



INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council City of Ft. 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 Ft. Thomas, Kentucky, as of June 30, 2008, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ft. Thomas, Kentucky's management. Our responsibility is to express an opinion 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 opinions, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Ft. Thomas, Kentucky, as of June 30, 2008, 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.

The Management's Discussion and Analysis and the required budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted of principally inquiries of management regarding the methods of measurement and presentation of the required supplementary information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the City's financial statements. The supplementary information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Ft. Thomas, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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In accordance with *Government Auditing Standards*, we have also issued a report dated January 29, 2009 on our consideration of the City of Ft. Thomas, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

RANKIN, RANKIN, & COMPANY

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**Ft. Wright, Kentucky
January 29, 2009**

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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, 2008.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$17,776,820 (net assets).

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$10,530,178. This total represents an increase of \$1,377,953 in comparison to the prior fiscal year. The increase was primarily attributable to greater than expected revenue increases and the under spending of line-item appropriations by a number of city departments, and the sale of city owned property.

At the end of the current fiscal year, total fund balance for the general fund was \$7,923,088 or 95% of total general fund expenditures.

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 Florence's 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 \$17,776,820 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, 2008 and 2007, net assets changed as follows:

	Governmental Activities	
	2008	2007
Current and other assets	\$ 11,452,603	\$ 10,098,770
Capital assets, net	9,554,770	10,029,898
Total assets	<u>21,007,373</u>	<u>20,128,668</u>
Other liabilities	799,852	745,894
Long-term liabilities	2,430,701	2,900,156
Total liabilities	<u>3,230,553</u>	<u>3,646,050</u>
Net assets:		
Invested in capital assets, net of debt	7,396,963	7,672,388
Restricted	35,469	31,438
Unrestricted	10,344,388	8,778,792
Total net assets	<u>\$ 17,776,820</u>	<u>\$ 16,482,618</u>

Net assets of the City increased 7.85% or \$1,294,202 during the current fiscal year. The increase was mainly attributable the growth in the revenue line items outpacing the growth in operating and contractual expenses.

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 \$10,530,178, an increase of \$1,377,953 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, unreserved, undesignated fund balance of the general fund was \$7,923,088.

The fund balance of the City's general fund increased by \$1,460,378 during the current fiscal year. Key factors in this growth are as follows:

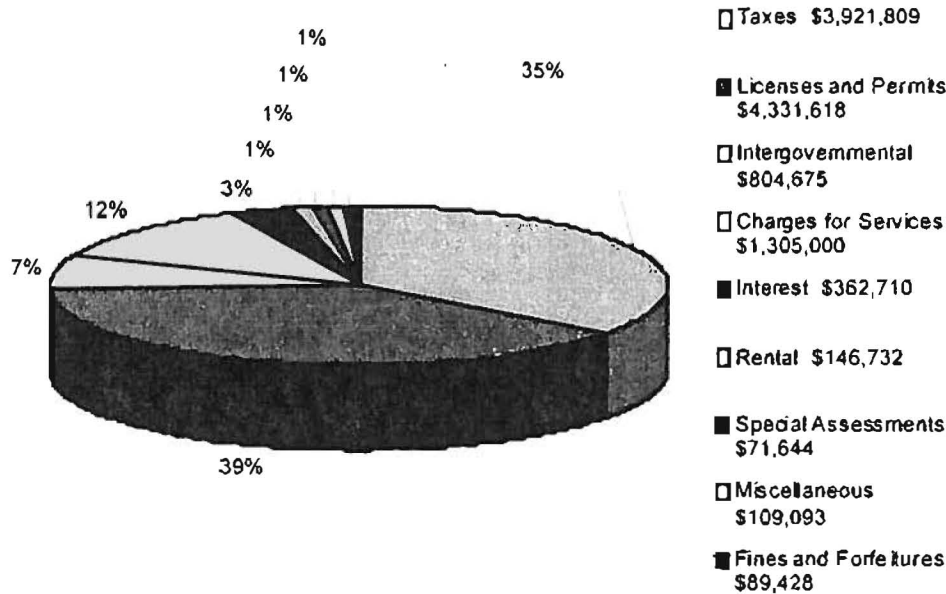
- Sale of City owned property
- Increase in intergovernmental revenues received.

~~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 \$486,127, 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 2008 this fund incurred total expenditures of \$16,974, 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 \$400,000. 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 \$573,867, 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, 2008, and the amount and percentage of increases and decreases in relation to the prior year.

2008 Revenues by Source



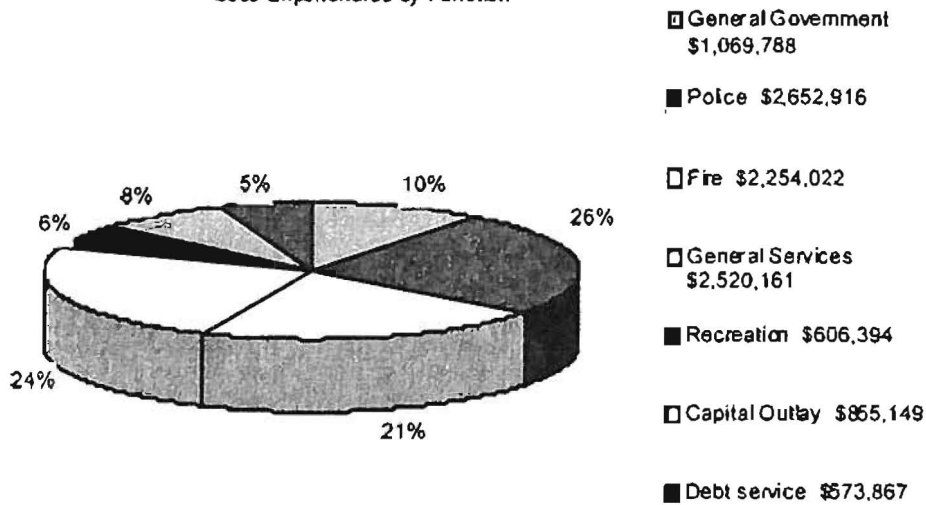
Revenues	FYE 2008 Amount	Percent of Total	Increase (Decrease) From FYE 2007
Taxes	\$ 3,921,809	35.20%	\$ 220,691
Licenses and permits	4,331,618	38.87%	(66,923)
Intergovernmental	804,675	7.22%	351,185
Charges for services	1,305,000	11.71%	21,921
Fines and forfeitures	89,428	0.80%	32,112
Interest	362,710	3.26%	(66,009)
Rental	146,732	1.32%	(16,763)
Special assessments	71,644	0.64%	(47,988)
Miscellaneous	109,093	0.98%	(2,894)
Total revenues	\$ 11,142,709	100.00%	\$ 425,332

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 insurance premium license fees. Revenue from this source is difficult to predict, and as such, can fluctuate widely from year to year.

Intergovernmental revenues increased due to a one time Municipal Road Aid payment from the state.

2008 Expenditures by Function



Expenditures	FYE 2008 Amount	Percent of Total	Increase (Decrease) From FYE 2007
General government	\$ 1,069,788	10.16%	\$ 54,927
Police	2,652,916	25.19%	97,001
Fire	2,254,022	21.40%	101,733
General services	2,520,161	23.93%	8,180
Recreation	606,394	5.76%	74,564
Capital outlay	855,149	8.12%	(647,180)
Debt service	573,867	5.45%	42,189
Total expenditures	\$ 10,532,297	100.00%	\$ (268,586)

Police and Fire had noticeable increases, exceeding the consumer price index, in the categories of workers compensation insurance, required state pension contributions, fuel expense and vehicle/general liability insurance expense. Lower increases were realized in health insurance and consumable supplies due to aggressive bidding and purchasing efforts.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The Fiscal year 2007-2008 budget relied on the anticipation of moderate increases in property and payroll taxes and licenses and fees. Actual revenue categories exceeded budgeted amounts by \$202,427. In addition, actual expenditures were below budgeted appropriations, by \$762,101, adding to the increased year end surplus and reflecting favorably on efforts by the management staff to control expenditures.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$2,157,807 in outstanding notes and capital leases compared to \$2,649,695 last year. That is an decrease of 18.6 percent as shown in the following table.

	Governmental Activities	
	2008	2007
General Obligation Bonds Notes (backed by fee revenues)	\$ 685,000	\$ 910,000
Capital lease and general obligations (backed by city)	1,361,150	1,516,382
Totals	\$ 2,157,807	\$ 2,649,695

Capital Assets

At the end of June 30, 2008, the City had \$19,419,844 invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$115,664. The increase is attributable to 2008 capital additions and less the sale of a building for \$767,541.

	Governmental Activities	
	2008	2007
Land	\$ 913,535	\$ 1,009,909
Construction Progress	441,012	955,503
Buildings	1,727,340	2,273,486
Improvements/Infrastructure	12,193,646	11,043,940
Equipment	1,909,421	1,855,992
Vehicles	2,234,890	2,165,350
TOTALS	\$ 19,419,844	\$ 19,304,180

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In summary, the fiscal year 2008 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 unanticipated growth in major revenue sources and aggressive control and management of operating expenditures. The current fiscal year 2009 operating budget is tight in terms 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, 2008**

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 9,995,071
Receivables:	
Taxes	97,454
Governmental units	38,037
Assessments	27,878
Accounts	1,118,916
Accrued interest	17,444
Prepays	157,803
Capital assets not being depreciated	1,354,547
Capital assets, net of accumulated depreciation	<u>8,200,223</u>
Total assets	<u>21,007,373</u>
LIABILITIES	
Accounts payable	\$ 643,839
Accrued liabilities	136,214
Accrued interest payable	5,350
Deferred revenue	14,449
Noncurrent liabilities:	
Compensated absences	272,894
Due within one year	455,471
Due in more than one year	<u>1,702,336</u>
Total liabilities	<u>3,230,553</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,396,963
Restricted for:	
Debt service	35,469
Unrestricted	<u>10,344,388</u>
Total net assets	<u>\$ 17,776,820</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, 2008

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,114,563	\$ 261,757	\$ -	\$ -	\$ (852,806)
Police	2,730,587	-	101,497	-	(2,629,090)
Fire	2,377,777	281,986	81,398	-	(2,014,393)
General services	3,107,354	965,965	5,000	614,780	(1,521,609)
Recreation and property management	639,122	103,096	2,000	-	(534,026)
Interest on long-term debt	87,327	-	-	-	(87,327)
Total governmental activities	<u>10,056,730</u>	<u>1,612,804</u>	<u>189,895</u>	<u>614,780</u>	<u>(7,639,251)</u>
Total primary government	<u>\$ 10,056,730</u>	<u>\$ 1,612,804</u>	<u>\$ 189,895</u>	<u>\$ 614,780</u>	<u>\$ (7,639,251)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					3,494,781
Taxes, levied for bank deposits					51,316
Motor vehicle taxes					379,276
Licenses and permits					4,331,618
Interest					362,710
Gain on sale of capital assets					204,661
Miscellaneous					109,091
Total general revenues and special items					<u>8,933,453</u>
Change in net assets					1,294,202
Net assets-beginning					<u>16,482,618</u>
Net assets-ending					<u>\$ 17,776,820</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, 2008

	General	Public Works/ KDOT	Central Business District	Tower Park	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 7,383,016	\$ 274,227	\$ 739,464	\$ 979,104	\$ 619,260	\$ 9,995,071
Receivables:						
Taxes	89,191	8,263	-	-	-	97,454
Governmental units	13,110	24,927	-	-	-	38,037
Assessments	-	16,312	11,566	-	-	27,878
Accounts	1,004,493	-	-	-	114,423	1,118,916
Accrued interest	17,444	-	-	-	-	17,444
Prepays	115,407	-	-	-	-	115,407
Due from other funds	57,460	154,558	86,640	-	-	298,658
Total assets	\$ 8,680,121	\$ 478,287	\$ 837,670	\$ 979,104	\$ 733,683	\$ 11,708,865
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 320,320	\$ 125,917	\$ 27,924	\$ 1,342	\$ 168,336	\$ 643,839
Accrued liabilities	134,258	-	1,956	-	-	136,214
Deferred revenue	65,815	16,312	11,566	-	6,283	99,976
Due to other funds	236,640	-	4,558	-	57,460	298,658
Total liabilities	757,033	142,229	46,004	1,342	232,079	1,178,687
Fund balances:						
Reserved for prepaids						
Unreserved, reported in:						
General fund	7,923,088	-	-	-	-	7,923,088
Special revenue funds	-	336,058	791,666	-	466,135	1,593,859
Debt service	-	-	-	-	35,469	35,469
Capital projects funds	-	-	-	977,762	-	977,762
Total fund balances	7,923,088	336,058	791,666	977,762	501,604	10,530,178
Total liabilities and fund balances	\$ 8,680,121	\$ 478,287	\$ 837,670	\$ 979,104	\$ 733,683	\$ 11,708,865
Total governmental fund balances						\$ 10,530,178
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 \$9,865,074						9,554,770
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.						85,527
Costs of issuance of debt, including discounts and premiums, are expensed currently for government funds and are carried as deferred revenue in the statement of net assets						42,396
Accrual interest payable on long-term debt						(5,350)
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						(272,894)
Notes and leases payable						(2,157,807)
Net assets of governmental activities						\$ 17,776,820

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, 2008

	General	Public Works/ DOT	Central Business District	Tower Park	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 3,846,838	\$ 75,171	\$ -	\$ -	\$ -	\$ 3,921,809
Licenses and permits	4,307,647	-	-	-	23,971	4,331,618
Intergovernmental	185,740	511,535	5,000	-	102,400	804,675
Charges for services	564,753	-	-	-	740,247	1,305,000
Fines and forfeitures	89,428	-	-	-	-	89,428
Interest	252,801	14,492	35,017	34,000	26,400	362,710
Rental	101,779	-	44,953	-	-	146,732
Special assessments	-	71,461	183	-	-	71,644
Miscellaneous	66,210	8,199	23,432	11,252	-	109,093
Total revenues	9,414,996	680,858	108,585	45,252	893,018	11,142,709
EXPENDITURES						
Current:						
General government	1,022,624	2,246	42,497	-	2,421	1,069,788
Police	2,652,916	-	-	-	-	2,652,916
Fire	2,254,022	-	-	-	-	2,254,022
General services	1,689,679	-	53,069	16,974	760,439	2,520,161
Recreation and property mgt.	606,394	-	-	-	-	606,394
Capital outlay	118,729	483,88	150,139	-	102,400	855,149
Debt service:						
Principal	-	-	-	-	491,890	491,890
Interest	-	-	-	-	81,977	81,977
Total expenditures	8,344,364	486,127	245,705	16,974	1,439,127	10,532,297
Excess(deficiency) of revenues over(under) expenditures	1,070,632	194,731	(137,120)	28,278	(546,109)	610,412
OTHER FINANCING SOURCES(USES)						
Sale of capital asset	767,541	-	-	-	-	767,541
Transfers in	37,875	-	400,000	-	466,241	904,116
Transfers out	(415,670)	(112,490)	(363,655)	(12,301)	-	(904,116)
Total other financing sources and uses	389,746	(112,490)	36,345	(12,301)	466,241	767,541
Net change in fund balances	1,460,378	82,241	(100,775)	15,977	(79,868)	1,377,953
Fund balances - beginning	6,462,710	253,817	892,441	961,785	581,472	9,152,225
Fund balances - ending	\$ 7,923,088	\$ 336,058	\$ 791,666	\$ 977,762	\$ 501,604	\$ 10,530,178

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, 2008

Net change in fund balances-total governmental funds	\$ 1,377,953
Amounts reported for <i>governmental activities</i> 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	766,109
Depreciation expense	(747,229)
The effect of disposition of capital assets is a decrease to net assets	(562,880)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,564
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.	(7,420)
Accrued interest on long-term debt is reported in the government wide financial statements and not in governmental funds.	(5,350)
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.	491,888
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.	(22,433)
Change in net assets of governmental activities	\$ <u>1,294,202</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, 2008

	Police and Firemen's Pension Plan
ASSETS	
Cash and cash equivalents	\$ 147,487
Investments	166,411
Accrued interest receivable	411
Prepaid expenses	5,073
Total assets	<u>319,382</u>
LIABILITIES	
Accounts payable	<u>1,112</u>
Total liabilities	<u>1,112</u>
NET ASSETS	
Held in trust for pension benefits	<u>318,270</u>
Total net assets	\$ <u><u>319,382</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, 2008

	<u>Police and Firemen's Pension Plan</u>
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 9,696
Net increase(decrease) in the fair value of investments	<u>(16,237)</u>
Total investment earnings	<u>(6,541)</u>
Miscellaneous	1,402
Total additions	<u>(5,139)</u>
DEDUCTIONS	
Benefits	67,048
Administrative expense	3,493
Total deductions	<u>70,541</u>
CHANGE-IN-NET ASSETS	<u>(75,680)</u>
NET ASSETS-BEGINNING OF YEAR	<u>393,950</u>
NET ASSETS END OF YEAR	<u>\$ 318,270</u>

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

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008

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, 2008

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.

~~*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, 2008

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, 2008

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.

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.
- 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.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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, 2008, 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, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Fixed income mutual funds	\$ 48,733
Equity mutual funds	117,678
	<u>\$ 166,411</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, 2008 of \$166,411. 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, 2008

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Retirements/ Deletions	Balance June 30, 2008
Governmental activities:				
Not being depreciated:				
Land	\$ 1,009,909	\$ -	\$ (96,374)	\$ 913,535
Construction in progress	955,503	386,693	(901,184)	441,012
Subtotal	<u>1,965,412</u>	<u>386,693</u>	<u>(997,558)</u>	<u>1,354,547</u>
Other capital assets:				
Buildings	2,273,486	-	(546,146)	1,727,340
Improvements/infrastructure	11,043,940	1,149,706	-	12,193,646
Equipment	1,855,992	61,354	(7,925)	1,909,421
Vehicles	2,165,350	69,540	-	2,234,890
Subtotal	<u>17,338,768</u>	<u>1,280,600</u>	<u>(554,071)</u>	<u>18,065,297</u>
Accumulated depreciation:				
Buildings	1,188,981	36,118	(84,198)	1,140,901
Improvements/infrastructure	5,367,730	394,805	-	5,762,535
Equipment	1,148,215	162,292	(3,367)	1,307,140
Vehicles	1,500,484	154,014	-	1,654,498
Subtotal	<u>9,205,410</u>	<u>747,229</u>	<u>(87,565)</u>	<u>9,865,074</u>
Net other assets	<u>8,133,358</u>	<u>533,371</u>	<u>(466,506)</u>	<u>8,200,223</u>
Net capital assets	\$ 10,098,770	\$ 920,064	\$ (1,464,064)	\$ 9,554,770

*Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 33,778
Police	67,556
Fire	120,411
General services	492,756
Recreation	32,728
Total governmental activities depreciation expense	\$ 747,229

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, 2008

The following is a schedule of future debt service requirements to maturity at June 30, 2008:

Year Ended June 30,	Principal	Interest
2009	\$ 185,000	\$ 14,727
2010	125,000	10,750
2011	125,000	8,063
2012	125,000	5,375
2013	125,000	2,688
Total debt service payments	\$ 685,000	\$ 41,603

Note Payable-Sanitation District

The City entered into a loan agreement on June 26, 1995 with the Sanitation District No. 1 as a result of a municipal merger agreement agreeing to relinquish ownership of the City of Ft. Thomas sanitary sewer lines. The City is responsible for paying 50% of the estimated costs that the Sanitation District will incur for improvements to the sanitary sewer system. The original loan agreement was for \$1,116,568. Repayment began on December 31, 2000 and is payable over 10 years in equal annual installments. This note is payable from proprietary fund revenues.

The following is a schedule of future debt service requirements to maturity at June 30, 2008:

Year Ended June 30,	Note Payable Sanitation District
2009	\$ 111,656
Total debt service payments	\$ 111,656

Capital Leases Payable

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

Long-term debt outstanding at June 30, 2008 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, 2008 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, 2008

The following is a schedule of future debt service requirements to maturity at June 30, 2008:

Year Ended June 30,	Lease Payable Bank
2009	\$ 12,300
2010	12,300
2011	9,225
Total debt service payments	33,825
Less amount representing interest	(1,035)
Principal balance	\$ <u>32,790</u>

Capital Lease Payable-Real Estate

The City entered into a capital lease agreement on June 29, 2001 with Banc One Leasing Corporation 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
2009	\$ 15,820
2010	15,820
2011	15,820
2012	15,820
2013	15,820
Thereafter	124,418
Subtotal	203,518
Less: interest	(52,854)
TOTAL	\$ <u>150,664</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 4%. Annual debt service payment requirements to maturity are as follows:

Year Ending June 30,	Amount
2009	\$ 96,408
2010	92,841
2011	89,272
2012	85,708
2013	82,140
Thereafter	143,169
Subtotal	589,538
Less: interest	(75,214)
TOTAL	\$ <u>514,324</u>

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 fixed rate of 3.75%.

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30	Amount
2009	\$ 93,763
2010	93,762
2011	93,763
2012	93,762
2013	93,763
Thereafter	343,796
Subtotal	812,609
Less: interest	(149,237)
Total	\$ 663,372

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	June 30, 2008	Additions	Retirements	June 30, 2007	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 910,000	\$ -	\$ 225,000	\$ 685,000	\$ 185,000
Note payable	223,313	-	111,656	111,657	111,657
Lease payable-real estate	158,762	-	8,098	150,664	8,522
Lease payable-soccer field	43,754	-	10,964	32,790	11,215
Lease payable-CBD improvements	589,324	-	75,000	514,324	75,000
Lease payable - Towne Center	724,542	-	61,170	663,372	64,077
Compensated absences	250,461	22,433	-	272,894	55,000
Totals	\$ 2,900,156	\$ 22,433	\$ 491,888	\$ 2,430,701	\$ 510,471

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.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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, 2008, plan members were required to contribute 0% 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, 2008, participating employers contributed 16.17% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2008 was 16.17% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2008, 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, 2008, participating employers contributed 33.87% of each employee's

creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2008 was 33.87% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

Year	Contribution	Contributed
2008	\$ 1,193,676	100%
2007	\$ 964,620	100%
2006	\$ 818,060	100%

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 2% of gross wages, which was \$18,606 for the year ended June 30, 2008. The deferred compensation plan is administered by the Kentucky Deferred Compensation Authority.

NOTE H-EMPLOYEE RETIREMENT SYSTEMS

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 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.

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 plans, the measurement is independent of the actuarial computation made to determine contributions to the Plans. The actuarial funding method used to determine contributions to the Plans is explained below.

The pension information summarized below is from the latest available Actuarial Valuation Reports. The pension benefit obligation is calculated assuming a 6% 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.

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

June 30, 2008

	<u>06/30/2007</u>	<u>06/30/2004</u>
PENSION BENEFIT OBLIGATION:		
Retirees and beneficiaries currently receiving benefits	\$ 591,711	\$ 655,051
TOTAL PENSION BENEFIT OBLIGATION	591,711	655,051
NET ASSETS AVAILABLE FOR BENEFITS, AT CURRENT VALUE	<u>394,139</u>	<u>570,290</u>
EXCESS (DEFICIENCY) OF ASSETS OVER PENSION BENEFIT OBLIGATION	\$ <u>(197,572)</u>	\$ <u>(84,761)</u>

No changes in actuarial assumptions or benefit provisions that would significantly affect the valuation of the pension benefit obligation occurred during 2008. There were no past service contributions made for the past three 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.

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, 2008, 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, 2008.

Memorial Parkway sidewalk project	\$ 113,255
Bonnie Lane sewer improvements	77,063
Towne Center renovation	<u>22,904</u>
	\$ <u>213,222</u>

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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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 2,167,528	\$ 2,167,528	\$ 6,462,710	\$ 4,295,182
Resources (inflows):				
Taxes	3,745,425	3,751,425	3,846,638	95,213
Licenses and permits	4,087,530	4,087,530	4,307,647	220,117
Intergovernmental	199,850	305,150	185,740	(119,410)
Fines and forfeitures	56,400	56,400	89,428	33,028
Charges for services	526,560	526,560	564,753	38,193
Interest	323,740	323,740	252,801	(70,939)
Rental	-	-	101,779	101,779
Sale of assets	-	750,000	767,541	17,541
Miscellaneous	117,180	117,180	66,210	(50,970)
Transfer in	100,000	100,000	37,875	(62,125)
Amounts available for appropriation	<u>11,324,213</u>	<u>12,185,513</u>	<u>16,683,122</u>	<u>4,497,609</u>
Charges to appropriations (outflows):				
General government	1,168,415	1,185,565	1,022,624	162,941
Police	2,933,566	2,947,916	2,652,916	295,000
Fire	2,356,924	2,356,924	2,254,022	102,902
General services	1,984,950	1,984,950	1,689,679	295,271
Recreation and property mgt.	541,310	541,310	606,394	(65,084)
Capital outlay	-	79,800	118,729	(38,929)
Transfers out	425,670	425,670	415,670	10,000
Total charges to appropriations	<u>9,410,835</u>	<u>9,522,135</u>	<u>8,760,034</u>	<u>762,101</u>
Budgetary fund balance, June 30	\$ <u>1,913,378</u>	\$ <u>2,663,378</u>	\$ <u>7,923,088</u>	\$ <u>5,259,710</u>

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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 350,000	\$ 350,000	\$ 253,817	\$ (96,183)
Resources (inflows):				
Taxes	75,200	75,200	75,171	(29)
Intergovernmental	646,446	646,446	511,535	(134,911)
Interest	12,000	12,000	14,492	2,492
Special assessments	80,000	80,000	71,461	(8,539)
Miscellaneous	7,500	7,500	8,199	699
Amounts available for appropriation	<u>1,171,146</u>	<u>1,171,146</u>	<u>934,675</u>	<u>(236,471)</u>
Charges to appropriations (outflows):				
Current:				
General services	-	-	2,246	(2,246)
Capital outlay:				
Street and sidewalk projects	641,340	641,340	483,881	157,459
Transfers to other funds	<u>112,490</u>	<u>112,490</u>	<u>112,490</u>	<u>-</u>
Total	<u>753,830</u>	<u>753,830</u>	<u>598,617</u>	<u>155,213</u>
Budgetary fund balances, June 30	\$ <u>417,316</u>	\$ <u>417,316</u>	\$ <u>336,058</u>	\$ <u>(81,258)</u>

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL-CENTRAL BUSINESS DISTRICT SPECIAL REVENUE FUND
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 680,110	\$ 680,110	\$ 892,441	\$ 212,331
Resources (inflows):				
Intergovernmental	-	-	5,000	5,000
Rental	60,600	60,600	44,953	(15,647)
Interest	18,000	18,000	35,017	17,017
Miscellaneous	12,500	28,400	23,432	(4,968)
Assessments	-	-	183	183
Transfers from other funds	400,000	400,000	400,000	-
Amounts available for appropriation	<u>1,171,210</u>	<u>1,187,110</u>	<u>1,401,026</u>	<u>213,916</u>
Charges to appropriations (outflows):				
Current:				
General government	39,800	39,800	42,497	(2,697)
General services	86,000	151,900	53,069	98,831
Capital outlay			150,139	(150,139)
Transfers to other funds	<u>386,380</u>	<u>386,380</u>	<u>363,655</u>	<u>22,725</u>
Total	<u>512,180</u>	<u>578,080</u>	<u>609,360</u>	<u>(31,280)</u>
Budgetary fund balances, June 30	\$ <u>659,030</u>	\$ <u>609,030</u>	\$ <u>791,666</u>	\$ <u>182,636</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 985,000	\$ 985,000	\$ 961,785	\$ (23,215)
Resources (inflows):				
Interest	42,000	42,000	34,000	(8,000)
Miscellaneous	5,000	5,000	11,252	6,252
Transfers in from other funds	-	-	-	-
Amounts available for appropriation	<u>1,032,000</u>	<u>1,032,000</u>	<u>1,007,037</u>	<u>(24,963)</u>
Charges to appropriations (outflows):				
General services	8,500	8,500	16,974	(8,474)
Capital outlay	35,000	35,000	-	35,000
Transfers to other funds	12,990	12,990	12,301	689
Total	<u>56,490</u>	<u>56,490</u>	<u>29,275</u>	<u>27,215</u>
Budgetary fund balances, June 30	<u>\$ 975,510</u>	<u>\$ 975,510</u>	<u>\$ 977,762</u>	<u>\$ 2,252</u>

CITY OF FT. THOMAS, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2008

			Special Revenue			Total Nonmajor Governmental Funds
	Capital Projects Fund	Waste Fee	Sewer Fee	Cable TV	Debt Service	
ASSETS						
Cash and cash equivalents	\$ -	\$ 153,215	\$ 172,906	\$ 255,608	\$ 37,531	\$ 619,260
Accounts receivable	102,400	8,028	-	3,995	-	114,423
Total assets	\$ 102,400	\$ 161,243	\$ 172,906	\$ 259,603	\$ 37,531	\$ 733,683
LIABILITIES AND FUND BALANCES						
Accounts payable	\$ 102,400	\$ 63,473	\$ -	\$ 401	\$ 2,062	\$ 168,336
Due to other funds	-	-	57,460	-	-	57,460
Deferred revenues	-	6,283	-	-	-	6,283
Total liabilities	102,400	69,756	57,460	401	2,062	232,079
Fund balances:						
Unreserved, reported in:						
Debt service funds	-	-	-	-	35,469	35,469
Special revenue funds	-	91,487	115,446	259,202	-	466,135
Total fund balances	-	91,487	115,446	259,202	35,469	501,604
Total liabilities and fund balances	\$ 102,400	\$ 161,243	\$ 172,906	\$ 259,603	\$ 37,531	\$ 733,683

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, 2008

	Special Revenue					Total Nonmajor Governmental Funds
	Capital Projects Fund	Waste Fee	Sewer Fee	Cable TV	Debt Service	
REVENUES						
Licenses and permits	\$ -	\$ -	\$ -	\$ 23,971	\$ -	\$ 23,971
Intergovernmental	102,400	-	-	-	-	102,400
Charges for services	-	740,247	-	-	-	740,247
Interest	-	10,900	7,300	8,200	-	26,400
Total revenues	102,400	751,147	7,300	32,171	-	893,018
EXPENDITURES						
Current:						
General government	-	-	-	2,421	-	2,421
General services	-	760,439	-	-	-	760,439
Capital outlay	102,400	-	-	-	-	102,400
Debt service:						
Principal	-	-	111,657	-	380,233	491,890
Interest	-	-	-	-	81,977	81,977
Total expenditures	102,400	760,439	111,657	2,421	462,210	1,439,127
Excess (deficiency) of revenues over(under) expenditures	-	(9,292)	(104,357)	29,750	(462,210)	(546,109)
OTHER FINANCING SOURCES(USES)						
Transfers in	-	-	-	-	466,241	466,241
Transfers out	-	-	-	-	-	-
Total other financing sources and uses	-	-	-	-	466,241	466,241
Net change in fund balances	-	(9,292)	(104,357)	29,750	4,031	(79,868)
Fund balances - beginning	\$ -	\$ 100,779	\$ 219,803	\$ 229,452	\$ 31,438	\$ 581,472
Fund balances - ending	\$ -	\$ 91,487	\$ 115,446	\$ 259,202	\$ 35,469	\$ 501,604



**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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 29, 2009. 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

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
January 29, 2009**

