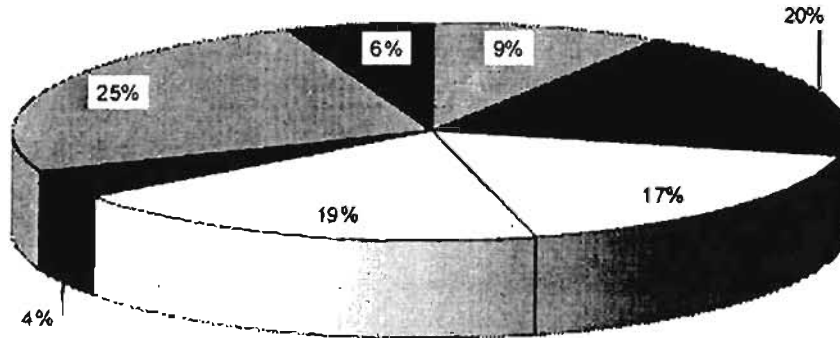


Revenues	FYE 2010 Amount	Percent of Total	Increase (Decrease) From FYE 2009
Taxes	\$ 4,434,035	38.04%	\$ 165,320
Licenses and permits	4,583,863	39.33%	208,561
Intergovernmental	630,424	5.41%	(232,591)
Charges for services	1,332,335	11.43%	57,959
Fines and forfeitures	68,113	0.58%	(17,909)
Interest	51,220	0.44%	(43,311)
Special assessments	116,735	1.00%	28,335
Miscellaneous	438,111	3.77%	175,984
Total revenues	\$ 11,654,836	100.00%	\$ 342,348

The increase in taxes is primarily due to the increase in property taxes.

The increase in licenses and permits is the result of an increase in revenue from occupational net profits fees and payroll taxes. Revenue from this source is difficult to predict, and as such, can fluctuate widely from year to year.

2011 Expenditures by Function



General Government	\$1,348,854
Police	\$2,890,454
Fire	\$2,567,450
General Services	\$2,800,298
Recreation	\$632,166
Capital Outlay	\$3,727,009
Debt service	\$846,348

Expenditures	FYE 2011 Amount	Percent of Total	Increase (Decrease) From FYE 2010
General government	\$ 1,348,854	9.11%	\$ 208,453
Police	2,890,454	19.51%	123,921
Fire	2,567,450	17.33%	(357,784)
General services	2,800,298	18.90%	91,414
Recreation	632,166	4.27%	23,819
Capital outlay	3,727,009	25.16%	770,132
Debt service	846,348	5.71%	427,403
Total expenditures	\$ 14,812,579	100.00%	\$ 1,285,358

Police and Fire had noticeable increases in required state pension contributions. Fire had a one-time prior year pass-through expenditure of \$328,945 not included in the current year. Capital outlay increased due to ongoing park renovation projects. Debt Service increased due to the issuance of \$6,550,000 in new debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the budget one time. The budget amendment was to change revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the year.

The Fiscal year 2010-2011 budget relied on the anticipation of moderate increases in property and payroll taxes and licenses and fees. Actual revenue categories were more than budgeted amounts by \$466,249, primarily due to lease proceeds received in the current year. In addition, actual expenditures were under budgeted appropriations, by \$199,819.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$8,144,696 in outstanding notes and capital leases compared to \$2,162,698 last year. The increase is the result of \$6,550,000 in new capital leases.

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
General Obligation Bonds	\$ 250,000	\$ 375,000
Capital lease and general obligations (backed by city)	7,894,696	1,787,698
Totals	<u>\$ 8,144,696</u>	<u>\$ 2,162,698</u>

Capital Assets

At the end of June 30, 2011, the City had \$27,284,071 invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$3,479,104. The increase is attributable to 2011 capital additions, including construction in process. The major increases were park renovations.

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Land	\$ 913,515	\$ 913,535
Construction Progress	3,040,450	2,090,938
Buildings	2,945,534	2,945,534
Improvements/Infrastructure	15,918,947	13,535,524
Equipment	2,067,101	2,048,999
Vehicles	2,398,504	2,270,437
TOTALS	<u>\$ 27,284,051</u>	<u>\$ 23,804,967</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In summary, the fiscal year 2011 budget proved adequate to continue the delivery of high quality public services in a manner consistent with previous levels. This audit report affirms strong overall financial performance for the City during this fiscal period with minimal growth in major revenue sources and aggressive control and management of operating expenditures. The current fiscal year 2012 operating budget is tight in terms of revenue forecasts and expenditure projections, providing limited flexibility to address unanticipated needs and activities that may occur. However, the city's conservative fiscal practice of maintaining adequate reserves (both restricted and unrestricted) that would be available to address emergencies has been continued, and in fact improved during the last year. Discretionary funds, while limited, are appropriated to reflect clear policy initiatives approved by council including central business district (CBD) revitalization, infrastructure reinvestment and retention of a quality municipal workforce.

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 the City Administrator's Office at 130 N. Ft. Thomas, Ft. Thomas, Kentucky.

BASIC FINANCIAL STATEMENTS

CITY OF FT. THOMAS, KENTUCKY**Statement of Net Assets**

June 30, 2011

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 12,079,698
Receivables:	
Taxes	122,202
Governmental units	56,543
Assessments	34,395
Accounts	1,102,659
Accrued interest	4,010
Prepays	265,179
Deferred expense	291,342
Capital assets not being depreciated	3,953,985
Capital assets, net of accumulated depreciation	<u>11,535,181</u>
Total assets	<u>29,445,194</u>
LIABILITIES	
Accounts payable	\$ 1,083,093
Accrued liabilities	311,117
Accrued interest payable	82,730
Deferred revenue	15,569
Noncurrent liabilities:	
Compensated absences	293,034
Due within one year	526,323
Due in more than one year	<u>7,618,373</u>
Total liabilities	<u>9,930,239</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,344,470
Restricted for:	
Debt service	306,137
Capital	1,814,389
Unrestricted	<u>10,049,959</u>
Total net assets	<u>\$ 19,514,955</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FT. THOMAS, KENTUCKY
STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,418,181	\$ 215,216	\$ -	-	\$ (1,202,965)
Police	2,945,272	-	105,657	-	(2,839,615)
Fire	2,688,385	299,806	89,334	-	(2,299,245)
General services	3,332,021	1,021,218	1,600	424,833	(1,884,370)
Recreation and property management	666,594	102,660	9,000	-	(554,934)
Interest and other costs on long-term debt	175,618	-	-	-	(175,618)
Total governmental activities	<u>11,226,071</u>	<u>1,638,900</u>	<u>205,591</u>	<u>424,833</u>	<u>(8,956,747)</u>
Total primary government	\$ <u>11,226,071</u>	\$ <u>1,638,900</u>	\$ <u>205,591</u>	\$ <u>424,833</u>	\$ <u>(8,956,747)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					3,974,590
Taxes, levied for bank deposits					53,007
Motor vehicle taxes					375,835
Licenses and permits					4,583,863
Interest					51,220
Miscellaneous					316,394
Total general revenues and special items					<u>9,354,909</u>
Change in net assets					398,162
Net assets-beginning					19,116,793
Net assets-ending					\$ <u>19,514,955</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FT. THOMAS, KENTUCKY

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

	General	Public Works/ KDOT	Central Business District	Tower Park	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 7,429,746	\$ 741,014	\$ 2,855,038	\$ 670,168	\$ 383,732	\$ 12,079,698
Receivables:						
Taxes	117,936	4,266	-	-	-	122,202
Governmental units	22,029	34,514	-	-	-	56,543
Assessments	-	20,542	13,853	-	-	34,395
Accounts	1,091,984	-	-	-	10,675	1,102,659
Accrued interest	4,010	-	-	-	-	4,010
Prepays	263,945	-	1,234	-	-	265,179
Due from other funds	900,000	154,558	86,640	-	-	1,141,198
Total assets	\$ 9,829,650	\$ 954,894	\$ 2,956,765	\$ 670,168	\$ 394,407	\$ 14,805,884
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 321,542	\$ 7,396	\$ 672,961	\$ 13,271	\$ 67,923	\$ 1,083,093
Accrued liabilities	309,683	-	1,434	-	-	311,117
Deferred revenue	98,555	20,542	13,853	-	9,013	141,963
Due to other funds	236,640	-	904,558	-	-	1,141,198
Total liabilities	966,420	27,938	1,592,806	13,271	76,936	2,677,371
Fund balances:						
Nonspendable - prepaids	263,945	-	1,234	-	-	265,179
Restricted-capital projects	-	926,956	-	-	-	926,956
Committed to - capital projects	-	-	1,362,725	-	-	1,362,725
Assigned to - capital projects	-	-	-	656,897	-	656,897
- waste	-	-	-	-	11,334	11,334
- debt service	-	-	-	-	306,137	306,137
Unassigned	8,599,285	-	-	-	-	8,599,285
Total fund balances	8,863,230	926,956	1,363,959	656,897	317,471	12,128,513
Total liabilities and fund balances	\$ 9,829,650	\$ 954,894	\$ 2,956,765	\$ 670,168	\$ 394,407	\$ 14,805,884
Total governmental fund balances						\$ 12,128,513
Amounts reported for governmental activities in the statement of net assets 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 \$11,794,905						15,489,166
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.						126,394
Costs of issuance of debt, including discounts and premiums, are expensed currently for government funds and are carried as deferred expense in the statement of net assets						291,342
Accrual interest payable on long-term debt						(82,730)
Long-term liabilities, including notes payable, are not due and payable in current period and therefore are not reported in the funds:						
Accrued absences payable						(293,034)
Bonds and leases payable						(8,144,696)
Net assets of governmental activities						\$ 19,514,955

The notes to the financial statements are an integral part of this statement.

CITY OF FT. THOMAS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	Public Works/ KDOT	Central Business District	Tower Park	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 4,358,859	\$ 75,176	\$ -	\$ -	\$ -	\$ 4,434,035
Licenses and permits	4,583,863	-	-	-	-	4,583,863
Intergovernmental	235,991	377,833	1,600	15,000	-	630,424
Charges for services	552,330	-	-	-	780,005	1,332,335
Uses of property	121,717	-	-	-	-	121,717
Fines and forfeitures	68,113	-	-	-	-	68,113
Interest	48,298	1,887	686	344	5	51,220
Special assessments	-	89,323	27,412	-	-	116,735
Miscellaneous	217,263	-	45,785	53,346	-	316,394
Total revenues	10,186,434	544,219	75,483	68,690	780,010	11,654,836
EXPENDITURES						
Current:						
General government	1,343,053	-	-	-	5,801	1,348,854
Police	2,890,454	-	-	-	-	2,890,454
Fire	2,567,450	-	-	-	-	2,567,450
General services	1,816,245	2,543	164,211	31,382	785,917	2,800,298
Recreation and property mgt.	632,166	-	-	-	-	632,166
Capital outlay	394,091	311,448	2,891,207	130,263	-	3,727,009
Debt service:						
Principal	-	-	-	-	568,002	568,002
Interest	143	-	-	-	86,380	86,523
Bond issuance costs	-	-	191,823	-	-	191,823
Total expenditures	9,643,602	313,991	3,247,241	161,645	1,446,100	14,812,579
Excess(deficiency) of revenues over(under) expenditures	542,832	230,228	(3,171,758)	(92,955)	(666,090)	(3,157,743)
OTHER FINANCING SOURCES(USES)						
Bonds issued	325,000	-	6,225,000	-	-	6,550,000
Bond discounts	-	-	(71,317)	-	-	(71,317)
Transfers in	258,852	-	450,956	-	814,917	1,524,725
Transfers out	(632,681)	-	(620,891)	(12,301)	(258,852)	(1,524,725)
Total other financing sources and uses	(48,829)	-	5,983,748	(12,301)	556,065	6,478,683
Net change in fund balances	494,003	230,228	2,811,990	(105,256)	(110,025)	3,320,940
Fund balances - beginning	8,369,227	696,728	(1,448,031)	762,153	427,496	8,807,573
Fund balances - ending	\$ 8,863,230	\$ 926,956	\$ 1,363,959	\$ 656,897	\$ 317,471	\$ 12,128,513

The notes to the financial statements are an integral part of this statement.

CITY OF FT. THOMAS, 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, 2011

Net change in fund balances-total governmental funds \$ 3,320,940

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital asset purchases capitalized	3,727,026
Depreciation expense	(792,077)

The effect of disposition of capital assets is a decrease to net assets	(33,135)
---	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(30,603)
--	----------

Government funds report the effect of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	250,650
---	---------

Accrued interest on long-term debt is reported in the government wide financial statements and not in governmental funds.	(76,605)
---	----------

Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of debt principal payments.	568,002
---	---------

Lease proceeds are a revenue in the governmental funds, but increase long-term liabilities in the statement of net assets.	(6,550,000)
--	-------------

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 governmental funds.	13,964
---	--------

Change in net assets of governmental activities	\$ <u>398,162</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF FT. THOMAS, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2011

	Police and Firemen's Pension Plan
ASSETS	
Cash and cash equivalents	\$ 18,181
Investments	189,868
Accrued interest receivable	163
Prepaid expenses	1,871
Total assets	<u>210,083</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits	<u>210,083</u>
Total net assets	<u>\$ 210,083</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FT. THOMAS, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the Year Ended June 30, 2011

	Police and Firemen's Pension Plan
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 4,132
Net increase(decrease) in the fair value of investments	30,732
Total investment earnings	34,864
Miscellaneous	
Total additions (reductions)	34,864
DEDUCTIONS	
Benefits paid	33,377
Administrative expense	1,774
Total deductions	35,151
CHANGE IN NET ASSETS	(287)
NET ASSETS-BEGINNING OF YEAR	210,370
NET ASSETS END OF YEAR	\$ 210,083

The notes to the financial statements are an integral part of this statement.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Ft. Thomas, 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.

Financial Reporting Entity

The City of Ft. Thomas is a municipality governed by a mayor and six-member council. As required by generally accepted accounting principles, these financial statements present the government and its component unit entities for which the government is considered to be financially accountable. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards.

Blended Component Units

Blended components units, although legally separate entities, are, in substance, part of government's operations and so data from these units are combined with data of the primary government. Each blended component unit of the City has a June 30 year end. The component units discussed below are included in the City's reporting entity because of the significance of their operational and/or financial relationship with the City.

Included within the reporting entity:

City of Fort Thomas Police and Firemen's Pension Fund

All public safety employees who retired prior to February 1, 1988 participate in the Police and Firemen's Pension Fund. The fund functions for the benefit of the retirees and is governed by a five member board of trustees, the mayor, a member of the legislative body, the finance director and two public safety retirees. The City is obligated to fund all costs based upon actuarial valuations.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund 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 support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment 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.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 an other 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.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue 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 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.

The government reports the following funds of the financial reporting entity:

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.

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

The capital project funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities.

The debt service fund accounts for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the City.

The fiduciary fund is used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds in the City. These funds are not presented in the government-wide financial statements.

Assets, liabilities and net assets or equity

Cash and Cash Equivalents

Cash and cash equivalents including 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.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 deposit
3. Bankers' acceptances
4. Commercial paper.
5. Bonds of this state or local governments.
6. Mutual funds.

Property Tax Receivable

Property taxes are levied as of July 1 on property values assessed on January 1. The taxes are billed on approximately October 1 and are due and payable on October 31. On November 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on November 1. Property tax rates for the year ended June 30, 2011 were \$.334 per \$100 valuation for real and personal property. The assessed value of property on which 2010 was based was \$1,132,269,430.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

Capital Assets

Capital assets are reported in the governmental activities column of the government-wide statement of net assets.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. 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 (recorded and accounted for) in the government-wide financial statements. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Prior to July 1, 2000, governmental funds infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical 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 fixed asset class are as follows:

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Buildings	40 years
Building Improvements	10-20 years
Public Domain Infrastructure	20-30 years
Vehicles	5 years
Office Equipment	3-5 years

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick pay benefits. There is a liability for unpaid accumulated sick leave since the government does have a policy to pay amounts when employees separate from service with the government. There is also a liability for vacation pay that has been approved for carryover by the City's Administrative Officer. The total liability for these types of compensated absences is reported in the government-wide financial statements.

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 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 assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Fund Equity

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

In the fund financial statements, government funds report components of fund balance for amounts that are nonspendable, restricted, committed, assigned or unassigned:

Nonspendable fund balances arise when resources cannot be spent because of their form and because resources must be maintained intact.

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

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Committed fund balances are those that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the Council, The Council must approve the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance is the residual classification for the general fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

Restricted, committed and assigned amounts can only be used when expenditures for the amounts set aside for that specific purpose are incurred. Otherwise, the unassigned fund balance amount will be used.

Revenues, Expenditures and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses net related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, governmental funds are classified as follows:

Governmental funds – by character	Current-further classified by function
	Debt service
	Capital outlay

Proprietary fund – by operating and non-operating

In the fund financial statements governmental funds report expenditures of financial resources. Proprietary funds report expenses related to use of economic resources.

Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/ expenses in the fund that is reimbursed.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Restricted Revenues

When there are restricted and unrestricted revenues in a program, the City's policy is that the restricted revenues are expended first.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

Date of Management's Review

Subsequent events were evaluated through January 10, 2012, which is the date the financial statements were available for review.

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 31, the Mayor submits to the 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. By July 1, the budget is legally enacted through passage of an ordinance.
- D. The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- E. Appropriations continue in effect until a new budget is adopted.
- F. The Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Council; however, with proper approval by the Council, budgetary transfers between departments can be made. The Council adopted one supplementary appropriation ordinances. All appropriations lapse at fiscal year end.

NOTE C-DEPOSITS

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. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on de-

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

posit at all times. As of June 30, 2011, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District's behalf and the FDIC insurance, as required by state legal requirements.

As of June 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Fixed income mutual funds	\$ 34,849
Equity mutual funds	137,373
Alternative assets	17,646
	<u>\$ 189,868</u>

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had custodial credit risk at June 30, 2011 of \$189,868. The related securities totaling this amount are uninsured, unregistered and held by a bank trust department.

The City has an investment policy for public funds. The above funds are funds the City holds in trust, which are subject to policy mandated by Kentucky statute which allows trust funds to be invested in securities which would be regarded by a prudent businessman as a safe investment.

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements/ Deletions</u>	<u>Balance June 30, 2011</u>
Governmental activities:				
Not being depreciated:				
Land	\$ 913,535	\$ -	\$ -	\$ 913,535
Construction in progress	2,090,938	2,763,737	(1,814,225)	3,040,450
Subtotal	<u>3,004,473</u>	<u>2,763,737</u>	<u>(1,814,225)</u>	<u>3,953,985</u>
Other capital assets:				
Buildings	2,945,534	-	-	2,945,534
Improvements/infrastructure	13,535,524	2,383,423	-	15,918,947
Equipment	2,048,999	18,102	-	2,067,101
Vehicles	2,270,437	375,989	(247,922)	2,398,504
Subtotal	<u>20,800,494</u>	<u>2,777,514</u>	<u>(247,922)</u>	<u>23,330,086</u>
Accumulated depreciation:				
Buildings	1,215,494	88,119	-	1,303,613
Improvements/infrastructure	6,628,113	465,052	-	7,093,165
Equipment	1,557,047	120,216	-	1,677,263
Vehicles	1,816,961	118,690	(214,787)	1,720,864
Subtotal	<u>11,217,615</u>	<u>792,077</u>	<u>(214,787)</u>	<u>11,794,905</u>
Net other assets	<u>9,582,879</u>	<u>1,985,437</u>	<u>(33,135)</u>	<u>11,535,181</u>
Net capital assets	<u>\$ 12,587,352</u>	<u>\$ 4,749,174</u>	<u>\$ (1,847,360)</u>	<u>\$ 15,489,166</u>

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

*Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 83,291
Police	54,818
Fire	87,800
General services	531,740
Recreation	34,428
Total governmental activities depreciation expense	<u>\$ 792,077</u>

NOTE E-LONG-TERM DEBT

Bonds Payable

The City issued general obligation public project bonds in June 2003 in the amount of \$1,810,000. The interest rate is 2.15%. The bonds mature over the period May 2004 through May 2013. These Bonds are payable from general revenue of the City.

The following is a schedule of future debt service requirements to maturity at June 30, 2011:

Year Ended June 30,	Principal	Interest
2012	\$ 125,000	\$ 5,375
2013	125,000	2,688
Total debt service payments	<u>\$ 250,000</u>	<u>\$ 8,063</u>

Capital Leases Payable

The capital leases payable, long-term debt are payable from general revenues of the City.

Long-term debt outstanding at June 30, 2011 for the capital leases, consisted of the following:

Capital Lease – Soccer Field

The City purchased a soccer field in the fiscal year ended June 30, 2002 and recorded it as a capital asset in the amount of \$103,125. In the year ended June 30, 2003, the City financed the approximate cost of the soccer field through a capital lease with a bank for \$104,000 at an initial interest rate of 3.32%, to be adjusted each August 1 based on 70% of the bank's prime rate. The rate the bank was charging at June 30, 2011 was 3.325%. The lease was scheduled to mature in May 2012, but the City made additional principal payments in fiscal year 2003 and the debt has matured in fiscal year 2011.

<p>CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2011</p>

Capital Lease Payable-Real Estate

The City entered into a capital lease agreement on June 29, 2001 with Bank of Kentucky to finance the purchase of certain real estate. The lease payable is for a period of twenty years at a rate of 4.80%. Annual debt service payment requirements to maturity are as follows:

Year Ending June 30,	Amount
2012	\$ 15,820
2013	15,820
2014	15,820
2015	15,820
2016	15,820
Thereafter	<u>76,958</u>
Subtotal	156,058
Less: interest	<u>(31,950)</u>
TOTAL	<u>\$ 124,108</u>

Capital Lease Payable-Acquisition and Installation of Street Improvements

The City entered into a \$765,000 capital lease agreement on August 5, 2004 with the Kentucky League of Cities Funding Trust to finance portions of the central business district redevelopment. The lease payable is for a period of ten years and was refinanced March, 2006 to a fixed interest rate of 3.97%. Annual debt service payment requirements to maturity are as follows:

Year Ending June 30,	Amount
2012	\$ 85,708
2013	82,140
2014	78,573
2015	<u>64,596</u>
Subtotal	311,017
Less: interest	<u>(21,693)</u>
TOTAL	<u>\$ 289,324</u>

Capital Lease Payable - Towne Center

The City entered into a \$750,000 capital lease agreement on January 8, 2007 with the Kentucky League of Cities Funding Trust to finance the capital construction of the Towne Center development. The lease payable is for a period of ten years with a total interest and fee cost of from 2.40% to 3.31% during fiscal year 2011.

CITY OF FT. THOMAS, KENTUCKY**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30		Amount
2012	\$	93,762
2013		93,763
2014		93,762
2015		93,763
2016		93,763
Thereafter		62,508
Subtotal		531,321
Less: interest		(69,055)
Total	\$	462,266

Capital Lease Payable – City Building Renovations

The City entered into a \$820,000 capital lease agreement on June 8, 2009 with the Kentucky League of Cities Funding Trust to finance the capital construction of renovations to the City's government building. The lease payable is for a period of ten years with a total interest and fee cost of 2.40% to 3.31% during fiscal year 2011.

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30		Amount
2012	\$	96,680
2013		96,680
2014		96,680
2015		96,680
2016		96,680
Thereafter		281,985
Subtotal		765,385
Less: interest		(91,387)
Total	\$	673,998

Capital Lease Payable – Midway Streetscape

The City entered into a \$2,290,000 capital lease agreement on August 25, 2010 with the Kentucky Bond Corporation to finance the Midway Streetscape project. The lease payable is for a period of twenty years with interest rates from 1.00% to 4.00%.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Amount
2012	\$ 228,563
2013	229,850
2014	226,025
2015	227,200
2016	158,263
2017-2021	793,400
2022-2026	657,550
2027-2030	140,400
Subtotal	<u>2,661,251</u>
Less: interest	(576,251)
Total	<u>\$ 2,085,000</u>

Capital Lease Payable – Parks

The City entered into a \$4,260,000 capital lease agreement on April 14, 2011 with the Kentucky Bond Corporation to finance the Parks rehabilitation project. The lease payable is for a period of twenty-five years with interest rates from 3.00% to 5.75%.

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Amount
2012	\$ 186,502
2013	233,825
2014	233,825
2015	233,825
2016	298,825
2017-2021	1,493,987
2022-2026	1,632,675
2027-2031	2,143,750
2031-2035	2,281,350
Subtotal	<u>8,738,564</u>
Less: interest	(4,478,564)
Total	<u>\$ 4,260,000</u>

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	June 30, 2010	Additions	Retirements	June 30, 2011	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 375,000	\$ -	\$ 125,000	\$ 250,000	\$ 125,000
Lease payable-real estate	133,441	-	9,333	124,108	9,796
Lease payable-soccer field	9,721	-	9,721	-	-
Lease payable-CBD improvements	364,324	-	75,000	289,324	75,000
Lease payable - Towne Center	532,320	-	70,054	462,266	73,239
Lease payable - renovations	747,892	-	73,894	673,998	76,205
Lease payable - Midway	-	2,290,000	205,000	2,085,000	167,083
Lease payable - Parks	-	4,260,000	-	4,260,000	-
Compensated absences	306,998	-	13,964	293,034	-
Totals	<u>\$ 2,469,696</u>	<u>\$ 6,550,000</u>	<u>\$ 581,966</u>	<u>\$ 8,437,730</u>	<u>\$ 526,323</u>

NOTE F-CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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.

NOTE G-EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

Non-hazardous Contributions - For the year ended June 30, 2011, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2011 was 16.93% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings. New employees, after August 31, 2008 pay an additional 1% contribution.

Hazardous Contributions - For the year ended June 30, 2011, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 33.25% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2011 was 33.25% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings. New employees after August 31, 2008 pay an additional 1% contribution.

The required contribution and the actual percentage contributed for the City the current and previous two years are as follows:

<u>Year</u>		<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$	1,336,556	100%
2010	\$	1,268,057	100%
2009	\$	1,117,840	100%

Medical Insurance Plan

The CERS provides post retirement healthcare benefits to eligible members and dependents, under cost sharing multiple employer defined benefit plans. Medical benefits are offered to members who have retired for service or disability. The post-retirement healthcare is financed through member and employer contributions.

Deferred Compensation Plans

There is a deferred compensation plan available to full-time, non-hazardous, non-union employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable financial emergency. The City matches the employee contribution up to a maximum of 3% of gross wages, which was \$32,035 for the year ended June 30, 2011. The deferred compensation plan is administered by the Kentucky Deferred Compensation Authority.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE H-EMPLOYEE RETIREMENT SYSTEM

Police and Firemen's Pension Plan

Plan Description

The City maintains one single employer defined benefit pension plan, the Police and Firemen's Pension Plan.

The plan is reported as a Pension Trust Fund in the City's combined financial statements. The Police and Firemen's Pension Plan covers all retired police and firemen who were receiving benefits prior to February 1, 1988.

No current or future employees are eligible to participate in the plan. Members were vested upon completion of 20 years of service. An employee was eligible for retirement at age 50 with 20 or more years of service subject to approval by the pension board. The Plan provides retirement and death benefits.

Funding Status and Progress

Presented below are the total pension benefit obligations of the plan. The standardized measurement is the actuarial present value of credit projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date.

Because the standardized measure is used only for disclosure purposes by the plan, the measurement is independent of the actuarial computation made to determine contributions to the Plan. The actuarial funding method used to determine contributions to the Plan is explained below.

The pension information summarized below is from the latest available Actuarial Valuation Reports. The pension benefit obligation is calculated assuming a 5% investment rate of return, normal assumed retirement age. The Entry Age Normal cost method was used. The balance of the present value of future benefits is then funded as a level percentage of future normal cost. The asset valuation method is fair market value.

	Police and Firemen's		
	<u>6/30/2010</u>	<u>06/30/2007</u>	<u>06/30/2004</u>
PENSION BENEFIT OBLIGATION:			
Retirees and beneficiaries currently receiving benefits	\$ 318,421	\$ 591,711	\$ 655,051
TOTAL PENSION BENEFIT OBLIGATION	<u>318,421</u>	<u>591,711</u>	<u>655,051</u>
NET ASSETS AVAILABLE FOR BENEFITS, AT CURRENT VALUE	<u>209,259</u>	<u>394,139</u>	<u>570,290</u>
EXCESS (DEFICIENCY) OF ASSETS OVER PENSION BENEFIT OBLIGATION	\$ <u>(109,162)</u>	\$ <u>(197,572)</u>	\$ <u>(84,761)</u>
FUNDED RATIO	65.5%	66.6%	87.1%

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the pension benefit obligation occurred during 2011. There were no past service contributions made for the past three years. Four pensioners have passed away recently which will significantly reduce the benefit obligations in future years.

Trend Information

Three year historical trend information is disclosed in separately issued reports of the pension plans.

NOTE I-CONTINGENT LIABILITIES

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.

The Kentucky Court of Appeals upheld a lower court ruling that affects overtime calculations for firefighters who receive incentive pay from the state. It is deemed likely that the City will owe back pay for the five year statute of limitations period. It is estimated that the City's obligation is \$133,000. Due to the more than likely event of \$133,000 back pay, the City has accrued a \$133,000 liability at June 30, 2011.

NOTE J-RISK MANAGEMENT

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

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2011, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE K-COMMITMENTS

The following projects were in process and had remaining project balance commitments at June 30, 2011.

Tower Park Project	\$	234,035
Rosford Park Project		969,073
	\$	<u>1,203,108</u>

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE L – INTERFUND BALANCES AND TRANSFERS

The General Fund records a \$900,000 receivable from the Central Business District Fund for funds advanced for construction projects and records \$241,198 due to the Public Works/KDOT and Central Business District funds for past costs incurred by those funds for the General Fund.

The General Fund (\$181,725), Central Business District Fund (\$620,891) and Tower Park Fund (\$12,301) transferred \$514,535 to the Debt Service Fund for payment of the City's debt. The General Fund transferred \$450,956 to the Central Business District Fund representing a .25 percent tax collected by the General Fund on behalf of the CBD.

The Cable TV Fund transferred \$258,852 to the General Fund, which closed the Fund.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 3,011,718	\$ 3,011,718	\$ 8,369,227	\$ 5,357,509
Resources (inflows):				
Taxes	4,312,909	4,312,909	4,358,859	45,950
Licenses and permits	4,317,392	4,317,392	4,583,863	266,471
Intergovernmental	176,660	186,465	235,991	49,526
Uses of property	-	-	121,717	121,717
Fines and forfeitures	63,900	63,900	68,113	4,213
Charges for services	582,584	582,584	552,330	(30,254)
Interest	200,355	200,355	48,298	(152,057)
Lease proceeds	-	325,000	325,000	-
Miscellaneous	56,580	56,580	217,263	160,683
Transfer in	345,000	345,000	258,852	(86,148)
Amounts available for appropriation	<u>13,067,098</u>	<u>13,401,903</u>	<u>19,139,513</u>	<u>5,737,610</u>
Charges to appropriations (outflows):				
General government	1,180,613	1,240,613	1,343,053	(102,440)
Police	3,046,135	3,055,940	2,890,454	165,486
Fire	2,596,455	2,826,455	2,567,450	259,005
General services	2,118,571	2,263,571	1,816,245	447,326
Recreation and property management	456,842	456,842	632,166	(175,324)
Capital outlay	-	-	394,091	(394,091)
Debt services	-	-	143	(143)
Transfers out	562,681	632,681	632,681	-
Total charges to appropriations	<u>9,961,297</u>	<u>10,476,102</u>	<u>10,276,283</u>	<u>199,819</u>
Budgetary fund balance, June 30	\$ <u>3,105,801</u>	\$ <u>2,925,801</u>	\$ <u>8,863,230</u>	\$ <u>5,937,429</u>

NOTE: The City budgets its beginning fund balance at July 1, 2010 at its undesignated funds level; whereas the actual fund balance at July 1, 2010 represents all General Fund amounts.

Capital outlay expenditures are budgeted in the respective departments.

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL-PUBLIC WORKS/KDOT FUND

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 465,974	\$ 465,974	\$ 696,728	\$ 230,754
Resources (inflows):				
Taxes	75,200	75,200	75,176	(24)
Intergovernmental	280,000	280,000	377,833	97,833
Interest	500	500	1,887	1,387
Special assessments	51,000	51,000	89,323	38,323
Miscellaneous	5,000	5,000	-	(5,000)
Transfers	-	-	-	-
Amounts available for appropriation	<u>877,674</u>	<u>877,674</u>	<u>1,240,947</u>	<u>363,273</u>
Charges to appropriations (outflows):				
Current:				
General services	-	-	2,543	(2,543)
Capital outlay:				
Street and sidewalk projects	403,000	403,000	311,448	91,552
Transfers to other funds	-	-	-	-
Total	<u>403,000</u>	<u>403,000</u>	<u>313,991</u>	<u>89,009</u>
Budgetary fund balances, June 30	\$ <u>474,674</u>	\$ <u>474,674</u>	\$ <u>926,956</u>	\$ <u>452,282</u>

CITY OF FT. THOMAS, KENTUCKY

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL-CENTRAL BUSINESS DISTRICT**

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 690,296	\$ (1,448,031)	\$ (1,448,031)	\$ -
Resources (inflows):				
Intergovernmental	-	-	1,600	1,600
Special assessments	-	-	27,412	27,412
Interest	500	500	686	186
Miscellaneous	12,500	12,500	45,785	33,285
Lease Proceeds	-	4,400,000	5,961,860	1,561,860
Transfers from other funds	450,956	450,956	450,956	-
Amounts available for appropriation	<u>1,154,252</u>	<u>3,415,925</u>	<u>5,040,268</u>	<u>1,624,343</u>
Charges to appropriations (outflows):				
Current:				
General government	-	-	-	-
General services	142,600	142,600	164,211	(21,611)
Capital outlay	159,204	3,159,204	2,891,207	267,997
Transfers to other funds	495,891	620,891	620,891	-
Total	<u>797,695</u>	<u>3,922,695</u>	<u>3,676,309</u>	<u>246,386</u>
Budgetary fund balances, June 30	\$ <u>356,557</u>	\$ <u>(506,770)</u>	\$ <u>1,363,959</u>	\$ <u>1,870,729</u>

SUPPLEMENTARY INFORMATION

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL-TOWER PARK FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 783,651	\$ 783,651	\$ 762,153	\$ (21,498)
Resources (inflows):				
Intergovernmental	-	-	15,000	15,000
Interest	5,000	5,000	344	(4,656)
Miscellaneous	75,000	75,000	53,346	(21,654)
Transfers in from other funds	-	-	-	-
Amounts available for appropriation	<u>863,651</u>	<u>863,651</u>	<u>830,843</u>	<u>(32,808)</u>
Charges to appropriations (outflows):				
General services	15,800	15,800	31,382	(15,582)
Capital outlay	216,500	216,500	130,263	86,237
Transfers to other funds	12,301	12,301	12,301	-
Total	<u>244,601</u>	<u>244,601</u>	<u>173,946</u>	<u>70,655</u>
Budgetary fund balances, June 30	<u>\$ 619,050</u>	<u>\$ 619,050</u>	<u>\$ 656,897</u>	<u>\$ 37,847</u>

**CITY OF FT. THOMAS, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2011**

	Special Revenue			Total Nonmajor Governmental Funds
	Waste Fee	Cable TV	Debt Service	
ASSETS				
Cash and cash equivalents	\$ 75,361	\$ -	\$ 308,371	\$ 383,732
Accounts receivable	10,675	-	-	10,675
Prepays	-	-	-	-
Total assets	\$ 86,036	\$ -	\$ 308,371	\$ 394,407
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 65,689	\$ -	\$ 2,234	\$ 67,923
Due to other funds	-	-	-	-
Deferred revenues	9,013	-	-	9,013
Total liabilities	74,702	-	2,234	76,936
Fund balances:				
Assigned to:				
Debt service	-	-	306,137	306,137
Waste	11,334	-	-	11,334
Total fund balances	11,334	-	306,137	317,471
Total liabilities and fund balances	\$ 86,036	\$ -	\$ 308,371	\$ 394,407

CITY OF FT. THOMAS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS

For The Year Ended June 30, 2011

	Special Revenue				Total Nonmajor Governmental Funds
	Waste Fee	Cable TV	Debt Service		
REVENUES					
Licenses and permits	\$ -	\$ -	\$ -	\$ -	-
Intergovernmental	-	-	-	-	-
Charges for services	780,005	-	-	-	780,005
Interest	-	-	5	-	5
Total revenues	<u>780,005</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>780,010</u>
EXPENDITURES					
Current:					
General government	-	5,801	-	-	5,801
General services	785,917	-	-	-	785,917
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	568,002	-	568,002
Interest	-	-	86,380	-	86,380
Total expenditures	<u>785,917</u>	<u>5,801</u>	<u>654,382</u>	<u>-</u>	<u>1,446,100</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,912)</u>	<u>(5,801)</u>	<u>(654,377)</u>	<u>-</u>	<u>(666,090)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	814,917	-	814,917
Transfers out	-	(258,852)	-	-	(258,852)
Total other financing sources and uses	<u>-</u>	<u>(258,852)</u>	<u>814,917</u>	<u>-</u>	<u>556,065</u>
Net change in fund balances	<u>(5,912)</u>	<u>(264,653)</u>	<u>160,540</u>	<u>-</u>	<u>(110,025)</u>
Fund balances - beginning	<u>17,246</u>	<u>264,653</u>	<u>145,597</u>	<u>-</u>	<u>427,496</u>
Fund balances - ending	<u>\$ 11,334</u>	<u>\$ -</u>	<u>\$ 306,137</u>	<u>\$ -</u>	<u>\$ 317,471</u>



**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 Mayor and Council
City of Fort Thomas, Kentucky**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fort Thomas, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 10, 2012. 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 audit, we considered the City of Fort Thomas, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fort Thomas, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fort Thomas, Kentucky's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fort Thomas, 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 one instance of noncompliance that is required to be reported under Government Auditing Standards. In the governmental funds, several line item expenditure amounts exceed the budget.

This report is intended solely for the information and use of the finance committee, management, others within the organization, Mayor and Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company".

**Ft. Wright, Kentucky
January 10, 2012**

