

CITY OF FT. THOMAS, KENTUCKY

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2010

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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, 2010, 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, 2010, 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 February 9, 2011 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

February 9, 2011

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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, 2010.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$19,116,793 (net assets).

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$8,807,573. This total represents a decrease of \$2,214,733 in comparison to the prior fiscal year. The decrease was primarily attributable to capital project expenditures which were not funded through financing arrangements at June 30, 2010.

At the end of the current fiscal year, total fund balance for the general fund was \$8,369,227.

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 \$19,116,793 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, 2010 and 2009, net assets changed as follows:

		Governmental Activities	
		2010	2009
Current and other assets	\$	10,644,921	\$ 11,690,672
Capital assets, net		12,587,352	10,782,754
Total assets		23,232,273	22,473,426
Other liabilities		1,645,784	485,948
Long-term liabilities		2,469,696	2,800,903
Total liabilities		4,115,480	3,286,851
Net assets:			
Invested in capital assets, net of debt		10,424,654	8,260,306
Restricted		145,597	726,404
Unrestricted		8,546,542	10,199,865
Total net assets	\$	19,116,793	\$ 19,186,575

Net assets of the City decreased slightly by \$69,782 during the current fiscal year. This compares to the overall decrease in fund balance of \$2,214,733. Net assets decrease less because \$2,546,515 in expenditures were for capital projects (police department renovation, Tower park and Rossford park renovations) which increase capital assets in the above government-wide financial analysis.

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 \$8,807,573 a decrease of \$2,214,733 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 \$8,369,227.

The fund balance of the City's general fund decreased by \$355,874 during the current fiscal year. Key factors in this change are as follows:

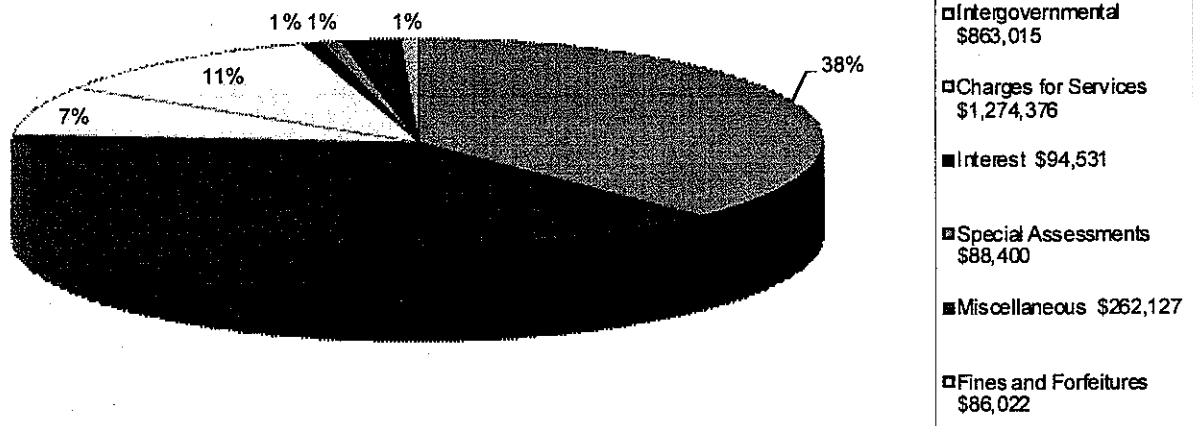
- Police department renovation
- Pass-through grant expended to the Campbell County Dispatch Board

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 \$370,664, 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 2010 this fund incurred total expenditures of \$177,809, 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 \$425,000. 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.

Activity within the Debt Service Fund included total expenditures of \$418,806, 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.

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, 2010, and the amount and percentage of increases and decreases in relation to the prior year.

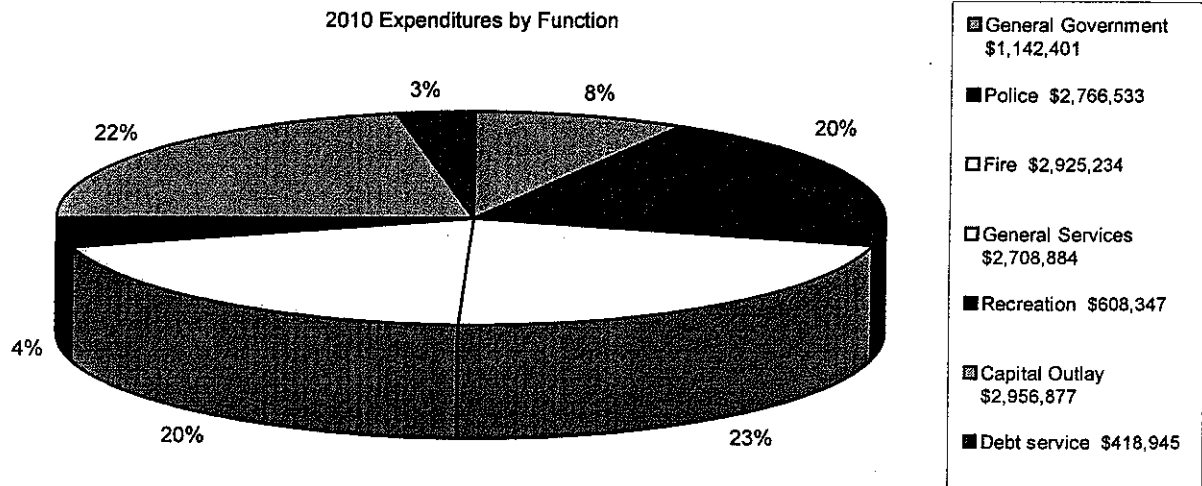
2010 Revenues by Source



Revenues		FYE 2010 Amount	Percent of Total		Increase (Decrease) From FYE 2009
Taxes	\$	4,268,715	37.73%	\$	191,312
Licenses and permits		4,375,302	38.68%		(262,877)
Intergovernmental		863,015	7.63%		(821,828)
Charges for services		1,274,376	11.27%		(28,289)
Fines and forfeitures		86,022	0.76%		17,442
Interest		94,531	0.84%		(78,616)
Special assessments		88,400	0.78%		55,066
Miscellaneous		262,127	2.32%		26,730
Total revenues	\$	<u>11,312,488</u>	<u>100.01%</u>	\$	<u>(901,060)</u>

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

The decrease in licenses and permits is the result of a decrease in revenue from occupational net profits fees. Revenue from this source is difficult to predict, and as such, can fluctuate widely from year to year. Intergovernmental revenues decreased due to a one time participation in a federally supported construction project – The St. Luke Foundation Project in the prior year.



<u>Expenditures</u>		<u>FYE 2010</u>	<u>Percent</u>		<u>Increase</u>
		<u>Amount</u>	<u>of</u>		<u>(Decrease)</u>
			<u>Total</u>		<u>From FYE 2009</u>
General government	\$	1,142,401	8.45%	\$	(34,089)
Police		2,766,533	20.45%		72,122
Fire		2,925,234	21.62%		519,283
General services		2,708,884	20.03%		30,230
Recreation		608,347	4.50%		(9,247)
Capital outlay		2,956,877	21.86%		518,951
Debt service		418,945	3.10%		(111,449)
Total expenditures	\$	13,527,221	100.00%	\$	985,801

Police and Fire had noticeable increases in required state pension contributions. Fire also reflects a one-time pass through grant to the Campbell County Dispatch Board of \$328,945.

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 2009-2010 budget relied on the anticipation of moderate increases in property and payroll taxes and licenses and fees. Actual revenue categories were less than budgeted amounts by \$516,769, primarily due to budgeted lease proceeds not received in the current year. In addition, actual expenditures were over budgeted appropriations, by \$489,111, primarily due to the fire one-time pass through grant to the Campbell County Dispatch Board of \$328,945.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$2,162,698 in outstanding notes and capital leases compared to \$2,522,448 last year. The decrease is the result of retirement of principal.

		Governmental Activities	
		2010	2009
General Obligation Bonds	\$	375,000	\$ 500,000
Capital lease and general obligations (backed by city)		1,787,698	2,022,448
Totals	\$	<u>2,162,698</u>	<u>2,522,448</u>

Capital Assets

At the end of June 30, 2010, the City had \$23,804,967 invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$2,484,002. The increase is attributable to 2010 capital additions, including construction in process. The major asset addition was the completion of the police department renovation.

		Governmental Activities	
		2010	2009
Land	\$	913,535	\$ 913,535
Construction Progress		2,090,938	1,609,646
Buildings		2,945,534	1,727,340
Improvements/Infrastructure		13,535,524	12,844,540
Equipment		2,048,999	1,965,108
Vehicles		2,270,437	2,260,796
TOTALS	\$	<u>23,804,967</u>	<u>21,320,965</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In summary, the fiscal year 2010 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 2011 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, 2010

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 9,102,088
Receivables:	
Taxes	117,939
Governmental units	51,361
Assessments	21,725
Accounts	1,053,931
Accrued interest	8,275
Prepays	248,910
Deferred expense	40,692
Capital assets not being depreciated	3,004,473
Capital assets, net of accumulated depreciation	<u>9,582,879</u>
Total assets	<u>23,232,273</u>
LIABILITIES	
Accounts payable	\$ 1,325,769
Accrued liabilities	299,441
Accrued interest payable	6,125
Deferred revenue	14,449
Noncurrent liabilities:	
Compensated absences	306,998
Due within one year	363,002
Due in more than one year	<u>1,799,696</u>
Total liabilities	<u>4,115,480</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,424,654
Restricted for:	145,597
Debt service	
Unrestricted	<u>8,546,542</u>
Total net assets	<u>\$ 19,116,793</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, 2010

Functions/Programs Primary government:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 1,202,819	\$ 228,238	\$ -	-	(974,581)
Police	2,844,340	-	122,332	-	(2,722,008)
Fire	3,021,514	292,390	78,318	332,915	(2,317,891)
General services	3,620,465	918,755	-	316,900	(2,384,810)
Recreation and property management	643,083	94,188	12,550	-	(536,345)
Interest and other costs on long-term debt	69,500	-	-	-	(69,500)
Total governmental activities	11,401,721	1,533,571	213,200	649,815	(9,005,135)
Total primary government	\$ 11,401,721	\$ 1,533,571	\$ 213,200	\$ 649,815	\$ (9,005,135)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					3,864,844
Taxes, levied for bank deposits					52,633
Motor vehicle taxes					370,689
Licenses and permits					4,375,302
Interest					94,531
Miscellaneous					177,354
Total general revenues and special items					8,935,353
Change in net assets					(69,782)
Net assets-beginning					19,186,575
Net assets-ending					\$ 19,116,793

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

CITY OF FT. THOMAS, KENTUCKY

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2010

	General	Public Works/ KDOT	Central Business District	Tower Park	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 7,080,796	\$ 518,543	\$ 186,426	\$ 836,947	\$ 479,376	\$ 9,102,088
Receivables:						
Taxes	113,672	4,267	-	-	-	117,939
Governmental units	17,792	33,569	-	-	-	51,361
Assessments	-	13,982	7,743	-	-	21,725
Accounts	1,044,682	-	-	-	9,249	1,053,931
Accrued interest	8,275	-	-	-	-	8,275
Prepays	233,774	-	1,094	-	14,042	248,910
Due from other funds	900,000	154,558	86,640	-	-	1,141,198
Total assets	\$ 9,398,991	\$ 724,919	\$ 281,903	\$ 836,947	\$ 502,667	\$ 11,745,427
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 353,806	\$ 14,209	\$ 815,294	\$ 74,794	\$ 67,666	\$ 1,325,769
Accrued liabilities	297,102	-	2,339	-	-	299,441
Deferred revenue	142,216	13,982	7,743	-	7,505	171,446
Due to other funds	236,640	-	904,558	-	-	1,141,198
Total liabilities	1,029,764	28,191	1,729,934	74,794	75,171	2,937,854
Fund balances:						
Reserved for prepaids						-
Unreserved, reported in:						
General fund	8,369,227	-	-	-	-	8,369,227
Special revenue funds	-	696,728	(1,448,031)	-	281,899	(469,404)
Debt service	-	-	-	-	145,597	145,597
Capital projects funds	-	-	-	762,153	-	762,153
Total fund balances	8,369,227	696,728	(1,448,031)	762,153	427,496	8,807,573
Total liabilities and fund balances	\$ 9,398,991	\$ 724,919	\$ 281,903	\$ 836,947	\$ 502,667	\$ 11,745,427
Total governmental fund balances						\$ 8,807,573
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 \$11,217,615						12,587,352
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.						156,997
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						40,692
Accrual interest payable on long-term debt						(6,125)
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						(306,998)
Bonds and leases payable						(2,162,698)
Net assets of governmental activities						\$ 19,116,793

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, 2010

	General	Public Works/ KDOT	Central Business District	Tower Park	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 4,193,537	\$ 75,178	\$ -	\$ -	\$ -	\$ 4,268,715
Licenses and permits	4,355,321	-	-	-	19,981	4,375,302
Intergovernmental	546,379	316,636	-	-	-	863,015
Charges for services	531,434	-	-	-	742,942	1,274,376
Uses of property	84,773	-	-	-	-	84,773
Fines and forfeitures	86,022	-	-	-	-	86,022
Interest	93,193	1,338	-	-	-	94,531
Special assessments	-	87,301	1,099	-	-	88,400
Miscellaneous	148,643	-	20,700	8,011	-	177,354
Total revenues	10,039,302	480,453	21,799	8,011	762,923	11,312,488
EXPENDITURES						
Current:						
General government	1,133,950	-	-	-	8,451	1,142,401
Police	2,766,533	-	-	-	-	2,766,533
Fire	2,925,234	-	-	-	-	2,925,234
General services	1,719,765	2,902	163,666	35,041	787,510	2,708,884
Recreation and property mgt.	608,347	-	-	-	-	608,347
Capital outlay	709,827	367,762	1,736,520	142,768	-	2,956,877
Debt service:						
Principal	-	-	-	-	359,750	359,750
Interest	139	-	-	-	59,056	59,195
Total expenditures	9,863,795	370,664	1,900,186	177,809	1,214,767	13,527,221
Excess(deficiency) of revenues over(under) expenditures	175,507	109,789	(1,878,387)	(169,798)	(451,844)	(2,214,733)
OTHER FINANCING SOURCES(USES)						
Lease proceeds	-	-	-	-	-	-
Transfers in	5,354	-	425,000	-	514,535	944,889
Transfers out	(536,735)	-	(389,810)	(12,990)	(5,354)	(944,889)
Total other financing sources and uses	(531,381)	-	35,190	(12,990)	509,181	-
Net change in fund balances	(355,874)	109,789	(1,843,197)	(182,788)	57,337	(2,214,733)
Fund balances - beginning	8,725,101	586,939	395,166	944,941	370,159	11,022,306
Fund balances - ending	\$ 8,369,227	\$ 696,728	\$ (1,448,031)	\$ 762,153	\$ 427,496	\$ 8,807,573

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, 2010

Net change in fund balances-total governmental funds	\$ (2,214,733)
--	----------------

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	2,546,515
Depreciation expense	(739,307)

The effect of disposition of capital assets is a decrease to net assets	(2,610)
---	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	19,451
--	--------

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.	(8,880)
---	---------

Accrued interest on long-term debt is reported in the government wide financial statements and not in governmental funds.	(1,425)
---	---------

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.	359,750
---	---------

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.	(28,543)
---	----------

Change in net assets of governmental activities	\$ (69,782)
---	-------------

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, 2010

	Police and Firemen's Pension Plan
ASSETS	
Cash and cash equivalents	\$ 48,610
Investments	158,670
Accrued interest receivable	309
Prepaid expenses	2,781
Total assets	<u>210,370</u>
LIABILITIES	
Accounts payable	-
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits	<u>210,370</u>
Total net assets	\$ <u><u>210,370</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, 2010

	Police and Firemen's Pension Plan
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 3,374
Net increase(decrease) in the fair value of investments	19,299
Total investment earnings	22,673
Miscellaneous	2,196
Total additions (reductions)	24,869
DEDUCTIONS	
Benefits	43,435
Administrative expense	725
Total deductions	44,160
CHANGE IN NET ASSETS	(19,291)
NET ASSETS-BEGINNING OF YEAR	229,661
NET ASSETS END OF YEAR	\$ 210,370

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

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, 2010

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 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, 2010

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, 2010 were \$.343 per \$100 valuation for real property. The assessed value of property on which 2009 was based was \$1,055,318,703.

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, 2010

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 reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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.

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.

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.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

- 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 deposit at all times. As of June 30, 2010, 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, 2010, the City had the following investments:

Investment Type	Fair Value
Fixed income mutual funds	\$ 57,498
Equity mutual funds	101,172
	<u>\$ 158,670</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, 2010 of \$158,670. 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, 2010

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Retirements/ Deletions	Balance June 30, 2010
Governmental activities:				
Not being depreciated:				
Land	\$ 913,535	\$ -	\$ -	\$ 913,535
Construction in progress	1,609,646	1,690,139	1,208,847	2,090,938
Subtotal	<u>2,523,181</u>	<u>1,690,139</u>	<u>1,208,847</u>	<u>3,004,473</u>
Other capital assets:				
Buildings	1,727,340	1,218,194	-	2,945,534
Improvements/infrastructure	12,844,540	690,984	-	13,535,524
Equipment	1,965,108	83,891	-	2,048,999
Vehicles	2,260,796	72,154	62,513	2,270,437
Subtotal	<u>18,797,784</u>	<u>2,065,223</u>	<u>62,513</u>	<u>20,800,494</u>
Accumulated depreciation:				
Buildings	1,167,916	47,578	-	1,215,494
Improvements/infrastructure	6,187,880	440,233	-	6,628,113
Equipment	1,429,199	127,848	-	1,557,047
Vehicles	1,753,216	123,648	59,903	1,816,961
Subtotal	<u>10,538,211</u>	<u>739,307</u>	<u>59,903</u>	<u>11,217,615</u>
Net other assets	<u>8,259,573</u>	<u>1,325,916</u>	<u>2,610</u>	<u>9,582,879</u>
Net capital assets	\$ <u>10,782,754</u>	\$ <u>3,016,055</u>	\$ <u>1,211,457</u>	\$ <u>12,587,352</u>

*Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 31,875
Police	75,197
Fire	96,280
General services	501,219
Recreation	34,736
Total governmental activities depreciation expense	<u>\$ 739,307</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 revenues of the City.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

The following is a schedule of future debt service requirements to maturity at June 30, 2010:

Year Ended June 30,	Principal	Interest
2011	\$ 125,000	\$ 8,063
2012	125,000	5,375
2013	125,000	2,688
Total debt service payments	\$ 375,000	\$ 16,126

Capital Leases Payable

The capital leases payable, long-term debt are payable from general fund revenues.

Long-term debt outstanding at June 30, 2010 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, 2010 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 is now expected to mature in approximately fiscal year 2011, depending on future interest rate changes.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

The following is a schedule of future debt service requirements to maturity at June 30, 2010:

Year Ended June 30,	Lease Payable Bank
2011	\$ 9,816
Total debt service payments	9,816
Less amount representing interest	(95)
Principal balance	\$ 9,721

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
2011	\$ 15,820
2012	15,820
2013	15,820
2014	15,820
2015	15,820
Thereafter	92,778
Subtotal	171,878
Less: interest	(38,438)
TOTAL	\$ 133,440

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
2011	89,272
2012	85,708
2013	82,140
2014	78,573
2015	64,596
Subtotal	400,289
Less: interest	(35,965)
TOTAL	\$ 364,324

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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 rate of 5.14%

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30	Amount
2011	\$ 93,763
2012	93,762
2013	93,763
2014	93,762
2015	93,763
Thereafter	156,271
Subtotal	625,084
Less: interest	(92,764)
Total	\$ 532,320

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 3.61%.

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30	Amount
2011	\$ 96,680
2012	96,680
2013	96,680
2014	96,680
2015	96,680
Thereafter	378,665
Subtotal	862,065
Less: interest	(114,173)
Total	\$ 747,892

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	June 30, 2009	Additions	Retirements	June 30, 2010	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 500,000	\$ -	\$ 125,000	\$ 375,000	\$ 125,000
Lease payable-real estate	142,378	-	8,937	133,441	9,333
Lease payable-soccer field	21,451	-	11,730	9,721	9,721
Lease payable-CBD improvements	439,324	-	75,000	364,324	75,000
Lease payable - Towne Center	599,295	-	66,975	532,320	70,054
Lease payable - renovations	820,000	-	72,108	747,892	73,894
Compensated absences	278,455	28,543	-	306,998	-
Totals	\$ 2,800,903	\$ 28,543	\$ 359,750	\$ 2,469,696	\$ 363,002

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, 2010, 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 necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2010, participating employers contributed 16.16% of

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2010 was 16.16% 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, 2010, 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, 2010, participating employers contributed 32.97% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2010 was 32.97% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings. New employees after August 31, 2008 pay and additional 1% contribution.

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

Year	Contribution	Contributed
2010	\$ 1,268,057	100%
2009	\$ 1,117,840	100%
2008	\$ 1,193,676	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 \$31,071 for the year ended June 30, 2010. The deferred compensation plan is administered by the Kentucky Deferred Compensation Authority.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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%

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the pension benefit obligation occurred during 2010. 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, 2010.

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, 2010, 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, 2010.

Amphitheatre	\$	77,610
Midway District		121,408
2010 Sidewalk Program		97,694
Ft. Thomas Tower		112,192
	\$	<u>408,904</u>

NOTE L – INTERFUND BALANCES AND TRANSFERS

The General Fund records a \$900,000 receivable for 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 (\$111,735), Central Business District Fund (\$389,810) and Tower Park Fund (\$12,990) transferred \$514,535 to the Debt Sewer Fund for payment of the City's debt. The General Fund transferred \$425,000 to the Central Business District Fund representing a .25 percent tax collected by the General Fund on behalf of the CBD.

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 2,471,533	\$ 2,471,533	\$ 8,725,101	\$ 6,253,568
Resources (inflows):				
Taxes	4,081,490	4,081,490	4,193,537	112,047
Licenses and permits	4,232,000	4,232,000	4,355,321	123,321
Intergovernmental	176,660	511,660	546,379	34,719
Uses of property	-	-	84,773	84,773
Fines and forfeitures	55,750	55,750	86,022	30,272
Charges for services	475,590	475,590	531,434	55,844
Interest	239,355	239,355	93,193	(146,162)
Lease proceeds	-	809,000	-	(809,000)
Miscellaneous	56,580	56,580	148,643	92,063
Transfer in	100,000	100,000	5,354	(94,646)
Amounts available for appropriation	<u>11,888,958</u>	<u>13,032,958</u>	<u>18,769,757</u>	<u>5,736,799</u>
Charges to appropriations (outflows):				
General government	1,194,981	1,194,981	1,133,950	61,031
Police	3,042,948	3,042,948	2,766,533	276,415
Fire	2,531,991	2,531,991	2,925,234	(393,243)
General services	2,118,840	2,118,840	1,719,765	399,075
Recreation and property management	479,146	479,146	608,347	(129,201)
Capital outlay	-	985,000	709,827	275,173
Debt services	-	-	139	(139)
Transfers out	<u>536,735</u>	<u>536,735</u>	<u>536,735</u>	<u>-</u>
Total charges to appropriations	<u>9,904,641</u>	<u>10,889,641</u>	<u>10,400,530</u>	<u>489,111</u>
Budgetary fund balance, June 30	\$ <u>1,984,317</u>	\$ <u>2,143,317</u>	\$ <u>8,369,227</u>	\$ <u>6,225,910</u>

NOTE: The City received a federal grant of \$263,156 and matching amounts of \$65,789 which were passed to the Campbell County Dispatch Board. The expenditure of these funds through the fire department were not budgeted.

The City recognized \$133,000 in fire incentive pay accrual at June 30, 2010 in the fire department which were not budgeted.

The City budgets its beginning fund balance at July 1, 2009 at its undersigned funds level; whereas the actual fund balance at July 1, 2009 represents all General Fund amounts.

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, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ 130,000	\$ 130,000	\$ 586,939	\$ 469,208
Resources (inflows):				
Taxes	75,200	75,200	75,178	(22)
Intergovernmental	380,000	380,000	316,636	(63,364)
Interest	500	500	1,338	838
Special assessments	66,000	66,000	87,301	21,301
Miscellaneous	7,500	7,500	-	(7,500)
Transfers	-	-	-	-
Amounts available for appropriation	659,200	659,200	1,067,392	408,192
Charges to appropriations (outflows):				
Current:				
General services	-	-	2,902	(2,902)
Capital outlay:				
Street and sidewalk projects	471,665	471,665	367,762	103,903
Transfers to other funds	-	-	-	-
Total	471,665	471,665	370,664	101,001
Budgetary fund balances, June 30	\$ 187,535	\$ 187,535	\$ 696,728	\$ 509,193

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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, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 979,104	\$ 979,104	\$ 944,941	\$ (34,163)
Resources (inflows):				
Interest	10,000	10,000	-	(10,000)
Miscellaneous	5,000	5,000	8,011	3,011
Transfers in from other funds	-	-	-	-
Amounts available for appropriation	<u>994,104</u>	<u>994,104</u>	<u>952,952</u>	<u>(41,152)</u>
Charges to appropriations (outflows):				
General services	22,300	22,300	35,041	(12,741)
Capital outlay	141,000	141,000	142,768	(1,768)
Transfers to other funds	<u>12,990</u>	<u>12,990</u>	<u>12,990</u>	<u>-</u>
Total	<u>176,290</u>	<u>176,290</u>	<u>190,799</u>	<u>(14,509)</u>
Budgetary fund balances, June 30	<u>\$ 817,814</u>	<u>\$ 817,814</u>	<u>\$ 762,153</u>	<u>\$ (55,661)</u>

CITY OF FT. THOMAS, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2010

	Special Revenue			Total Nonmajor Governmental Funds
	Waste Fee	Cable TV	Debt Service	
ASSETS				
Cash and cash equivalents	\$ 80,701	\$ 267,120	\$ 131,555	\$ 479,376
Accounts receivable	9,249	-	-	9,249
Prepays	-	-	14,042	14,042
Total assets	<u>\$ 89,950</u>	<u>\$ 267,120</u>	<u>\$ 145,597</u>	<u>\$ 502,667</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 65,199	\$ 2,467	-	\$ 67,666
Due to other funds	-	-	-	-
Deferred revenues	7,505	-	-	7,505
Total liabilities	<u>72,704</u>	<u>2,467</u>	<u>-</u>	<u>75,171</u>
Fund balances:				
Unreserved, reported in:				
Debt service funds	-	-	145,597	145,597
Special revenue funds	17,246	264,653	-	281,899
Total fund balances	<u>17,246</u>	<u>264,653</u>	<u>145,597</u>	<u>427,496</u>
Total liabilities and fund balances	<u>\$ 89,950</u>	<u>\$ 267,120</u>	<u>\$ 145,597</u>	<u>\$ 502,667</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, 2010

	Special Revenue				Total Nonmajor Governmental Funds
	Waste Fee	Sewer Fee	Cable TV	Debt Service	
REVENUES					
Licenses and permits	\$ -	\$ -	\$ 19,981	\$ -	\$ 19,981
Intergovernmental	-	-	-	-	-
Charges for services	742,942	-	-	-	742,942
Interest	-	-	-	-	-
Total revenues	742,942	-	19,981	-	762,923
EXPENDITURES					
Current:					
General government	-	-	8,451	-	8,451
General services	787,510	-	-	-	787,510
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	359,750	359,750
Interest	-	-	-	59,056	59,056
Total expenditures	787,510	-	8,451	418,806	1,214,767
Excess (deficiency) of revenues over (under) expenditures	(44,568)	-	11,530	(418,806)	(451,844)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	514,535	514,535
Transfers out	-	(5,354)	-	-	(5,354)
Total other financing sources and uses	-	(5,354)	-	514,535	509,181
Net change in fund balances	(44,568)	(5,354)	11,530	95,729	57,337
Fund balances - beginning	61,814	5,354	253,123	49,868	370,159
Fund balances - ending	\$ 17,246	\$ -	\$ 264,653	\$ 145,597	\$ 427,496



**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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 9, 2011. 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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Fort Thomas, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Fort Thomas, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Fort Thomas, Kentucky's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Fort Thomas, Kentucky's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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.

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 are 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

**Ft. Wright, Kentucky
February 9, 2011**

