

CITY OF FT. THOMAS, KENTUCKY

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ft. Thomas, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Ft. Thomas, Kentucky, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 and budgetary comparison information, schedule of City contributions, and schedule of proportionate share of net pension liability-hazardous and non hazardous on pages 41-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2019, on our consideration of the City of Ft. Thomas, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ft. Thomas, Kentucky's internal control over financial reporting and compliance.

RANKIN, RANKIN, & COMPANY

**Ft. Thomas, Kentucky
January 23, 2019**

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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, 2018.

Financial Highlights

The assets of the City exceeded its liabilities (net position) at the close of the most recent year by \$10,373,496.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$17,271,717. This total represents an increase of \$1,758,222 in comparison to the prior fiscal year. The increase was primarily attributable to revenues exceeding the budget projections.

At the end of the current fiscal year, total fund balance for the general fund was \$15,070,488, a \$1,616,928 increase over the prior fiscal year.

Overview of the Financial Statements

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

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

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

The statement of activities presents how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. As a result, revenues and

expenses are reported in this statement for some items that will only result in cash flows for future fiscal periods (e.g. uncollected revenue and earned by unused vacation leave.)

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City of Ft. Thomas, assets exceeded liabilities by \$10,373,496 at the close of the most recent year.

The largest portion of the City’s net position 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, 2018 and 2017, net position changed as follows:

| | Governmental Activities | |
|---|-------------------------|----------------------|
| | 2018 | 2017 |
| Current and other assets | \$ 17,875,500 | \$ 16,234,407 |
| Capital assets, net | 16,818,921 | 17,043,792 |
| Total assets | <u>34,694,421</u> | <u>33,278,199</u> |
| Deferred outflows of resources | 10,295,769 | 5,010,597 |
| Other liabilities | 655,769 | 747,251 |
| Long-term liabilities | 31,521,111 | 21,675,372 |
| Total liabilities | <u>32,176,880</u> | <u>22,422,623</u> |
| Deferred inflow of resources | 2,439,814 | 1,164,133 |
| Net assets: | | |
| Invested in capital assets, net of debt | 11,558,603 | 11,494,848 |
| Restricted | 1,593,872 | 1,489,516 |
| Unrestricted (as restated for 2017) | (2,778,979) | 1,717,676 |
| Total net position (as restated for 2017) | <u>\$ 10,373,496</u> | <u>\$ 14,702,040</u> |

Net position of the City decreased by \$4,328,544 during the current fiscal year, primarily due to an approximate \$6,000,000 change in pension liabilities.

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 \$17,271,717, an increase of \$1,758,222, in comparison with fiscal year FY 2017-18.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the balance of the general fund was \$15,070,488, which represents an increase of \$1,616,928 over fiscal year 2016-2017. Key factors in this change are as follows:

Significant activity in funds other than the City's General Fund includes Special Revenue (Public Works/KDOT Fund and Central Business District Fund), Capital Projects (Tower Park Fund) and Other Governmental Funds (Waste Fee and Debt Service). These funds account for the majority of non-operating activity including, but not limited to, capital infrastructure projects, special projects, debt repayment and activity that must be segregated from the General Fund. The Public Works/KDOT Special Revenue Fund included total expenditures of \$419,473, which consisted primarily of road resurfacing and pier walls for road stabilization. The Capital Projects/Tower Park Fund represents activity from revenues restricted by City ordinance, are earmarked specifically for approved recreation projects. In FY 2018, this fund incurred total expenditures of \$36,748, primarily utilizing carry over funds from prior fiscal years. Significant activity under the Central Business District Fund included debt service for bond issues associated with park improvements and business district revitalization projects, as well as city-sponsored events. The primary source of revenue in this fund is a portion of the city's occupational license fee (.25%), specifically earmarked for infrastructure improvements in the City's business districts. The amount of that transfer for FY2018 totaled \$588,000.

Activity within the Debt Service Fund included total expenditures of \$566,412 representing repayment of borrowed funds associated with the CBD revitalization, Towne Center revitalization, building improvements, general obligation bonds and park improvements.

The following schedules present a summary of general, special revenue, debt service and capital projects revenues and expenditures for the fiscal year ended June 30, 2018, and the amount and percentage of increases and decreases in relation to the prior year.

| <u>Revenues</u> | <u>FYE 2018 Amount</u> | <u>Percent of Total</u> | <u>FYE 2017 Amount</u> | <u>Percent of Total</u> |
|-----------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| Taxes | \$ 6,033,021 | 40.26% | \$ 5,756,199 | 39.74% |
| Licenses and permits | 6,030,455 | 40.25% | 5,771,716 | 39.72% |
| Intergovernmental | 570,358 | 3.81% | 723,775 | 4.83% |
| Charges for services | 1,731,095 | 11.55% | 1,473,653 | 12.34% |
| Fines and forfeitures | 89,899 | 0.60% | 61,544 | 0.38% |
| Interest | 41,754 | 0.28% | 14,064 | 0.20% |
| Special assessments | 92,231 | 0.62% | 99,439 | 0.72% |
| Miscellaneous | 395,491 | 2.64% | 550,354 | 2.07% |
| Total revenues | \$ 14,984,304 | 100.00% | \$ 14,450,744 | 100.00% |

As usual, the increase in the Taxes line is due in large part to the increase in property taxes. The large increase in Charges for Services over FY16-17 stems from an increase in waste collection fees tied to a new waste collection contract. Interest revenues increased as well, due to investments in different securities, which have offset the loss of traditional bank interest revenues.

The increase in licenses and permits stems from another increase in revenue from occupational net profits taxes, payroll taxes and insurance premium tax. Historically, net profits and payroll taxes have increased slightly year to year. Insurance premium tax, while somewhat volatile, tends to trend upward as well.

| Expenditures | FYE 2018 Amount | Percent of Total | FYE 2017 Amount | Percent of Total |
|---------------------------|----------------------|------------------------|----------------------|------------------------|
| General government | \$ 1,325,176 | 10.02% | \$ 1,307,080 | 9.92% |
| Police | 3,547,729 | 26.82% | 3,226,705 | 25.60% |
| Fire | 2,843,259 | 21.50% | 2,817,231 | 21.64% |
| General services | 3,154,202 | 23.85% | 2,864,394 | 22.45% |
| Recreation | 836,807 | 6.33% | 789,558 | 6.29% |
| Capital outlay | 952,130 | 7.20% | 1,139,201 | 8.31% |
| Debt service | 566,779 | 4.29% | 631,492 | 5.78% |
| Total expenditures | \$ 13,226,082 | 100.00% | \$ 12,775,661 | 100.00% |

The chart above shows that many departmental expenditures increased over fiscal year 2016-2017. This is due largely to budgeted cost-of-living raises and pension contribution increases. Capital outlay, however, decreased by more than \$187,071, due to lower costs in the Street Improvement Program. The most important decrease was again in debt service expenditures, which continue to drop as the City pays off additional long-term debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The fiscal year 2017-2018 budget relied, as the City's budget has in the past, on the anticipation of moderate increases in property and payroll taxes and licenses and fees. Actual revenue categories exceeded budgeted amounts by \$1,181,292. In addition, actual expenditures finished \$431,154 under budgeted appropriations.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$5,260,318 in outstanding bonds and capital leases compared to \$5,548,944 last year.

| | Governmental Activities | |
|---|----------------------------|---------------------|
| | 2018 | 2017 |
| General Obligation Bonds | \$ - | \$ - |
| Capital lease and general obligations (backed by City) | 5,260,318 | 5,548,944 |
| Totals | \$ 5,260,318 | \$ 5,548,944 |

In 2013-14, the City adopted Government Accounting Standards Board Statement No. 67 – Financial Reporting for Pension Plans, which requires the recognition of Net Pension Liability.

In 2014-15, the City adopted Government Accounting Standards Board Statement No. 68-Financial Reporting for Pensions-an Amendment of GASB Statement No. 27.

In 2017-18, the City adopted Government Accounting Standards Board Statement No.75 "Accounting and Financial Reporting for Post employment Benefits Other Than Pension". The net pension liability of June 30, 2018 (based on the June 30, 2017 actuarial report) was \$6,893,842.

Capital Assets

At the end of June 30, 2018, the City had \$35,623,033 invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$952,129. Most of this increase came from infrastructure improvements, as several longer-term projects were completed. This year also saw a large increase in construction-in-progress, as several long-term projects were begun. Typical small increases are also shown in the equipment and vehicle categories, which reflect normal yearly purchases and scheduled equipment replacement.

| | Governmental Activities | |
|-----------------------------|--------------------------------|----------------------|
| | 2018 | 2017 |
| Land | \$ 1,035,535 | \$ 1,035,535 |
| Construction Progress | 452,287 | 267,464 |
| Buildings | 3,193,939 | 3,102,824 |
| Improvements/Infrastructure | 24,782,433 | 24,364,489 |
| Equipment | 2,967,031 | 2,907,602 |
| Vehicles | 3,191,808 | 2,992,990 |
| TOTALS | \$ 35,623,033 | \$ 34,670,904 |

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The budget for the fiscal year ended June 30, 2018 again continued the City’s goal of providing efficient and effective public services. This audit report highlights the City’s continued growth during this fiscal year. Positives for this fiscal year include higher-than-expected growth in the City’s primary revenue sources and controlling the daily operating expenditures. The fiscal year 2018-2019 budget continues to follow this conservative approach when it comes to revenue and expenditure estimates. Adherence to his approach ensures that the City will maintain adequate reserves to deal with any crisis or unexpected large expenditure that may arise. As in the past, this conservative focus means that only limited discretionary funds are traditionally available to reflect policy initiatives, such as those outlined by the Board of Council. Funds have been earmarked in this fiscal year, as with the year ended June 30, 2018, for the City’s Visioning Process and accompanying Comprehensive Plan update. The planning phase will be completed by fiscal year end, with funding for implementation to be earmarked going forward.

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 and spends. If you have questions about this report or need additional financial information, contact the City Administrator’s Office at 130 N. Ft. Thomas, Ft. Thomas, Kentucky.

BASIC FINANCIAL STATEMENTS

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

June 30, 2018

| | <u>Primary Government</u> |
|---|------------------------------------|
| | <u>Governmental Activities</u> |
| ASSETS | |
| Cash and cash equivalents | \$ 14,009,169 |
| Investments | 1,932,633 |
| Receivables: | |
| Taxes | 93,307 |
| Intergovernmental | 32,657 |
| Assessments | 29,777 |
| Accounts | 1,421,709 |
| Accrued interest | 4,610 |
| Prepays | 351,638 |
| Deferred expenses | - |
| Capital assets not being depreciated | 1,487,822 |
| Capital assets, net of accumulated depreciation | 15,331,099 |
| Total assets | <u>34,694,421</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred charges on debt issuance | 183,566 |
| Contributions subsequent to the measurement date | 1,513,157 |
| Other deferred outflows | 8,599,046 |
| Total deferred outflows of resources | <u>10,295,769</u> |
| LIABILITIES | |
| Accounts payable | 265,716 |
| Accrued liabilities | 281,691 |
| Accrued interest payable | 108,362 |
| Unearned revenue | - |
| Noncurrent liabilities: | |
| Net pension liability | 25,951,145 |
| Compensated absences | 309,648 |
| Due within one year | 298,533 |
| Due in more than one year | 4,961,785 |
| Total liabilities | <u>32,176,880</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Differences between projected and actual earnings on pension plan and other deferred inflows | <u>2,439,814</u> |
| NET POSITION | |
| Net investment in capital assets | 11,558,603 |
| Restricted for: | 1,593,872 |
| Capital | (2,778,979) |
| Unrestricted | <u> </u> |
| Total net position | <u>\$ 10,373,496</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, 2018

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | |
|---|----------------------|-------------------------|--|---|--|
| | | Charges for Services | Operating Grants and Contributions | | Capital Grants and Contributions |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 1,433,313 | \$ 250,032 | \$ - | \$ - | \$ (1,183,281) |
| Police | 3,608,246 | - | 137,373 | - | (3,470,873) |
| Fire | 2,938,835 | 310,711 | 102,504 | - | (2,525,620) |
| General services and property mgt. | 4,057,628 | 1,489,759 | 400 | 330,081 | (2,237,388) |
| Recreation | 867,963 | 88,227 | - | - | (779,736) |
| Interest and other debt costs | 288,072 | - | - | - | (288,072) |
| Pension expense | 1,737,478 | - | - | - | (1,737,478) |
| Total governmental activities | <u>14,931,535</u> | <u>2,138,729</u> | <u>240,277</u> | <u>330,081</u> | <u>(12,222,448)</u> |
| Total primary government | <u>\$ 14,931,535</u> | <u>\$ 2,138,729</u> | <u>\$ 240,277</u> | <u>\$ 330,081</u> | <u>\$ (12,222,448)</u> |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 5,444,304 |
| Taxes, levied for bank deposits | | | | | 70,702 |
| Motor vehicle taxes | | | | | 518,015 |
| Licenses and permits | | | | | 6,030,455 |
| Interest | | | | | 41,754 |
| Miscellaneous | | | | | 169,987 |
| Total general revenues and special items | | | | | <u>12,275,217</u> |
| Change in net position | | | | | <u>52,769</u> |
| Net position-beginning, as restated | | | | | <u>10,320,727</u> |
| Net position-ending | | | | | <u>\$ 10,373,496</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, 2018

| | Special Revenue | | | Capital Project | Other Governmental Funds | Total Governmental Funds | |
|--|----------------------|-----------------------|---------------------------|-------------------|--------------------------|--------------------------|----------------------|
| | General | Public Works/ KDOT | Central Business District | Tower Park | | | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 10,983,021 | \$ 1,362,322 | \$ 66,940 | \$ 561,073 | \$ 1,035,813 | \$ 14,009,169 | |
| Investments | 1,932,633 | - | - | - | - | 1,932,633 | |
| Receivables: | | | | | | | |
| Taxes | 93,307 | - | - | - | - | 93,307 | |
| Governmental units | 32,657 | - | - | - | - | 32,657 | |
| Assessments | - | 28,660 | 1,117 | - | - | 29,777 | |
| Accounts | 1,369,209 | 47,440 | - | - | 5,060 | 1,421,709 | |
| Accrued interest | 4,610 | - | - | - | - | 4,610 | |
| Prepays | 351,638 | - | - | - | - | 351,638 | |
| Deferred expenses | - | - | - | - | - | - | |
| Due from other funds | 1,022,944 | 195,057 | 86,640 | - | - | 1,304,641 | |
| Total assets | \$ 15,790,019 | \$ 1,633,479 | \$ 154,697 | \$ 561,073 | \$ 1,040,873 | \$ 19,180,141 | |
| LIABILITIES DEFERRED INFLOWS AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 158,499 | \$ 15,887 | \$ 424 | \$ 623 | \$ 90,283 | \$ 265,716 | |
| Accrued liabilities | 281,691 | - | - | - | - | 281,691 | |
| Due to other funds | 252,139 | - | 699,558 | - | 352,944 | 1,304,641 | |
| Total liabilities | 692,329 | 15,887 | 699,982 | 623 | 443,227 | 1,852,048 | |
| Deferred inflows of resources | | | | | | | |
| Unavailable inflows of resources | 27,202 | 23,720 | 1,117 | - | 4,337 | 56,376 | |
| Fund balances: | | | | | | | |
| Nonspendable - prepays | 351,638 | - | - | - | - | 351,638 | |
| Restricted-capital projects | - | 1,593,872 | - | - | - | 1,593,872 | |
| Committed to - capital projects | - | - | - | 560,450 | - | 560,450 | |
| Assigned to - capital projects | - | - | - | - | - | - | |
| - waste | - | - | - | - | 153,130 | 153,130 | |
| - debt service | - | - | - | - | 440,179 | 440,179 | |
| Unassigned | 14,718,850 | - | (546,402) | - | - | 14,172,448 | |
| Total fund balances | 15,070,488 | 1,593,872 | (546,402) | 560,450 | 593,309 | 17,271,717 | |
| Total liabilities and fund balances | \$ 15,790,019 | \$ 1,633,479 | \$ 154,697 | \$ 561,073 | \$ 1,040,873 | \$ 19,180,141 | |
| Total governmental fund balances | | | | | | \$ 17,271,717 | |
| 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 \$18,804,112 | | | | | | | 16,818,921 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | | | | | 56,376 |
| 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 position. | | | | | | | 183,566 |
| Deferred outflows from net pension liability | | | | | | | 6,268,736 |
| Deferred outflows from OPEB liability. | | | | | | | 2,330,310 |
| Contributions subsequent to net pension liability measurement date | | | | | | | 1,513,157 |
| Deferred inflows from net pension liability | | | | | | | (2,008,008) |
| Deferred inflows from OPEB liability | | | | | | | (431,806) |
| Accrual interest payable on long-term debt | | | | | | | (108,362) |
| Long-term liabilities, including notes payable, are not due and payable in current period and therefore are not reported in the funds: | | | | | | | |
| Net pension and OPEB liability | | | | | | | (25,951,145) |
| Accrued absences payable | | | | | | | (309,648) |
| Bonds and leases payable | | | | | | | (5,260,318) |
| Net position of governmental activities | | | | | | | \$ 10,373,496 |

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, 2018

| | General | Special Revenue | | Capital Project | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|-----------------------|---------------------------|-----------------|--------------------------|--------------------------|
| | | Public Works/ KDOT | Central Business District | Tower Park | | |
| REVENUES | | | | | | |
| Taxes | \$ 5,933,783 | \$ 99,238 | \$ - | \$ - | \$ - | \$ 6,033,021 |
| Licenses and permits | 6,030,455 | - | - | - | - | 6,030,455 |
| Intergovernmental | 240,277 | 330,081 | - | - | - | 570,358 |
| Charges for services | 653,155 | - | - | - | 1,077,940 | 1,731,095 |
| Uses of property | 225,504 | - | - | - | - | 225,504 |
| Fines and forfeitures | 89,899 | - | - | - | - | 89,899 |
| Interest | 38,052 | 2,669 | 49 | - | 984 | 41,754 |
| Special assessments | - | 91,824 | 407 | - | - | 92,231 |
| Miscellaneous | 119,602 | 17 | 44,042 | 6,278 | 48 | 169,987 |
| Total revenues | 13,330,727 | 523,829 | 44,498 | 6,278 | 1,078,972 | 14,984,304 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 1,325,176 | - | - | - | - | 1,325,176 |
| Police | 3,547,729 | - | - | - | - | 3,547,729 |
| Fire | 2,843,259 | - | - | - | - | 2,843,259 |
| General services and property mgt. | 2,071,207 | 21,110 | 6,303 | 12,806 | 1,042,776 | 3,154,202 |
| Recreation | 595,889 | - | 240,918 | - | - | 836,807 |
| Capital outlay | 529,825 | 398,363 | - | 23,942 | - | 952,130 |
| Debt service: | | | | | | |
| Principal | - | - | - | - | 288,627 | 288,627 |
| Interest | 367 | - | - | - | 277,785 | 278,152 |
| Total expenditures | 10,913,452 | 419,473 | 247,221 | 36,748 | 1,609,188 | 13,226,082 |
| Excess(deficiency) of revenues over(under) expenditures | 2,417,275 | 104,356 | (202,723) | (30,470) | (530,216) | 1,758,222 |
| OTHER FINANCING SOURCES(USES) | | | | | | |
| Transfers in | - | - | 588,000 | 100,000 | 568,526 | 1,256,526 |
| Transfers out | (800,347) | - | (456,179) | - | - | (1,256,526) |
| Total other financing sources and uses | (800,347) | - | 131,821 | 100,000 | 568,526 | - |
| Net change in fund balances | 1,616,928 | 104,356 | (70,902) | 69,530 | 38,310 | 1,758,222 |
| Fund balances - beginning | \$ 13,453,560 | \$ 1,489,516 | \$ (475,500) | \$ 490,920 | \$ 554,999 | \$ 15,513,495 |
| Fund balances - ending | \$ 15,070,488 | \$ 1,593,872 | \$ (546,402) | \$ 560,450 | \$ 593,309 | \$ 17,271,717 |

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, 2018

| | |
|---|------------------|
| Net change in fund balances-total governmental funds | \$ 1,758,222 |
| 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 | 952,129 |
| Depreciation expense | (1,177,000) |
| The effect of disposition of capital assets is a decrease to net assets | - |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | - |
| 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. | (12,520) |
| Accrued interest on long-term debt is reported in the government wide financial statements and not in governmental funds. | 2,600 |
| Repayment of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. This is the amount of debt principal payments. | 288,626 |
| 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. | (28,247) |
| | 6,435 |
| Change in contributions subsequent to the net pension liability measurement date. | 485,011 |
| Government funds report the effect of net pension liability reported as deferred inflows and as deferred outflows. | 3,537,000 |
| Government funds report the effect of net pension liability expenses based on proportionate share of service cost and calculated pension costs from measurement date to measurement date. | (5,759,487) |
| Change in net position of governmental activities | \$ <u>52,769</u> |

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

CITY OF FT. THOMAS, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2018

| | <u>Police and Firemen's Pension Plan</u> |
|------------------------------------|--|
| ASSETS | |
| Cash and cash equivalents | \$ <u>110,902</u> |
| Total assets | <u>110,902</u> |
| LIABILITIES | |
| Accounts payable | <u>-</u> |
| Total liabilities | <u>-</u> |
| NET POSITION | |
| Held in trust for pension benefits | <u>110,902</u> |
| Total net position | \$ <u><u>110,902</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 POSITION
FIDUCIARY FUND

For the Year Ended June 30, 2018

| | Police and Firemen's Pension Plan |
|---------------------------------------|---|
| ADDITIONS | |
| Investment earnings: | |
| Interest and dividends | \$ - |
| Total investment earnings | - |
| Miscellaneous income | - |
| Transfer from General Fund | - |
| Total additions (reductions) | - |
| DEDUCTIONS | |
| Benefits paid | 30,437 |
| Administrative expense | 800 |
| Total deductions | 31,237 |
| CHANGE IN NET POSITION | (31,237) |
| NET POSITION-BEGINNING OF YEAR | 142,139 |
| NET POSITION END OF YEAR | \$ 110,902 |

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

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Ft. Thomas, Kentucky, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the City are described below.

Financial Reporting Entity

The City of Ft. Thomas is a municipality governed by a mayor and six-member council. As required by U.S. generally accepted accounting principles, these financial statements present the government and its component unit entities for which the government is considered to be financially accountable.

Blended Component Units

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

Included within the reporting entity:

City of Fort Thomas Police and Firemen's Pension Fund

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

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Amounts paid to acquire capital assets are capitalized as assets in the government-wide finan-

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

cial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure. The beginning net position has been restated to reflect GASB 67, financial reporting for pension plans.

Measurement focus, basis of accounting and financial statement presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

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

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

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

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

Assets, liabilities and net assets or equity

Cash and Cash Equivalents

Cash and cash equivalents including amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

Investments

In accordance with GASB Statement 31, investments held at June 30, 2018 are recorded at fair value based upon quoted market prices. (Level 1)

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, 2018 (2017 tax year) were \$.412 per \$100 valuation for real estate and \$.412 personal property. The taxable assessed value of property on which 2017 was based was \$1,240,868,297.

Short-Term Interfund Receivables/Payables

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

Capital Assets

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

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

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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:

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

Compensated Absences

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

Long-Term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government only has one type of item, which

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance Policies

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

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

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

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

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

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

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

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

Expenditures/Expenses

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

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

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

In the fund financial statements governmental funds report expenditures of financial resources.

Interfund Transactions

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

Restricted Revenues

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

Use of Estimates

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

Date of Management's Review

Subsequent events were evaluated through January 23, 2019, which is the date the financial statements were available for review.

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. In accordance with City ordinance, by May 31, the Mayor submits to the Council, a proposed operating budget on the modified accrual basis of accounting for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. A public meeting is conducted to obtain citizen comment.
- C. By July 1, the budget is legally enacted through passage of an ordinance.
- D. The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- E. Appropriations continue in effect until a new budget is adopted.
- F. The Council may authorize supplemental appropriations during the year.

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

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

June 30, 2018

NOTE C-DEPOSITS AND INVESTMENTS

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2018, 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, 2018, the City had the following investments: Certificates of Deposit, fair value \$1,932,633, with a maturity from 12/28/18 to 6/19/20. Interest rate risk is limited and credit risk is within the City's investment policy. For investments, custodial risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of the investments that are in the possession of an outside party. The City has custodial risk at June 30, 2018 in the amount of \$1,932,633 for its certificates of deposit. All cash and investments are Level 1, quoted prices in active markets for identical assets.

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2018 was as follows:

| | Balance June 30, 2017 | Additions | Retirements/ Deletions | Balance June 30, 2018 |
|-----------------------------|-----------------------------|---------------------|---------------------------|-----------------------------|
| Governmental activities: | | | | |
| Not being depreciated: | | | | |
| Land | \$ 1,035,535 | \$ - | \$ - | \$ 1,035,535 |
| Construction in progress | 267,464 | 277,993 | (93,170) | 452,287 |
| Subtotal | <u>1,302,999</u> | <u>277,993</u> | <u>(93,170)</u> | <u>1,487,822</u> |
| Other capital assets: | | | | |
| Buildings | 3,102,824 | 91,115 | - | 3,193,939 |
| Improvements/infrastructure | 24,364,489 | 417,944 | - | 24,782,433 |
| Equipment | 2,907,602 | 59,429 | - | 2,967,031 |
| Vehicles | 2,992,990 | 198,818 | - | 3,191,808 |
| Subtotal | <u>33,367,905</u> | <u>767,306</u> | <u>-</u> | <u>34,135,211</u> |
| Accumulated depreciation: | | | | |
| Buildings | 1,826,012 | 94,568 | - | 1,920,580 |
| Improvements/infrastructure | 11,263,861 | 808,948 | - | 12,072,809 |
| Equipment | 2,310,551 | 106,011 | - | 2,416,562 |
| Vehicles | 2,226,688 | 167,473 | - | 2,394,161 |
| Subtotal | <u>17,627,112</u> | <u>1,177,000</u> | <u>-</u> | <u>18,804,112</u> |
| Net other assets | <u>15,740,793</u> | <u>(409,694)</u> | <u>-</u> | <u>15,331,099</u> |
| Net capital assets | <u>\$ 17,043,792</u> | <u>\$ (131,701)</u> | <u>\$ (93,170)</u> | <u>\$ 16,818,921</u> |

| |
|---|
| <p>CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p> |
|---|

Depreciation was charged to functions as follows:

| | |
|--|---------------------|
| Governmental activities: | |
| General government | \$ 86,325 |
| Police | 60,517 |
| Fire | 95,576 |
| General services | 903,426 |
| Recreation | 31,156 |
| Total governmental activities depreciation expense | <u>\$ 1,177,000</u> |

NOTE E-LONG-TERM DEBT

Capital Lease Obligations

The capital lease obligations are payable from general revenues of the City.

Long-term debt outstanding at June 30, 2018 for the capital leases consisted of the following:

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 |
|-------------------------|------------------|
| 2019 | 13,691 |
| 2020 | 13,691 |
| 2021 | 13,691 |
| Thereafter | - |
| Subtotal | 41,073 |
| Less: interest | (358) |
| TOTAL | <u>\$ 40,715</u> |

Capital Lease Payable – City Building Renovations

The City entered into an \$820,000 capital lease agreement on June 8, 2009 with the Kentucky League of Cities Funding Trust to finance the capital construction of renovations to the City's government building. The lease payable is for a period of ten years with a total interest and fee cost of 0.91% to 2.45%.

| |
|--|
| <p>CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p> |
|--|

Annual debt service payment requirements to maturity are as follows:

| Year Ending June 30 | Amount |
|------------------------|------------------|
| 2019 | \$ 96,982 |
| Subtotal | 96,982 |
| Less: interest | (2,379) |
| Total | \$ <u>94,603</u> |

Capital Lease Payable – Midway Streetscape

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

Annual debt service requirements to maturity are as follows:

| Year Ending June 30, | Amount |
|-------------------------|---------------------|
| 2019 | \$ 158,888 |
| 2020 | 160,288 |
| 2021 | 156,225 |
| 2022 | 157,163 |
| 2023 | 152,612 |
| 2024 -2028 | 418,026 |
| 2029-2030 | 70,150 |
| Subtotal | 1,273,352 |
| Less: interest | (208,352) |
| Total | \$ <u>1,065,000</u> |

Capital Lease Payable – Parks

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

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Annual debt service requirements to maturity are as follows:

| Year Ending June 30 | Amount |
|------------------------|---------------------|
| 2019 | \$ 286,725 |
| 2020 | 288,925 |
| 2021 | 290,925 |
| 2022 | 292,725 |
| 2023 | 294,219 |
| 2024-2028 | 1,822,269 |
| 2029-2033 | 1,732,900 |
| 2034-2036 | 1,362,887 |
| Subtotal | <u>6,371,575</u> |
| Less: interest | <u>(2,311,575)</u> |
| Total | <u>\$ 4,060,000</u> |

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018, was as follows:

| | June 30, 2017 | Additions | Retirements | June 30, 2018 | Due Within One Year |
|--|----------------------|----------------------|-------------------|----------------------|---------------------------|
| Governmental activities: | | | | | |
| Lease payable-real estate | \$ 52,646 | \$ - | \$ 11,931 | \$ 40,715 | \$ 13,930 |
| Lease payable - renovations | 186,298 | - | 91,695 | 94,603 | 94,603 |
| Lease payable - Midway | 1,185,000 | - | 120,000 | 1,065,000 | 120,000 |
| Lease payable - Parks | 4,125,000 | - | 65,000 | 4,060,000 | 70,000 |
| Net pension liability -single employer | 102,138 | 11,624 | - | 113,762 | - |
| Net pension liability - multi employer plan | 15,708,207 | 10,129,176 | - | 25,837,383 | - |
| Compensated absences | 316,083 | - | 6,435 | 309,648 | - |
| Totals | <u>\$ 21,675,372</u> | <u>\$ 10,140,800</u> | <u>\$ 295,061</u> | <u>\$ 31,521,111</u> | <u>\$ 298,533</u> |

NOTE F-CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 (KRS) 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.

General Information about the Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous positions of each county, City, and school board, and any additional eligible local agencies electing to participate in CERS. 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. Prior to July 1, 2009, cost-of-living (COLA) adjustments were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5%.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Non-hazardous Benefits – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 5-high creditable compensation years with a minimum of 48 months and a minimum of five fiscal years. Final compensation is determined by dividing the total salary earned during the 5-high years by the number of months worked, then multiplying by twelve. Non-hazardous members, age 65 or older, or with 27 or more years of service are eligible to retire and receive unreduced benefits. Any non-hazardous member, age 55, with a minimum of five years of service may retire with a reduction in benefits.

For non-hazardous members who began contributing to CERS on or after September 1, 2008, any member age 57 or older, may retire with no reduction in benefits if the member's age and years of service equal 87. In addition, a member, age 65, with at least 60 months of service may retire with no reduction in benefits. A member, age 60 or older, with at least 120 months of service credit may retire at any time with a reduction of benefits.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Hazardous Benefits – For members who began contributing to CERS prior to September 1, 2008, final compensation represents the average fiscal year of earnings with the highest monthly average used when calculating your retirement benefit. Final compensation is based on the 3-high creditable compensation years with a minimum of 24 months and a minimum of three fiscal years. Final compensation is determined by dividing the total salary earned during the 3-high years by the number of months worked, then multiplying by twelve. Hazardous members, age 55 or older, or with 20 or more years of service are eligible to retire and receive unreduced benefits. Any non-hazardous member, age 55, with a minimum of five years of service may retire with a reduction in benefits.

For hazardous members who began contributing to CERS on or after September 1, 2008, any member age 60 or older with 60 months or service or a member with 25 years of service, may retire with no reduction in benefits. In addition, a member, age 60 with at least 60 months of service may retire with no reduction in benefits. A member, age 60 or older, with at least 120 months of service credit may retire at any time with a reduction of benefits.

Non-hazardous Contributions - For the year ended June 30, 2018, all plan members who began participating before September 1, 2008, 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, 2018, participating employers contributed 19.18% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2018 was 19.18% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

employer pay credit is deposited to the member's account. A member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contributions to the non-hazardous pension plan from the City were \$241,730 for the year ended June 30, 2018.

Hazardous Contributions – For the year ended June 30, 2018, all plan members who began participating before September 1, 2008, 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, 2018, participating employers contributed 31.55% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2018 was 31.55% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative regulation 102 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

In accordance with Senate Bill 2 signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to participate to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute 8% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 7.5% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Contributions to the hazardous pension plan from the City were \$840,556 for the year ended June 30, 2018.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the City reported a liability of \$4,087,482 for its proportionate share of the net pension liability for non-hazardous and \$14,856,559 for hazardous. The City's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was 0.07 percent for non-hazardous and 0.66 percent for hazardous.

For the year ended June 30, 2018, the City recognized pension expense of \$344,800 for non-hazardous and expense of \$1,198,388 for hazardous. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | GENERAL | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ 549,991 | \$ 103,758 |
| Change in assumptions | 3,717,796 | 1,117,810 |
| Net difference between projected and actual earnings on pension plan investments | 1,298,193 | - |
| Changes in proportion and difference between City contributions and proportionate share of contributions | 702,756 | 786,440 |
| City contributions subsequent to the measurement date | 1,082,296 | - |
| Total | <u>\$ 7,351,032</u> | <u>\$ 2,008,008</u> |

The \$1,082,296 reported as deferred outflows of resources relating to pensions resulting from the City's contributions made after the measurement date of the net pension liability but before the end of the City's reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

June 30, 2018

| Year Ended | General | General |
|------------|---------------------|-------------------|
| June 30 | Hazardous | Non-Hazardous |
| 2019 | \$ 1,658,515 | \$ 354,142 |
| 2020 | 1,468,760 | 333,698 |
| 2021 | 527,549 | 132,657 |
| 2022 | (162,106) | (52,485) |
| 2023 | - | - |
| Totals | \$ <u>3,492,718</u> | \$ <u>768,012</u> |

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.30 percent |
| Salary increases | 2.0 percent, average, including inflation |
| Investment rate of return | 6.25 percent, net of pension plan investment expense, including inflation |

The Mortality Table for active members is RP-2000 Combined Mortality table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females. The rates of mortality healthy retired members and their beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females and setback one year for females. For disabled members, the RP-2000 Combined mortality Table projected with Scale BB to 2013 setback four years for males is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on system assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report submitted April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return and net of investment expense) were developed by the investment consultant for each major asset class. These ranges were combined to produce long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

| Asset Class | CERS Non-Hazardous | | CERS Hazardous | |
|---|--------------------|-----------------------------------|-------------------|-----------------------------------|
| | Target Allocation | Long-Term Expected Nominal Return | Target Allocation | Long-Term Expected Nominal Return |
| Combined equity | 44% | 5.40% | 44% | 5.40% |
| Combined fixed income | 19% | 1.50% | 19% | 1.50% |
| Real return (Diversified Inflation Strategies) | 10% | 3.50% | 10% | 3.50% |
| Real estate | 5% | 4.50% | 5% | 4.50% |
| Absolute return (Diversified Hedge funds) | 10% | 4.25% | 10% | 4.25% |
| Private equity | 10% | 8.50% | 10% | 8.50% |
| Cash equivalent | 2% | -0.25% | 2% | -0.25% |
| Total | 100% | | 100% | |

Discount Rate – The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The discount rate used to measure the total pension liability for the system was 6.25% for both, nonhazardous and hazardous. The following presents the net pension liability calculated using the discount rate of percent, as well as what the systems' net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.25%) or one percentage point higher (7.25%) than the current rate for non-hazardous and (5.25%) or one percentage point higher (7.25%) than the current rate for hazardous (\$ thousands):

| CERS | 1% Decrease 5.25% | Current Discount Rate 6.25% | 1% Increase 7.25% |
|---|----------------------|-----------------------------------|----------------------|
| Non-hazardous Ft. Thomas percent 0.070 | \$ 7,382,285 | \$ 5,853,207 | \$ 4,574,328 |
| Hazardous Ft. Thomas percent 0.664 | \$ 2,812,972 | \$ 2,237,278 | \$ 1,761,839 |

Pension Plan Fiduciary Net Position – Detailed information about the plan's fiduciary net position is available in the separately issued CERS financial report.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE H-POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Insurance Benefits 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 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the insurance fund for members participating in CERS.

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

General Information about the Insurance Fund

Plan Description – The Kentucky Retirement Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to eligible retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for the whole or partial payment of required premiums to purchase hospital and medical insurance. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty.

Insurance Benefits – For members participating prior to July 1, 2003, the amount of contribution paid for hospital and medical insurance is based on the years of service and respective percentages of the maximum contribution as follows:

| <u>Years of Service</u> | <u>% Paid by Insurance Fund</u> |
|-------------------------|---------------------------------|
| 20 or More | 100% |
| 15-19 | 75% |
| 10-14 | 50% |
| 4-9 | 25% |
| Less than 4 | 0% |

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. Dollar contributions for fiscal year 2017 was \$13.18 for non-hazardous and \$19.77 for hazardous. This benefit is not protected under the invariable contract provisions of the Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Insurance Contributions – Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the system contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board. Current assets, future contributions and investment earnings are projected to be sufficient to pay the projected benefit payment from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions. It is the understanding that cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$1,403,862 for its proportionate share of the net OPEB liability for non-hazardous and \$5,489,480 for hazardous. The City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was 0.070 percent for non-hazardous and 0.664 percent for hazardous.

For the year ended June 30, 2018, the City recognized OPEB income of \$24,856 for non-hazardous and \$207,520 expense for hazardous. At June 30, 2018, the City reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

| | GENERAL | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 16,691 |
| Change in assumptions | 2,330,310 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 410,766 |
| Changes in proportion and difference between City contributions and proportionate share of contributions | - | 4,349 |
| City contributions subsequent to the measurement date | 430,861 | - |
| Total | \$ 2,761,171 | \$ 431,806 |

The \$430,861 is reported as deferred outflows of resources relating to OPEB resulting from the City's contributions made after the measurement date of the net OPEB liability but before the end of the City's reporting period will be recognized as a reduction of the net OPEB liability in the subsequent fiscal period rather than in the current fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30 | Hazardous | Non-Hazardous |
|-----------------------|---------------------|-------------------|
| 2019 | \$ 481,962 | \$ 39,913 |
| 2020 | 481,962 | 39,913 |
| 2021 | 481,962 | 39,913 |
| 2022 | 220,650 | 39,913 |
| 2023 | - | 56,499 |
| Thereafter | - | 15,819 |
| Totals | \$ 1,666,536 | \$ 231,970 |

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------------|---|
| Inflation | 2.30 percent |
| Payroll growth | 2.0 percent, average |
| Investment rate of return | 6.25 percent |
| Health cost trend rates Pre-65 | 7.5% for 2017, decreasing to an ultimate rate of 5.0% over period of five years |
| Health cost trend rates Post-65 | 5.5% for 2017, decreasing to an ultimate rate of 5.0% over period of two years |

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

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The Mortality Table for active members is RP-2000 Combined Mortality table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females. The rates of mortality healthy retired members and their beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 multiplied by 50% for males and 30% for females and setback one year for females. For disabled members, the RP-2000 Combined mortality Table projected with Scale BB to 2013 setback four years for males is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

In January, the Investment Committee chair appointed a special subcommittee to review asset allocation for each individual system to determine the level of risk based on liquidity and cash flow need. The subcommittee worked for six months with the Systems' consultants and actuaries and in July, 2017, the Board approved new asset allocations. The new assets allocation, at its highest level, allocates 45.0% of system assets to equity risk, 30.0% to credit risk and 25.0% to diversifying strategies (real return, real estate, private equity and absolute return). These new allocations should reduce the public equity exposure by roughly 16.0% in favor of fixed income. The committee also reviewed the capital market assumptions from eight leading investment and/or consulting firms, e.g., JP Morgan, PIMCO, RVK, Goldman Sachs, and Blackrock. The assumptions from these firms were compared to asset allocations where the resulting portfolio returns were averaged to produce an estimated return for each system. As a result, the Committee recommended lowering the assumed rate of return from 7.5% to 6.25%. This was approved by the Board in July, 2017. The Board recognizes its fiduciary duty to not only invest funds in compliance with the prudent Person Rule but to also manage the funds while recognizing the long-term nature of the investments. The target allocations and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

| CERS Insurance Plans | | |
|-----------------------|-------------------|-----------------------------------|
| Asset Class | Target Allocation | Long-Term Expected Nominal Return |
| US Equity* | 17.5% | 5.97% |
| International Equity* | 17.5% | 7.85% |
| Global Bonds | 4.0% | 2.63% |
| Global Credit | 2.0% | 3.63% |
| High Yield | 7.0% | 5.75% |
| Emerging Market Debt | 5.0% | 5.5% |
| Private Credit | 10.0% | 8.75% |
| Real Estate* | 5.0% | 7.63% |
| Absolute Return | 10.0% | 5.63% |
| Real Return* | 10.0% | 6.13% |
| Private equity | 10.0% | 8.25% |
| Cash equivalent | 2.0% | 1.88% |
| Total | 100% | 6.56% |

*Long-term expected real rates of return may vary depending on risk tolerance.

Discount Rate – The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The discount rates of 5.84% for non-hazardous and 5.96% for hazardous were used to measure the total OPEB liability for the system as of June 30, 2017. The following presents the net OPEB liability calculated using the discount rate of percent, as well as what the systems’ net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.84%) or one percentage point higher (6.84%) than the current rate for non-hazardous and one percentage point lower (4.96%) or one percentage point higher (6.96%) than the current rate for hazardous:

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

| CERS | 1% Decrease | Current | | 1% Increase |
|---------------------|--------------|---------------------|-----------------|-------------|
| | | 5.84% Non-hazardous | 5.96% Hazardous | |
| Proportionate Share | \$ 1,786,337 | \$ 1,403,862 | \$ 1,085,583 | |
| Proportionate Share | \$ 7,356,654 | \$ 5,489,480 | \$ 3,961,823 | |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rates – For both the non-hazardous and hazardous plans the initial trend rate for Pre-65 starts at 7.50% and is expected to gradually decrease to an ultimate trend rate of 5.00% over a period of 5 years. For both the non-hazardous and hazardous plans the initial trend rate for Post-65 starts at 5.50% and is expected to gradually decrease to an ultimate trend rate of 5.00% over a period of 2 years.

| CERS | 1% Decrease | Healthcare | 1% Increase |
|---------------------|--------------|--------------|--------------|
| | | Trend Rate | |
| Proportionate Share | \$ 1,076,834 | \$ 1,403,862 | \$ 1,828,979 |
| Proportionate Share | \$ 3,885,918 | \$ 5,489,480 | \$ 7,747,130 |

OPEB Plan Fiduciary Net Position – Detailed information about the plan's fiduciary net position is available in the separately issued KRS financial report.

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, 2018, 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.

CITY OF FT. THOMAS, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE K – INTERFUND BALANCES AND TRANSFERS

The General Fund records a \$670,000 receivable from the Central Business District Fund for funds advanced for construction projects and a \$352,944 receivable from the Bond Fund for funds advanced to the Bond Fund. It records \$252,139 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 (\$112,347) and Central Business District Fund (\$456,179) transferred \$568,526 to the Debt Service Fund for payment of the City's debt. The General Fund transferred \$588,000 to the Central Business District Fund representing a .25 percent tax collected by the General Fund on behalf of the CBD. The General Fund transferred \$100,000 to the Tower Park Fund for capital improvements.

NOTE L – COMMITMENTS

At June 30, 2018, the City had committed \$761,358 in construction costs for the 2018 Street Program.

NOTE M – PRIOR PERIOD ADJUSTMENT

The City was required to adopt GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" during fiscal year 2018. As a result of that adoption, a prior period adjustment was made to record the beginning net OPEB liability amount.

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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, 2018

| | Required Supplementary Information | | Actual Amounts | Variance with Final Budget Positive/(Negative) |
|---------------------------------------|------------------------------------|----------------------|----------------------|--|
| | Budgeted Amounts | | | |
| | Original | Final | | |
| Budgetary fund balance, July 1 | \$ 12,220,877 | \$ 12,730,103 | \$ 13,453,560 | \$ 723,457 |
| Resources (inflows): | | | | |
| Taxes | 5,522,169 | 5,677,000 | 5,933,783 | 256,783 |
| Licenses and permits | 4,983,500 | 5,031,525 | 6,030,455 | 998,930 |
| Intergovernmental | 282,375 | 290,375 | 240,277 | (50,098) |
| Uses of property | - | - | 225,504 | 225,504 |
| Fines and forfeitures | 57,000 | 61,250 | 89,899 | 28,649 |
| Charges for services | 567,500 | 580,335 | 653,155 | 72,820 |
| Interest | 179,112 | 240,650 | 38,052 | (202,598) |
| Lease proceeds | - | - | - | - |
| Miscellaneous | 75,000 | 168,300 | 119,602 | (48,698) |
| Transfer in | 400,000 | 100,000 | - | (100,000) |
| Amounts available for appropriation | <u>24,287,533</u> | <u>24,879,538</u> | <u>26,784,287</u> | <u>1,904,749</u> |
| Charges to appropriations (outflows): | | | | |
| General government | 1,584,533 | 1,580,893 | 1,325,176 | 255,717 |
| Police | 3,514,581 | 3,542,047 | 3,547,729 | (5,682) |
| Fire | 2,971,860 | 3,005,204 | 2,843,259 | 161,945 |
| General services and property mgt. | 2,370,692 | 2,470,262 | 2,071,207 | 399,055 |
| Recreation | 795,332 | 746,200 | 595,889 | 150,311 |
| Capital outlay | - | - | 529,825 | (529,825) |
| Debt service | - | - | 367 | (367) |
| Transfers out | 800,347 | 800,347 | 800,347 | - |
| Total charges to appropriations | <u>12,037,345</u> | <u>12,144,953</u> | <u>11,713,799</u> | <u>431,154</u> |
| Budgetary fund balance, June 30 | \$ <u>12,250,188</u> | \$ <u>12,734,585</u> | \$ <u>15,070,488</u> | \$ <u>2,335,903</u> |

NOTE: Capital outlay expenditures are budgeted in the respective departments.

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

For the Year Ended June 30, 2018

| | Required Supplementary Information | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|------------------------------------|---------------------|---------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| Budgetary fund balances, July 1 | \$ 1,543,558 | \$ 1,489,516 | \$ 1,489,516 | \$ - |
| Resources (inflows): | | | | |
| Taxes | 100,000 | - | 99,238 | 99,238 |
| Intergovernmental | 300,000 | 396,000 | 330,081 | (65,919) |
| Interest | 2,000 | 1,250 | 2,669 | 1,419 |
| Special assessments | 96,000 | 76,000 | 91,824 | 15,824 |
| Miscellaneous | 5,000 | 5,000 | 17 | (4,983) |
| Transfers | - | - | - | - |
| Amounts available for appropriation | <u>2,046,558</u> | <u>1,967,766</u> | <u>2,013,345</u> | <u>45,579</u> |
| Charges to appropriations (outflows): | | | | |
| Current: | | | | |
| General services | - | - | 21,110 | (21,110) |
| Capital outlay: | | | | |
| Street and sidewalk projects | 385,000 | 542,000 | 398,363 | 143,637 |
| Transfers to other funds | - | - | - | - |
| Total | <u>385,000</u> | <u>542,000</u> | <u>419,473</u> | <u>122,527</u> |
| Budgetary fund balances, June 30 | \$ <u>1,661,558</u> | \$ <u>1,425,766</u> | \$ <u>1,593,872</u> | \$ <u>168,106</u> |

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL-CENTRAL BUSINESS DISTRICT

For the Year Ended June 30, 2018

| | Required Supplementary Information | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|------------------------------------|----------------------------|----------------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| Budgetary fund balances, July 1 | \$ (468,662) | \$ (475,500) | \$ (475,500) | \$ - |
| Resources (inflows): | | | | |
| Current services | - | - | - | - |
| Special assessments | - | - | 407 | 407 |
| Interest | 100 | - | 49 | 49 |
| Miscellaneous | 259,500 | 34,472 | 44,042 | 9,570 |
| Lease Proceeds | - | - | - | - |
| Transfers from other funds | 588,000 | 588,000 | 588,000 | - |
| Amounts available for appropriation | <u>378,938</u> | <u>146,972</u> | <u>156,998</u> | <u>10,026</u> |
| Charges to appropriations (outflows): | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| General services and recreation | 282,500 | 116,075 | 247,221 | (131,146) |
| Capital outlay | - | - | - | - |
| Transfers to other funds | 456,179 | 456,179 | 456,179 | - |
| Total | <u>738,679</u> | <u>572,254</u> | <u>703,400</u> | <u>(131,146)</u> |
| Budgetary fund balances, June 30 | \$ <u><u>(359,741)</u></u> | \$ <u><u>(425,282)</u></u> | \$ <u><u>(546,402)</u></u> | \$ <u><u>(121,120)</u></u> |

CITY OF FT. THOMAS, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIREMEN'S PENSION PLAN

For the Year Ended June 30, 2018

| | <u>2018</u> |
|---|---------------------|
| <u>Schedule of City Contributions</u> | |
| Actuarially determined contribution | \$ 30,437 |
| Contributions in relation to the actuarially determined contribution | - |
| Contribution deficiency (excess) | <u>\$ 30,437</u> |
| Covered-employee payroll | no active employees |
| Actual contributions as a percentage of covered-employee payroll | no active employees |
| <u>Schedule of Changes in the Net Position Liability and Related Ratios</u> | |
| Total pension liability | |
| Difference between expected and actual experience | \$ 10,824 |
| Benefit payments | <u>(30,437)</u> |
| Net change in total pension liability | (19,613) |
| Total pension liability - June 30 2017 | <u>244,277</u> |
| Total pension liability - June 30 2018 | <u>224,664</u> |
| Plan fiduciary net position | |
| Contributions-employer, less plan costs | (800) |
| Net investment income | - |
| Benefit payments | <u>(30,437)</u> |
| Net change in plan fiduciary net position | (31,237) |
| Plan fiduciary net position - June 30, 2017 | <u>142,139</u> |
| Plan fiduciary net position - ending June 30, 2018 | <u>110,902</u> |
| Net pension liability | <u>\$ 113,762</u> |
| Plan fiduciary net position as percentage of the total pension liability | 50.6% |
| Covered-employee payroll | No active employees |
| Net pension liability as a percentage of covered-employee payroll | No active employees |

| |
|--|
| <p>CITY OF FT. THOMAS, KENTUCKY NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2018</p> |
|--|

Note 1. Valuation Date: Actuarially determined contribution rates are calculated as of July 1st preceding the fiscal year end in which contributions are reported.

Note 2. Benefit Changes: None

Note 3. Change in Assumptions: In 2018, amounts reported as change in assumptions under the Employees' Pension Plan resulted primarily from updating the mortality table.

Note 4. Methods and Assumptions Used to Determine Contribution Rates:

| | Police and Firemen's Pension Plan |
|---------------------------|---|
| | <hr/> |
| Actuarial cost method | Unit Credit |
| Asset valuation method | Market Value |
| Investment rate of return | 5.0%, compounded annually net of investment expenses, including inflation |
| Mortality | RP 2018 Mortality Table M/F |

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF CITY CONTRIBUTIONS-PENSION
Year Ended June 30, 2018

| | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|
| Non-hazardous: | | | | |
| Contractually required contribution | \$ 281,426 | \$ 265,240 | \$ 316,994 | \$ 241,730 |
| Contributions in relation to the contractually required contribution | \$ 281,426 | \$ 265,240 | \$ 316,994 | \$ 241,730 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| City's covered payroll | \$ 1,592,675 | \$ 1,554,748 | \$ 1,696,971 | \$ 1,669,303 |
| Contributions as a percentage of covered-employee payroll | 17.67% | 17.06% | 18.68% | 14.48% |
| Hazardous: | | | | |
| Contractually required contribution | \$ 1,139,420 | \$ 1,127,717 | \$ 1,132,211 | \$ 840,566 |
| Contributions in relation to the contractually required contribution | \$ 1,139,420 | \$ 1,127,717 | \$ 1,132,211 | \$ 840,566 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| City's covered payroll | \$ 3,320,955 | \$ 3,422,510 | \$ 3,645,239 | \$ 3,786,575 |
| Contributions as a percentage of covered-employee payroll | 34.31% | 32.95% | 31.06% | 22.20% |

Required supplementary information is intended to show ten years of data. Additional years information will be added as it is available.

Beginning in 2018, reported contributions and covered payroll excludes OPEB, which is reported separately.

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY-
NON-HAZARDOUS AND HAZARDOUS
Year Ended June 30, 2018

| | <u>June 30,</u> <u>2015</u> | <u>June 30,</u> <u>2016</u> | <u>June 30,</u> <u>2017</u> |
|---|--------------------------------|--------------------------------|--------------------------------|
| Non-hazardous: | | | |
| City's proportion of the net pension liability | 0.0636% | 0.0633% | 0.0698% |
| City's proportionate share of the net pension liability | \$ 2,733,591 | \$ 3,480,085 | \$ 4,087,482 |
| City's covered-employee payroll | \$ 1,554,748 | \$ 1,696,971 | \$ 1,669,303 |
| City's proportionate share of net pension liability as a percentage of its covered-employee payroll | 175.82% | 205.08% | 244.80% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.5% | 55.5% | 53.30% |
| Hazardous: | | | |
| City's proportion of the net pension liability | 0.6015% | 0.5992% | 0.6640% |
| City's proportionate share of the net pension liability | \$ 9,233,553 | \$ 12,228,122 | \$ 14,856,559 |
| City's covered-employee payroll | \$ 3,422,510 | \$ 3,645,239 | \$ 3,786,576 |
| City's proportionate share of net pension liability as a percentage of its covered-employee payroll | 269.79% | 335.45% | 392.35% |
| Plan fiduciary net position as a percentage of the total pension liability | 60.0% | 54.0% | 49.8% |

Required supplementary information is intended to show ten years of data. Additional years information will be added as it is available.

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF CITY CONTRIBUTIONS - OPEB
For the Year Ended June 30, 2018

| | <u>2017</u> | <u>2018</u> |
|---|--------------|--------------|
| Non-hazardous: | | |
| Contractually required contribution | \$ 80,263 | \$ 78,444 |
| Contributions in relation to the contractually required contribution | 80,263 | 78,442 |
| Contribution deficiency (excess) | \$ <u>-</u> | \$ <u>-</u> |
| City' covered payroll | \$ 1,696,971 | \$ 1,669,303 |
| Contributions as a percentage of covered-employee payroll | 4.73% | 4.70% |
| Hazardous: | | |
| Contractually required contribution | \$ 340,796 | \$ 354,099 |
| Contributions in relation to the contractually required contribution | 340,796 | 354,099 |
| Contribution deficiency (excess) | \$ <u>-</u> | \$ <u>-</u> |
| City's covered payroll | \$ 3,645,239 | \$ 3,786,576 |
| Contributions as a percentage of covered-employee payroll | 9.35% | 9.35% |

Required supplementary information is intended to show ten years of data. Additional years information will be shown once it becomes available.

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF THE PROPORTIONATE SHARE OF NET OPEB LIABILITY-
NON-HAZARDOUS AND HAZARDOUS

For the Year Ended June 30, 2018

| | <u>June 30,</u> <u>2017</u> |
|--|--------------------------------|
| Non-hazardous: | |
| City's proportion of the net OPEB liability | 0.0698% |
| City's proportionate share of the net OPEB liability | \$ 1,403,862 |
| City's covered-employee payroll | \$ 1,669,303 |
| City's proportionate share of net OPEB liability as a percentage of its covered-employee payroll | 84.10% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 52.4% |
| Hazardous: | |
| City's proportion of the net OPEB liability | 0.664% |
| City's proportionate share of the net OPEB liability | \$ 5,489,480 |
| City's covered-employee payroll | \$ 3,786,576 |
| City's proportionate share of net OPEB liability as a percentage of its covered-employee payroll | 144.97% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 59.0% |

Required supplementary information is intended to show ten years of data. Additional years information will be shown once it becomes available.

CITY OF FT. THOMAS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Pension

Valuation dates. Actuarially determined contributions rates are calculated as of July 1st preceding the fiscal year end in which the contributions are reported.

Changes in benefit terms. There was no benefit changes reported in the June 30, 2017 actuarial report.

Changes in assumptions. Subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted updated actuarial assumptions which was used in the performance of the actuarial valuations as of June 30, 2017. Specifically, the total Pension liability as of June 30, 2017 was determined using a 2.30% price inflation and an assumed rate of return of 6.25%.

In addition, refer to Note G starting on page 28.

OPEB

Valuation dates. Actuarially determined contributions rates are calculated as of July 1st preceding the fiscal year end in which the contributions are reported.

Changes in benefit terms. There were no benefit changes reported in the Jun 30, 2017 actuarial report.

Changes in assumptions. Subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted updated actuarial assumptions which was used in the performance of the actuarial valuations as of June 30, 2017. Specifically, the total OPEB liability as of June 30, 2017 was determined using a 2.30% price inflation and an assumed rate of return of 6.25%

In addition, refer to Note H starting on page 34.

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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, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-------------------|------------------|-------------------|---|
| | Original | Final | | |
| Budgetary fund balances, July 1 | \$ 600,390 | \$ 490,920 | \$ 490,920 | \$ - |
| Resources (inflows): | | | | |
| Current services | - | 5,564 | - | (5,564) |
| Interest | 500 | - | - | - |
| Miscellaneous | 5,000 | - | 6,278 | 6,278 |
| Transfers in from other funds | 100,000 | 100,000 | 100,000 | - |
| Amounts available for appropriation | <u>705,890</u> | <u>596,484</u> | <u>597,198</u> | <u>714</u> |
| Charges to appropriations (outflows): | | | | |
| General services and recreation | 10,000 | 12,500 | 12,806 | (306) |
| Capital outlay | 320,000 | 550,000 | 23,942 | 526,058 |
| Transfers to other funds | - | - | - | - |
| Total | <u>330,000</u> | <u>562,500</u> | <u>36,748</u> | <u>525,752</u> |
| Budgetary fund balances, June 30 | <u>\$ 375,890</u> | <u>\$ 33,984</u> | <u>\$ 560,450</u> | <u>\$ 526,466</u> |

CITY OF FT. THOMAS, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2018

| | <u>Special Revenue</u> | | <u>Total Nonmajor Governmental Funds</u> |
|--------------------------------------|----------------------------|-------------------------|--|
| | <u>Waste Fee</u> | <u>Debt Service</u> | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 242,690 | \$ 793,123 | \$ 1,035,813 |
| Accounts receivable | 5,060 | - | 5,060 |
| Total assets | <u>\$ 247,750</u> | <u>\$ 793,123</u> | <u>\$ 1,040,873</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Accounts payable | \$ 90,283 | \$ - | \$ 90,283 |
| Deferred revenues | 4,337 | - | 4,337 |
| Due to General Fund | - | 352,944 | 352,944 |
| Total liabilities | <u>94,620</u> | <u>352,944</u> | <u>447,564</u> |
| Fund balances: | | | |
| Assigned to: | | | |
| Debt service | - | 440,179 | 440,179 |
| Waste | 153,130 | - | 153,130 |
| Total fund balances | <u>153,130</u> | <u>440,179</u> | <u>593,309</u> |
| Total liabilities and fund balances | <u>\$ 247,750</u> | <u>\$ 793,123</u> | <u>\$ 1,040,873</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, 2018

| | Special Revenue | | Total Nonmajor Governmental Funds |
|---|--------------------|-------------------|--|
| | Waste Fee | Debt Service | |
| REVENUES | | | |
| Charges for services | \$ 1,077,940 | \$ - | \$ 1,077,940 |
| Interest | - | 984 | 984 |
| Miscellaneous income | 48 | - | 48 |
| Total revenues | <u>1,077,988</u> | <u>984</u> | <u>1,078,972</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | - | - | - |
| General services | 1,042,776 | - | 1,042,776 |
| Debt service: | | | |
| Principal | - | 277,785 | 277,785 |
| Interest | - | 288,627 | 288,627 |
| Total expenditures | <u>1,042,776</u> | <u>566,412</u> | <u>1,609,188</u> |
| Excess (deficiency) of revenues over(under) expenditures | <u>35,212</u> | <u>(565,428)</u> | <u>(530,216)</u> |
| OTHER FINANCING SOURCES(USES) | | | |
| Transfers in | - | 568,526 | 568,526 |
| Transfers out | - | - | - |
| Total other financing sources and uses | <u>-</u> | <u>568,526</u> | <u>568,526</u> |
| Net change in fund balances | 35,212 | 3,098 | 38,310 |
| Fund balances - beginning | <u>117,918</u> | <u>437,081</u> | <u>554,999</u> |
| Fund balances - ending | <u>\$ 153,130</u> | <u>\$ 440,179</u> | <u>\$ 593,309</u> |



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ft. Thomas, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Ft. Thomas, Kentucky's basic financial statements and have issued our report thereon dated January 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Ft. Thomas, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ft. Thomas, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ft. Thomas, Kentucky's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ft. Thomas, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Findings 1 and 2.

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

The City of Ft. Thomas, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Ft. Thomas, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

RANKIN, RANKIN & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company". The signature is written in black ink and includes a checkmark at the end.

Ft. Wright, Kentucky
January 23, 2019

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018

Finding 1: Expenditures Exceeding Budget

Under KRS91A.030 the City is required to limit expenditures to those that are within the legally adopted budget, which is enacted at the department level. The Central Business District fund incurred expenditures in excess of the budget in the general services/recreation line item.

Recommendation: We recommend the City consider the following:

We recommend that the City be aware of its expenditures as compared to the legally adopted budget and amend the budget when necessary to avoid exceeding the budget.

City's Response:

The City will monitor its expenditures and amend the budget when necessary.

Finding 2: Late publication of 6/30/17 Financial Statement In Under KRS 424.220

The City did not timely publish certain parts of the 2017 annual audit as required under Kentucky Revised Statutes.

Recommendation: We recommend the City consider the following:

(1) Publish in the local newspaper or on the City's web site, the required parts of all future annual audit reports on a timely basis as required by Kentucky Revised Statutes.

City's Response:

Through oversight the required financial information was not published timely. The City corrected its oversight through publication of the 2017 audit information on January 17, 2019.



RANKIN, RANKIN & COMPANY
Certified Public Accountants

■ Lookout Corporate Center
1717 Dixie Highway, Suite 600
Ft. Wright, Kentucky 41011

■ Tel. 859/331-5000

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

In planning and performing our audit of the financial statements of City of Ft. Thomas, Kentucky for the year ended June 30, 2018, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 23, 2019 on the financial statements of the City of Ft. Thomas, Kentucky

Comprehensive General Ledger

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

RANKIN, RANKIN & COMPANY

**Ft. Wright, Kentucky
January 23, 2019**