

CITY OF FT. THOMAS, KENTUCKY

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

**To the Mayor and Council
City of Ft. Thomas, Kentucky**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ft. Thomas, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Ft. Thomas, Kentucky, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-10 and 34-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ft. Thomas, Kentucky's basic financial statements. The combining and individual budget and actual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual budget and actual 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 basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual budget and actual nonmajor fund financial statements are fairly stated in all material respect in relation to the basic financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014, on our consideration of the City of Ft. Thomas, 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 the City of Ft. Thomas, Kentucky's internal control over financial reporting and compliance.

RANKIN, RANKIN, & COMPANY

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

**Ft. Wright, Kentucky
February 7, 2014**

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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, 2013.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$21,148,917 (net position).

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$11,493,131. This total represents an increase of \$667,630 in comparison to the prior fiscal year. The increase was primarily attributable to revenues exceeding the budget.

At the end of the current fiscal year, total fund balance for the general fund was \$9,780,408, a \$368,409 increase over the prior fiscal year.

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 position 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 \$21,148,917 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, 2013 and 2012, net assets changed as follows:

	Governmental Activities	
	2013	2012
Current and other assets	\$ 11,970,451	\$ 11,592,500
Capital assets, net	16,822,803	17,278,029
Total assets	<u>28,793,254</u>	<u>28,870,529</u>
Deferred outflows of resources	252,276	271,402
Other liabilities	982,196	796,360
Long-term liabilities	6,914,417	7,945,430
Total liabilities	<u>7,896,613</u>	<u>8,741,790</u>
Net assets:		
Invested in capital assets, net of debt	9,741,512	9,659,821
Restricted	1,482,950	1,254,135
Unrestricted	9,924,455	9,486,185
Total net assets	\$ <u>21,148,917</u>	\$ <u>20,400,141</u>

Net assets of the City increased by \$748,776 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 \$11,493,131, an increase of \$667,630 in comparison with fiscal year FY 2011-12.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the balance of the general fund was \$9,780,408, which represents an increase of \$368,409 over fiscal year 2011-2012. 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 (Waste Fee 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 \$389,813, 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 2013, this fund incurred total expenditures of \$37,554, 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 and renovation of various City parks. The primary source of revenue in this fund includes a portion of the city’s occupational license fee (.25%), which totaled approximately \$472,000. Significant expenditures in this fund include capital construction activity involving park improvements, as well as Renaissance Board events.

Activity within the Debt Service Fund included total expenditures of \$952,217 representing repayment of borrowed funds associated with the CBD revitalization, purchase of a soccer facility, a gateway park, Towne Center revitalization, 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, 2013, and the amount and percentage of increases and decreases in relation to the prior year.

<u>Revenues</u>	FYE 2013 <u>Amount</u>	Percent of Total	Increase (Decrease) From FYE 2012
Taxes	\$ 4,807,831	39.12%	\$ 173,257
Licenses and permits	4,847,488	39.44%	1,923
Intergovernmental	710,863	5.79%	(525,224)
Charges for services	1,440,236	11.72%	(12,306)
Fines and forfeitures	83,237	0.68%	199
Interest	25,256	0.21%	(13,876)
Special assessments	99,102	0.81%	(15,855)
Miscellaneous	273,810	2.23%	44,193
Total revenues	\$ <u>12,287,823</u>	<u>100.00%</u>	\$ <u>(347,689)</u>

The increase in taxes is primarily due to the increase in property taxes. The decrease in Intergovernmental revenue is mostly due to a decrease in Federal grant funding received during fiscal year 2012-2013. A Federal grant for the purchase of a fire truck was received in fiscal year 2011-2012.

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.

Expenditures	FYE 2013 Amount	Percent of Total	Increase (Decrease) From FYE 2012
General government	\$ 1,115,114	9.62%	\$ (34,933)
Police	2,910,360	25.12%	67,656
Fire	2,707,463	23.38%	(232,710)
General services	2,773,754	23.95%	88,532
Recreation	631,095	5.45%	(207,027)
Capital outlay	582,404	5.03%	(2,066,769)
Debt service	862,493	7.45%	44,410
Total revenues	\$ <u>11,582,683</u>	<u>100.00%</u>	\$ <u>(2,340,841)</u>

Fire Department expenditures decreased due to the absence of the large grant expenditure mentioned earlier. Capital expenditures dropped off sharply due to the completion of many large projects.

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 2012-2013 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 \$339,934. In addition, actual expenditures were under budgeted appropriations, by \$12,867 for a combined increase in fund balance over the budget.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$7,081,291 in outstanding bonds and capital leases compared to \$7,618,208 last year.

	Governmental Activities	
	2013	2012
General Obligation Bonds \$	-	\$ 125,000
Capital lease and general obligations (backed by city)	7,081,291	7,493,208
Totals \$	\$ 7,081,291	\$ 7,618,208

Capital Assets

At the end of June 30, 2013, the City had \$30,181,495 invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$507,238. The major increases were street improvements.

	Governmental Activities	
	2013	2012
Land \$	1,035,535	\$ 1,035,535
Construction Progress	42,294	18,029
Buildings	2,945,534	2,945,534
Improvements/Infrastructure	20,985,943	20,562,436
Equipment	2,445,370	2,407,315
Vehicles	2,726,819	2,705,408
TOTALS \$	\$ 30,181,495	\$ 29,674,257

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In summary, the fiscal year 2013 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 2014 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 Position**

June 30, 2013

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 10,620,994
Receivables:	
Taxes	89,449
Intergovernmental	70,833
Assessments	30,830
Accounts	1,118,665
Accrued interest	1,085
Prepays	38,595
Capital assets not being depreciated	1,077,829
Capital assets, net of accumulated depreciation	<u>15,744,974</u>
Total assets	<u>28,793,254</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on debt issuance	<u>252,276</u>
LIABILITIES	
Accounts payable	238,787
Accrued liabilities	137,919
Accrued interest payable	123,897
Unearned revenue	14,449
Noncurrent liabilities:	
Compensated absences	250,270
Due within one year	467,144
Due in more than one year	<u>6,664,147</u>
Total liabilities	<u>7,896,613</u>
NET POSITION	
Invested in capital assets, net of related debt	9,741,512
Restricted for:	
Capital	1,482,950
Unrestricted	<u>9,924,455</u>
Total net position	<u>\$ 21,148,917</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,190,359	\$ 244,333	\$ -	\$ -	\$ (946,026)
Police	2,969,426	-	98,650	-	(2,870,776)
Fire	2,811,448	304,341	149,590	-	(2,357,517)
General services and property mgt.	3,514,030	930,824	-	462,623	(2,120,583)
Recreation	660,059	143,077	-	-	(516,982)
Interest and other costs on long-term debt	342,110	-	-	-	(342,110)
Total governmental activities	<u>11,487,432</u>	<u>1,622,575</u>	<u>248,240</u>	<u>462,623</u>	<u>(9,153,994)</u>
Total primary government	<u>\$ 11,487,432</u>	<u>\$ 1,622,575</u>	<u>\$ 248,240</u>	<u>\$ 462,623</u>	<u>\$ (9,153,994)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					4,325,013
Taxes, levied for bank deposits					56,358
Motor vehicle taxes					415,497
Licenses and permits					4,847,488
Interest					25,256
Miscellaneous					273,810
Total general revenues and special items					<u>9,943,422</u>
Transfer to Fiduciary Fund					(37,510)
Loss on disposition of capital assets					(3,142)
Change in net position					<u>748,776</u>
Net position-beginning					20,400,141
Net position-ending					<u>\$ 21,148,917</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, 2013

	General	Special Revenue		Capital Project	Other Governmental Funds	Total Governmental Funds
		Public Works/ KDOT	Central Business District	Tower Park		
ASSETS						
Cash and cash equivalents	\$ 8,214,797	\$ 1,290,505	\$ 119,962	\$ 526,690	\$ 469,040	\$ 10,620,994
Receivables:						
Taxes	89,449	-	-	-	-	89,449
Governmental units	21,486	49,347	-	-	-	70,833
Assessments		22,536	8,294	-	-	30,830
Accounts	1,101,343	4,267	-	-	13,055	1,118,665
Accrued interest	1,085	-	-	-	-	1,085
Prepays	37,300	-	1,295	-	-	38,595
Due from other funds	900,000	154,558	86,640	-	-	1,141,198
Total assets	\$ 10,365,460	\$ 1,521,213	\$ 216,191	\$ 526,690	\$ 482,095	\$ 13,111,649
LIABILITIES DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 149,807	\$ 19,557	\$ 3,508	\$ -	\$ 65,915	\$ 238,787
Accrued liabilities	137,235	-	684	-	-	137,919
Deferred revenue	14,449	-	-	-	-	14,449
Due to other funds	236,640	-	904,558	-	-	1,141,198
Total liabilities	538,131	19,557	908,750	-	65,915	1,532,353
Deferred inflows of resources						
Unavailable inflows of resources	46,921	18,706	8,294	-	12,244	86,165
Fund balances:						
Nonspendable - prepaids	37,300	-	1,295	-	-	38,595
Restricted-capital projects	-	1,482,950	99,932	-	-	1,582,882
Committed to - capital projects	-	-	-	-	-	-
Assigned to - capital projects	-	-	-	526,690	-	526,690
- waste	-	-	-	-	(1,004)	(1,004)
- debt service	-	-	-	-	404,940	404,940
Unassigned	9,743,108	-	(802,080)	-	-	8,941,028
Total fund balances	9,780,408	1,482,950	(700,853)	526,690	403,936	11,493,131
Total liabilities and fund balances	\$ 10,365,460	\$ 1,521,213	\$ 216,191	\$ 526,690	\$ 482,095	\$ 13,111,649
Total governmental fund balances						\$ 11,493,131
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 \$12,396,228						16,822,803
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.						86,165
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						252,276
Accrual interest payable on long-term debt						(123,897)
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						(300,270)
Bonds and leases payable						(7,081,291)
Net position of governmental activities						\$ 21,148,917

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, 2013

	General	Special Revenue		Capital Project	Other Governmental Funds	Total Governmental Funds
		Public Works/KDOT	Central Business District	Tower Park		
REVENUES						
Taxes	\$ 4,756,631	\$ 51,200	\$ -	\$ -	\$ -	\$ 4,807,831
Licenses and permits	4,847,488	-	-	-	-	4,847,488
Intergovernmental	248,240	462,623	-	-	-	710,863
Charges for services	552,757	-	-	-	781,079	1,333,836
Uses of property	106,400	-	-	-	-	106,400
Fines and forfeitures	83,237	-	-	-	-	83,237
Interest	21,835	2,705	716	-	-	25,256
Special assessments	-	95,875	3,227	-	-	99,102
Miscellaneous	169,195	6,225	96,393	1,997	-	273,810
Total revenues	<u>10,785,783</u>	<u>618,628</u>	<u>100,336</u>	<u>1,997</u>	<u>781,079</u>	<u>12,287,823</u>
EXPENDITURES						
Current:						
General government	1,115,114	-	-	-	-	1,115,114
Police	2,910,360	-	-	-	-	2,910,360
Fire	2,707,463	-	-	-	-	2,707,463
General services and property mgt.	1,960,103	-	16,066	7,963	789,622	2,773,754
Recreation	470,324	-	154,032	6,739	-	631,095
Capital outlay	169,739	389,813	-	22,852	-	582,404
Debt service:						
Principal	-	-	-	-	536,916	536,916
Interest	85	-	-	-	325,492	325,577
Total expenditures	<u>9,333,188</u>	<u>389,813</u>	<u>170,098</u>	<u>37,554</u>	<u>1,652,030</u>	<u>11,582,683</u>
Excess(deficiency) of revenues over(under) expenditures	<u>1,452,595</u>	<u>228,815</u>	<u>(69,762)</u>	<u>(35,557)</u>	<u>(870,951)</u>	<u>705,140</u>
OTHER FINANCING SOURCES(USES)						
Transfers in	-	-	864,500	-	877,546	1,742,046
Transfers out	(1,084,186)	-	(695,370)	-	-	(1,779,556)
Total other financing sources and uses	<u>(1,084,186)</u>	<u>-</u>	<u>169,130</u>	<u>-</u>	<u>877,546</u>	<u>(37,510)</u>
Net change in fund balances	368,409	228,815	99,368	(35,557)	6,595	667,630
Fund balances - beginning	<u>9,411,999</u>	<u>1,254,135</u>	<u>(800,221)</u>	<u>562,247</u>	<u>397,341</u>	<u>10,825,501</u>
Fund balances - ending	<u>\$ 9,780,408</u>	<u>\$ 1,482,950</u>	<u>\$ (700,853)</u>	<u>\$ 526,690</u>	<u>\$ 403,936</u>	<u>\$ 11,493,131</u>

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, 2013

Net change in fund balances-total governmental funds	\$ 667,630
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>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:</p>	
Capital asset purchases capitalized	581,065
Depreciation expense	(1,033,149)
The effect of disposition of capital assets is a decrease to net assets	(3,142)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,964)
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.	(19,126)
Accrued interest on long-term debt is reported in the government wide financial statements and not in governmental funds.	2,593
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.	536,917
Lease proceeds are a revenue in the governmental funds, but increase long-term liabilities in the statement of net assets.	-
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.	26,952
Change in net position of governmental activities	\$ <u>748,776</u>

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, 2013

	Police and Firemen's Pension Plan
ASSETS	
Cash and cash equivalents	\$ 15,905
Investments	<u>199,259</u>
Total assets	<u>215,164</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for pension benefits	<u>215,164</u>
Total net position	\$ <u><u>215,164</u></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, 2013

	Police and Firemen's Pension Plan
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 3,960
Net increase(decrease) in the fair value of investments	20,956
Total investment earnings	24,916
Miscellaneous income	5,153
Transfer from General Fund	37,510
Total additions (reductions)	67,579
DEDUCTIONS	
Benefits paid	33,377
Administrative expense	1,178
Total deductions	34,555
CHANGE IN NET POSITION	33,024
NET POSITION-BEGINNING OF YEAR	182,140
NET POSITION END OF YEAR	\$ 215,164
The notes to the financial statements are an integral part of this statement.	

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 U.S. 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.

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 position and the statement of activities) 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. Amounts paid to acquire capital assets are capitalized as assets in the government-wide finan-

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

cial 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, 2013

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, 2013 were \$.360 per \$100 valuation for real and personal property. The assessed value of property on which 2012 was based was \$1,138,325,935.

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 position.

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, 2013

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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report as a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/Expenditure) until then. The government only has one item that qualifies for reporting in the government-wide statement of net position, a deferred charge on debt. This amount is deferred and amortized over the life of the debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government only has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Fund Balance Policies

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.

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.

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

In the fund financial statements governmental funds report expenditures of financial 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

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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.

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 February 7, 2014, 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 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. 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 deposit at all times. As of June 30, 2013, 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, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Fixed income mutual funds	\$ 28,326
Equity mutual funds	148,056
Alternative assets	22,876
	<u>\$ 199,258</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, 2013 of \$199,258. 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.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Retirements/ Deletions	Balance June 30, 2013
Governmental activities:				
Not being depreciated:				
Land	\$ 1,035,535	\$ -	\$ -	\$ 1,035,535
Construction in progress	18,029	42,294	(18,029)	42,294
Subtotal	<u>1,053,564</u>	<u>42,294</u>	<u>(18,029)</u>	<u>1,077,829</u>
Other capital assets:				
Buildings	2,945,534	-	-	2,945,534
Improvements/infrastructure	20,562,436	423,507	-	20,985,943
Equipment	2,407,315	53,234	(15,179)	2,445,370
Vehicles	2,705,408	80,059	(58,648)	2,726,819
Subtotal	<u>28,620,693</u>	<u>556,800</u>	<u>(73,827)</u>	<u>29,103,666</u>
Accumulated depreciation:				
Buildings	1,391,608	86,786	-	1,478,394
Improvements/infrastructure	7,622,467	673,891	-	8,296,358
Equipment	1,777,565	118,536	(12,064)	1,884,037
Vehicles	1,604,588	153,936	(58,621)	1,699,903
Subtotal	<u>12,396,228</u>	<u>1,033,149</u>	<u>(70,685)</u>	<u>13,358,692</u>
Net other assets	<u>16,224,465</u>	<u>(476,349)</u>	<u>(3,142)</u>	<u>15,744,974</u>
Net capital assets	<u>\$ 17,278,029</u>	<u>\$ (434,055)</u>	<u>\$ (21,171)</u>	<u>\$ 16,822,803</u>

*Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 84,253
Police	49,974
Fire	111,728
General services	758,230
Recreation	28,964
Total governmental activities depreciation expense	<u>\$ 1,033,149</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 bond repayment was completed in 2013.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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
2014	\$ 15,820
2015	15,820
2016	15,820
2017	15,820
2018	15,820
Thereafter	<u>47,475</u>
Subtotal	126,575
Less: interest	<u>(26,096)</u>
TOTAL	<u>\$ 100,479</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
2014	\$ 78,573
2015	<u>64,596</u>
Subtotal	143,169
Less: interest	<u>(3,845)</u>
TOTAL	<u>\$ 139,324</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 0.91% to 2.45%.

<p>CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2013</p>

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30	Amount
2014	\$ 93,762
2015	93,763
2016	93,763
2017	<u>62,508</u>
Subtotal	343,796
Less: interest	<u>(31,430)</u>
Total	<u>\$ 312,366</u>

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 0.91% to 2.45%.

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30	Amount
2014	\$ 96,680
2015	96,680
2016	96,680
2017	96,680
2018	96,680
Thereafter	<u>88,625</u>
Subtotal	572,025
Less: interest	<u>(52,903)</u>
Total	<u>\$ 519,122</u>

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, 2013

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Amount
2014	\$ 226,025
2015	227,200
2016	158,263
2017	155,513
2018	162,488
2019-2023	785,175
2024-2028	418,025
2029-2030	70,150
Subtotal	<u>2,202,839</u>
Less: interest	(452,839)
Total	<u>\$ 1,750,000</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
2014	\$ 233,825
2015	233,825
2016	298,825
2017	301,713
2018	294,437
2019-2023	1,504,644
2024-2028	1,866,931
2029-2033	2,213,588
2034-2036	1,370,450
Subtotal	<u>8,318,238</u>
Less: interest	(4,058,238)
Total	<u>\$ 4,260,000</u>

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	June 30, 2012	Additions	Retirements	June 30, 2013	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 125,000	\$ -	\$ 125,000	\$ -	\$ -
Lease payable-real estate	112,064	-	11,585	100,479	10,844
Lease payable-CBD improvements	214,324	-	75,000	139,324	75,000
Lease payable - Towne Center	389,027	-	76,661	312,366	80,156
Lease payable - renovations	597,793	-	78,671	519,122	81,144
Lease payable - Midway	1,920,000	-	170,000	1,750,000	170,000
Lease payable - Parks	4,260,000	-	-	4,260,000	-
Compensated absences	327,222	-	26,952	300,270	50,000
Totals	<u>\$ 7,945,430</u>	<u>\$ -</u>	<u>\$ 563,869</u>	<u>\$ 7,381,561</u>	<u>\$ 467,144</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, 2013, 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, 2013

necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2013 was 19.55% 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, 2013, 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, 2013, participating employers contributed 37.60% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2013 was 37.60% 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 for health insurance.

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

Year	Required Contribution	Percentage Contributed
2013	\$ 1,532,340	100%
2012	\$ 1,427,979	100%
2011	\$ 1,336,556	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 \$33,440 for the year ended June 30, 2013. The deferred compensation plan is administered by the Kentucky Deferred Compensation Authority.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

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	318,421	591,711	655,051
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	\$ (109,162)	\$ (197,572)	\$ (84,761)
FUNDED RATIO	65.5%	66.6%	87.1%

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the pension benefit obligation occurred during 2013. There were no past service contributions made for the past three years. Four pensioners have passed away recently which will

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

significantly reduce the benefit obligations in future years. The Plan is expected to have an actuarial study performed as of June 30, 2013, in February, 2014.

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.

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, 2013, 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 – 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 \$236,640 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 (\$182,176) and Central Business District Fund (\$695,370) transferred \$877,546 to the Debt Service Fund for payment of the City's debt. The General Fund transferred \$472,000 to the Central Business District Fund representing a .25 percent tax collected by the General Fund on behalf of the CBD. The General Fund transferred \$37,510 to the Police and Fire Pension Fund and \$392,500 to the CBD Fund.

NOTE L – SUBSEQUENT EVENTS

In October, 2013 the City received an approximate \$300,000 billing from Duke Energy regarding relocation of utility services relative to the Midway Business District renovation project which was done in 2008. The City is contesting the billing as there was no written contract or agreement for project costs.

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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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 2,824,590	\$ 2,824,590	\$ 9,411,999	\$ 6,587,409
Resources (inflows):				
Taxes	4,638,900	4,638,900	4,756,631	117,731
Licenses and permits	4,527,500	4,527,500	4,847,488	319,988
Intergovernmental	244,368	294,658	248,240	(46,418)
Uses of property	-	-	106,400	106,400
Fines and forfeitures	81,655	81,655	83,237	1,582
Charges for services	561,628	561,628	552,757	(8,871)
Interest	233,327	233,327	21,835	(211,492)
Lease proceeds	-	-	-	-
Miscellaneous	82,181	108,181	169,195	61,014
Transfer in	-	-	-	-
Amounts available for appropriation	<u>13,194,149</u>	<u>13,270,439</u>	<u>20,197,782</u>	<u>6,927,343</u>
Charges to appropriations (outflows):				
General government	1,109,526	1,135,526	1,115,114	20,412
Police	3,186,396	3,186,396	2,972,782	213,614
Fire	2,712,414	2,762,704	2,707,463	55,241
General services and property mgt.	2,136,234	2,136,234	2,067,420	68,814
Recreation	555,205	555,205	470,324	84,881
Capital outlay	-	-	-	-
Debt services	-	-	85	(85)
Transfers out	<u>654,176</u>	<u>654,176</u>	<u>1,084,186</u>	<u>(430,010)</u>
Total charges to appropriations	<u>10,353,951</u>	<u>10,430,241</u>	<u>10,417,374</u>	<u>12,867</u>
Budgetary fund balance, June 30	\$ <u>2,840,198</u>	\$ <u>2,840,198</u>	\$ <u>9,780,408</u>	\$ <u>6,940,210</u>

NOTE: The City budgets its beginning fund balance at July 1, 2012 at its undesignated funds level; whereas the actual fund balance at July 1, 2012 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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 599,599	\$ 599,599	\$ 1,254,135	\$ 654,536
Resources (inflows):				
Taxes	75,200	75,200	51,200	(24,000)
Intergovernmental	280,000	280,000	462,623	182,623
Interest	500	500	2,706	2,206
Special assessments	77,664	77,664	95,875	18,211
Miscellaneous	5,000	5,000	6,225	1,225
Transfers	-	-	-	-
Amounts available for appropriation	<u>1,037,963</u>	<u>1,037,963</u>	<u>1,872,764</u>	<u>834,801</u>
Charges to appropriations (outflows):				
Current:				
General services	-	-	3,092	(3,092)
Capital outlay:				
Street and sidewalk projects	364,920	474,920	386,722	88,198
Transfers to other funds	-	-	-	-
Total	<u>364,920</u>	<u>474,920</u>	<u>389,814</u>	<u>85,106</u>
Budgetary fund balances, June 30	\$ <u>673,043</u>	\$ <u>563,043</u>	\$ <u>1,482,950</u>	\$ <u>919,907</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 1,174,410	\$ 1,174,410	\$ (800,221)	\$ (1,974,631)
Resources (inflows):				
Intergovernmental	-	-	-	-
Special assessments	-	-	3,227	3,227
Interest	500	500	716	216
Miscellaneous	12,500	12,500	96,393	83,893
Lease Proceeds	25,000	25,000	-	(25,000)
Transfers from other funds	472,000	472,000	864,500	392,500
Amounts available for appropriation	<u>1,684,410</u>	<u>1,684,410</u>	<u>164,615</u>	<u>(1,519,795)</u>
Charges to appropriations (outflows):				
Current:				
General government	-	-	-	-
General services and recreation	151,487	151,487	170,098	(18,611)
Capital outlay	250,000	250,000	-	250,000
Transfers to other funds	695,370	695,370	695,370	-
Total	<u>1,096,857</u>	<u>1,096,857</u>	<u>865,468</u>	<u>231,389</u>
Budgetary fund balances, June 30	\$ <u>587,553</u>	\$ <u>587,553</u>	\$ <u>(700,853)</u>	\$ <u>(1,288,406)</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 567,107	\$ 567,107	\$ 562,247	\$ (4,860)
Resources (inflows):				
Intergovernmental	-	-	-	-
Interest	500	500	-	(500)
Miscellaneous	5,000	5,000	1,997	(3,003)
Transfers in from other funds	-	-	-	-
Amounts available for appropriation	<u>572,607</u>	<u>572,607</u>	<u>564,244</u>	<u>(8,363)</u>
Charges to appropriations (outflows):				
General services	15,800	15,800	14,922	878
Capital outlay	-	14,000	22,632	(8,632)
Transfers to other funds	12,301	12,301	-	12,301
Total	<u>28,101</u>	<u>42,101</u>	<u>37,554</u>	<u>4,547</u>
Budgetary fund balances, June 30	\$ <u>544,506</u>	\$ <u>530,506</u>	\$ <u>526,690</u>	\$ <u>(3,816)</u>

CITY OF FT. THOMAS, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	<u>Waste Fee</u>	Debt Service	
ASSETS			
Cash and cash equivalents	\$ 64,100	\$ 404,940	\$ 469,040
Accounts receivable	13,055	-	13,055
Total assets	<u>\$ 77,155</u>	<u>\$ 404,940</u>	<u>\$ 482,095</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 65,915	\$ -	\$ 65,915
Deferred revenues	12,244	-	12,244
Total liabilities	<u>78,159</u>	<u>-</u>	<u>78,159</u>
Fund balances:			
Assigned to:			
Debt service	-	404,940	404,940
Waste	<u>(1,004)</u>	<u>-</u>	<u>(1,004)</u>
Total fund balances	<u>(1,004)</u>	<u>404,940</u>	<u>403,936</u>
Total liabilities and fund balances	<u>\$ 77,155</u>	<u>\$ 404,940</u>	<u>\$ 482,095</u>

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, 2013

	Special Revenue		Total Nonmajor Governmental Funds
	Waste Fee	Debt Service	
REVENUES			
Charges for services	\$ 781,079	\$ -	\$ 781,079
Interest	-	-	-
Total revenues	<u>781,079</u>	<u>-</u>	<u>781,079</u>
EXPENDITURES			
Current:			
General government	-	-	-
General services	789,622	-	789,622
Debt service:			
Principal	-	536,916	536,916
Interest	-	325,492	325,492
Total expenditures	<u>789,622</u>	<u>862,408</u>	<u>1,652,030</u>
Excess (deficiency) of revenues over(under) expenditures	<u>(8,543)</u>	<u>(862,408)</u>	<u>(870,951)</u>
OTHER FINANCING SOURCES(USES)			
Transfers in	-	877,546	877,546
Transfers out	-	-	-
Total other financing sources and uses	<u>-</u>	<u>877,546</u>	<u>877,546</u>
Net change in fund balances	<u>(8,543)</u>	<u>15,138</u>	<u>6,595</u>
Fund balances - beginning	<u>7,539</u>	<u>389,802</u>	<u>397,341</u>
Fund balances - ending	<u>\$ (1,004)</u>	<u>\$ 404,940</u>	<u>\$ 403,936</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 Ft. Thomas, Kentucky**

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ft. Thomas, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Ft. Thomas, Kentucky's basic financial statements and have issued our report thereon dated February 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Ft. Thomas, 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 the City of Ft. Thomas, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ft. Thomas, 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. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ft. Thomas, Kentucky's financial statements are free from 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Under Kentucky Revised Statutes, certain parts of the annual audit are required to be published in the local newspaper. Through oversight the June 30, 2013 information was not timely published. The City should correct its oversight and the required financial information be published.

City of Ft. Thomas, Kentucky's Response to Findings

The City of Ft. Thomas, Kentucky's response: The City will publish the FY 2012 financial information as required by Kentucky Revised Statutes.

We noted certain matters that we reported to management of City of Ft. Thomas, Kentucky in a separate letter dated February 7, 2014.

The City of Ft. Thomas, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RANKIN, RANKIN & COMPANY

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

**Ft. Wright, Kentucky
February 7, 2014**

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RANKIN, RANKIN & COMPANY
Certified Public Accountants

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1717 Dixie Highway, Suite 600
Ft. Wright, Kentucky 41011

■ Tel. 859/331-5000

**To the Mayor and Council
City of Ft. Thomas, Kentucky
Ft. Thomas, Kentucky**

In planning and performing our audit of the financial statements of City of Ft. Thomas, Kentucky for the year ended December 31, 2013, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 7, 2014 on the financial statements of the City of Ft. Thomas, Kentucky.

Comprehensive General Ledger

In past years, the City has used elements of a general ledger system, primarily for recording cash activity during the year. At year end, that system was supplemented with spread sheet journal entries to complete the trial balance for the year. While adequate for arriving at the year end trial balance, (used for preparing the financial statements), we believe that utilizing the full capability of the general ledger system would add to greater efficiency and control over the recording of various entries during and at the year end.

RANKIN, RANKIN & COMPANY

**Ft. Wright, Kentucky
February 7, 2014**