

CITY OF FT. THOMAS, KENTUCKY

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2016

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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, 2016, 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, 2016, 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 39-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual budget and actual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been 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 combining 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 February 27, 2017, on our consideration of the City of Ft. Thomas, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ft. Thomas, Kentucky's internal control over financial reporting and compliance.

RANKIN, RANKIN, & COMPANY

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

**Ft. Thomas, Kentucky
February 27, 2017**

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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, 2016.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$13,719,923(net position).

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$13,838,412. This total represents an increase of \$1,205,625 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 \$11,888,120, a \$1,576,339 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 \$13,719,923 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, 2016 and 2015, net position changed as follows:

		Governmental Activities	
		2016	2015
Current and other assets	\$	14,599,074	\$ 13,351,402
Capital assets, net		15,912,975	16,760,895
Total assets		30,512,049	30,112,297
Deferred outflows of resources		2,204,366	1,644,016
Other liabilities		792,027	750,307
Long-term liabilities		18,231,924	16,586,368
Total liabilities		19,023,951	17,336,675
Deferred inflow of resources		1,116,910	813,600
Net assets:			
Invested in capital assets, net of debt		11,167,706	10,524,673
Restricted		1,465,943	1,876,755
Unrestricted (as restated for 2015)		1,086,274	1,204,610
Total net position (as restated for 2015)	\$	13,719,923	\$ 13,606,038

Net position of the City increased by \$113,885 during the current fiscal year.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the City's government funds reported combined ending fund balances of \$13,838,412 an increase of \$1,205,625 in comparison with fiscal year FY 2014-15.

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 \$11,888,120, which represents an increase of \$1,576,339 over fiscal year 2014-2015. 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 \$1,021,704, representing infrastructure reinvestment such as street resurfacing, and sidewalk rehabilitation, as well as emergency projects like pier walls and road stabilization. The Capital Projects/Tower Park Fund represents activity from revenues restricted by City ordinance, which are earmarked specifically for approved recreation projects. In FY 2016, this fund incurred total expenditures of \$10,841, primarily utilizing carry over funds from prior fiscal years. Significant activity under the Central Business District Fund included operating and capital expenditures associated with efforts to enhance business districts within the city and renovation of various City parks. The main 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 FY2016 totaled \$488,000. Significant expenditures in this fund include debt service from infrastructure improvements, as well as Renaissance Board events and festivals.

Activity within the Debt Service Fund included total expenditures of \$639,202 representing repayment of borrowed funds associated with the CBD revitalization, Towne Center reitalization, 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, 2016, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2016 Amount	Percent of Total	FYE 2015 Amount	Percent of Total
Taxes	\$ 5,479,985	39.87%	\$ 5,218,449	39.74%
Licenses and permits	5,574,933	40.56%	5,216,902	39.72%
Intergovernmental	523,866	3.81%	634,502	4.83%
Charges for services	1,513,434	11.01%	1,620,526	12.34%
Fines and forfeitures	66,841	0.49%	49,835	0.38%
Interest	46,978	0.34%	25,707	0.20%
Special assessments	124,740	0.91%	94,608	0.72%
Miscellaneous	414,234	3.01%	272,253	2.07%
Total revenues	\$ 13,745,011	100.00%	\$ 13,132,782	100.00%

As usual, the increase in taxes is due in large part to the increase in property taxes. Intergovernmental revenue saw another decrease, as grant funding still lags behind previous years.

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, but insurance premium tax fluctuates widely and is difficult to predict.

Expenditures	FYE 2016 Amount	Percent of Total	FYE 2015 Amount	Percent of Total
General government	\$ 1,292,893	10.31%	\$ 1,249,030	9.92%
Police	3,097,413	24.70%	3,223,608	25.60%
Fire	2,717,265	21.67%	2,724,862	21.64%
General services	2,726,887	21.75%	2,827,266	22.45%
Recreation	662,142	5.28%	792,294	6.29%
Capital outlay	1,403,395	11.19%	1,046,533	8.31%
Debt service	639,391	5.10%	728,147	5.78%
Total expenditures	\$ 12,539,386	100.00%	\$ 12,591,740	100.00%

As the chart above shows, some departmental expenditures actually decreased slightly from fiscal year 2014-2015, due to a slight decrease in hazardous-duty pension contributions. But that is slightly misleading, as capital outlay across the City increased by more than \$350,000, which includes many department-specific items. The most important decrease was in debt service expenditures, which continue to drop as the City pays off long-term debt.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The fiscal year 2015-2016 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 were exceeded budgeted amounts by \$944,035. In addition, actual expenditures were under budgeted appropriations, by \$346,950.

DEBT AND CAPITAL ASSET ADMINISTRATION

Debt

At year-end, the City had \$5,889,638 in outstanding bonds and capital leases compared to \$6,236,222 last year.

	Governmental Activities	
	2016	2015
General Obligation Bonds	\$ -	\$ -
Capital lease and general obligations (backed by City)	5,889,638	6,236,222
Totals	\$ 5,889,638	\$ 6,236,222

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. The Net Pension Liability at June 30, 2016 (based on the July 1, 2016) actuarial report) was \$77,519.

In 2014-15, the City adopted Government Accounting Standards Board Statement No. 68-Financial Reporting for Pensions-an Amendment of GASB Statement No. 27. The Net Pension Liability at June 30, 2016 (based on the June 30, 2016 actuarial report) was \$11,967,144.

Capital Assets

At the end of June 30, 2016, the City had \$33,531,707 invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$1,403,395. The majority of increases came from infrastructure improvements, as many long-term projects were completed. This is mirrored by a large decrease in construction-in-progress. Typical small increases are also shown in the equipment and vehicle categories, which reflect normal yearly purchases.

		Governmental Activities	
		2016	2015
Land	\$	1,035,535	\$ 1,035,535
Construction Progress		108,834	515,435
Buildings		2,945,538	2,945,534
Improvements/Infrastructure		23,830,678	22,252,811
Equipment		2,700,980	# 2,632,165
Vehicles		2,910,142	2,832,921
TOTALS	\$	<u>33,531,707</u>	<u>\$ 32,214,401</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The fiscal year 2016 budget again proved adequate to continue the City's goal of delivering high-quality public services, as it has in the past. This audit report shows solid financial performance for the City during this fiscal period, with expected minimal growth in major revenue sources and a continued focus on management of operating expenditures. The current fiscal year 2017 budget continues the City's historically conservative budgeting of both revenues and expenditures. This practice ensures, as it has for many years, that adequate reserves are maintained to address any emergencies that may arise. Minimal discretionary funds are also available to reflect policy initiatives approved by council, which include the current pedestrian safety initiative, continued reinvestment in the City's infrastructure and the recruiting and retention of a high-performing municipal workforce.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 130 N. Ft. Thomas, Ft. Thomas, Kentucky.

BASIC FINANCIAL STATEMENTS

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

June 30, 2016

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 12,491,053
Investments	300,741
Receivables:	
Taxes	99,370
Intergovernmental	34,207
Assessments	36,847
Accounts	1,345,259
Accrued interest	1,085
Prepays	41,209
Deferred expenses	249,303
Capital assets not being depreciated	1,144,369
Capital assets, net of accumulated depreciation	15,912,975
Total assets	<u>31,656,418</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on debt issuance	209,291
Contributions subsequent to the measurement date	891,605
Other deferred outflows	1,103,470
Total deferred outflows of resources	<u>2,204,366</u>
LIABILITIES	
Accounts payable	245,523
Accrued liabilities	432,976
Accrued interest payable	113,528
Unearned revenue	-
Noncurrent liabilities:	
Net pension liability	12,044,663
Compensated absences	297,623
Due within one year	341,847
Due in more than one year	5,547,791
Total liabilities	<u>19,023,951</u>
DEFERRED INFLOWS OF RESOURCES	
Differences between projected and actual earnings on pension plan and other deferred inflows	<u>1,116,910</u>
NET POSITION	
Net investment in capital assets	11,167,706
Restricted for:	
Capital	1,465,943
Unrestricted	<u>1,086,274</u>
Total net position	<u>\$ 13,719,923</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, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,413,874	\$ 247,487	\$ -	\$ -	\$ (1,166,387)
Police	3,166,388	-	114,663	-	(3,051,725)
Fire	2,827,825	322,730	83,301	-	(2,421,794)
General services and property mgt.	3,539,090	1,127,854	-	324,741	(2,086,495)
Recreation	690,974	155,982	1,161	-	(533,831)
Interest and other costs on long-term debt	304,225	-	-	-	(304,225)
Total governmental activities	11,942,376	1,854,053	199,125	324,741	(9,564,457)
Total primary government	\$ 11,942,376	\$ 1,854,053	\$ 199,125	\$ 324,741	\$ (9,564,457)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					4,948,707
Taxes, levied for bank deposits					66,866
Motor vehicle taxes					462,277
Licenses and permits					5,574,933
Interest					46,978
Miscellaneous					265,196
Total general revenues and special items					11,364,957
Increase in net pension liability					(1,686,615)
Loss on disposition of capital assets					-
Change in net position					113,885
Net position-beginning, as restated					13,606,038
Net position-ending					\$ 13,719,923

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

CITY OF FT. THOMAS, KENTUCKY

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2016

	General	Special Revenue Public Works/ KDOT	Central Business District	Capital Project Tower Park	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 9,246,062	\$ 1,292,319	\$ 104,100	\$ 505,090	\$ 1,343,482	\$ 12,491,053
Investments	300,741	-	-	-	-	300,741
Receivables:						
Taxes	99,370	-	-	-	-	99,370
Governmental units	34,207	-	-	-	-	34,207
Assessments	-	34,764	2,083	-	-	36,847
Accounts	1,291,915	45,868	-	-	7,476	1,345,259
Accrued interest	1,085	-	-	-	-	1,085
Prepays	41,209	-	-	-	-	41,209
Deferred expenses	249,303	-	-	-	-	249,303
Due from other funds	1,474,243	154,558	86,640	-	-	1,715,441
Total assets	\$ 12,738,135	\$ 1,527,509	\$ 192,823	\$ 505,090	\$ 1,350,958	\$ 16,314,515
LIABILITIES DEFERRED INFLOWS AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 137,989	\$ 30,597	\$ 4,710	\$ 200	\$ 72,027	\$ 245,523
Accrued liabilities	432,976	-	-	-	-	432,976
Due to other funds	236,640	-	664,558	-	814,243	1,715,441
Total liabilities	807,605	30,597	669,268	200	886,270	2,393,940
Deferred inflows of resources						
Unavailable inflows of resources	42,410	30,969	2,083	-	6,701	82,163
Fund balances:						
Nonspendable - prepaids	41,209	-	-	-	-	41,209
Restricted-capital projects	-	1,465,943	-	-	-	1,465,943
Committed to - capital projects	-	-	-	-	-	-
Assigned to - capital projects	-	-	-	504,890	-	504,890
- waste	-	-	-	-	15,793	15,793
- debt service	-	-	-	-	442,194	442,194
Unassigned	11,846,911	-	(478,528)	-	-	11,368,383
Total fund balances	11,888,120	1,465,943	(478,528)	504,890	457,987	13,838,412
Total liabilities and fund balances	\$ 12,738,135	\$ 1,527,509	\$ 192,823	\$ 505,090	\$ 1,350,958	\$ 16,314,515
Total governmental fund balances						\$ 13,838,412
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 \$16,474,359						17,057,344
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.						82,163
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.						209,291
Deferred outflows from net pension liability						1,103,470
Contributions subsequent to net pension liability measurement date						891,605
Deferred inflows from net pension liability						(1,116,910)
Accrual interest payable on long-term debt						(113,528)
Long-term liabilities, including notes payable, are not due and payable in current period and therefore are not reported in the funds:						
Net pension liability						(12,044,663)
Accrued absences payable						(297,623)
Bonds and leases payable						(5,889,638)
Net position of governmental activities						\$ 13,719,923

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, 2016

		Special Revenue		Capital Project		
	General	Public Works/ KDOT	Central Business District	Tower Park	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 5,385,829	\$ 94,156	\$ -	\$ -	\$ -	\$ 5,479,985
Licenses and permits	5,574,933	-	-	-	-	5,574,933
Intergovernmental	199,520	324,346	-	-	-	523,866
Charges for services	660,329	-	-	-	853,105	1,513,434
Uses of property	149,038	-	-	-	-	149,038
Fines and forfeitures	66,841	-	-	-	-	66,841
Interest	40,565	4,572	167	693	981	46,978
Special assessments	-	124,108	632	-	-	124,740
Miscellaneous	98,902	63,710	100,709	1,085	790	265,196
Total revenues	12,175,957	610,892	101,508	1,778	854,876	13,745,011
EXPENDITURES						
Current:						
General government	1,292,893	-	-	-	-	1,292,893
Police	3,097,413	-	-	-	-	3,097,413
Fire	2,717,265	-	-	-	-	2,717,265
General services and property mgt.	1,707,677	164,187	8,148	-	846,875	2,726,887
Recreation	487,955	-	163,346	10,841	-	662,142
Capital outlay	545,878	857,517	-	-	-	1,403,395
Debt service:						
Principal	-	-	-	-	346,583	346,583
Interest	189	-	-	-	292,619	292,808
Total expenditures	9,849,270	1,021,704	171,494	10,841	1,486,077	12,539,386
Excess(deficiency) of revenues over(under) expenditures	2,326,687	(410,812)	(69,986)	(9,063)	(631,201)	1,205,625
OTHER FINANCING SOURCES(USES)						
Transfers in	-	-	638,000	-	650,866	1,288,866
Transfers out	(750,348)	-	(538,518)	-	-	(1,288,866)
Total other financing sources and uses	(750,348)	-	99,482	-	650,866	-
Net change in fund balances	1,576,339	(410,812)	29,496	(9,063)	19,665	1,205,625
Fund balances - beginning	\$ 10,311,781	\$ 1,876,755	\$ (508,024)	\$ 513,953	\$ 438,322	\$ 12,632,787
Fund balances - ending	\$ 11,888,120	\$ 1,465,943	\$ (478,528)	\$ 504,890	\$ 457,987	\$ 13,838,412

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, 2016

Net change in fund balances-total governmental funds	\$ 1,205,625
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	1,403,395
Depreciation expense	(1,106,946)
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.	(2,136)
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.	(13,880)
Accrued interest on long-term debt is reported in the government wide financial statements and not in governmental funds.	2,463
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.	346,584
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.	(34,605)
Change in contributions subsequent to the net pension liability measurement date.	(529,240)
Government funds report the effect of net pension liability reported as deferred inflows and as deferred outflows.	(303,310)
	1,103,470
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.	(1,957,535)
Change in net position of governmental activities	\$ 113,885

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, 2016

	Police and Firemen's Pension Plan
ASSETS	
Cash and cash equivalents	\$ 178,401
Total assets	<u>178,401</u>
LIABILITIES	
Accounts payable	<u>-</u>
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for pension benefits	<u>178,401</u>
Total net position	\$ <u><u>178,401</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, 2016

	Police and Firemen's Pension Plan
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 265
Total investment earnings	265
Miscellaneous income	-
Transfer from General Fund	-
Total additions (reductions)	265
DEDUCTIONS	
Benefits paid	33,377
Administrative expense	800
Total deductions	34,177
CHANGE IN NET POSITION	(33,912)
NET POSITION-BEGINNING OF YEAR	212,313
NET POSITION END OF YEAR	\$ 178,401

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

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

The City of Ft. Thomas is a municipality governed by a mayor and six-member council. As required by 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, 2016

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 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, 2016

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, 2016 are recorded at fair value based upon quoted market prices.

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, 2016 were \$.390 per \$100 valuation for real and \$.390 personal property. The assessed value of property on which 2015 was based was \$1,192,658,349.

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, 2016

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

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 February 27, 2017, 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, 2016

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, 2016, 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, 2016, the City had the following investments: Certificates of Deposit, fair value \$300,741, with a maturity from 10/17/16 to 6/11/18. 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, 2016 in the amount of \$300,741 for its certificates of deposit.

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Retirements/ Deletions	Balance June 30, 2016
Governmental activities:				
Not being depreciated:				
Land	\$ 1,035,535	\$ -	\$ -	\$ 1,035,535
Construction in progress	515,435	108,834	515,435	108,834
Subtotal	<u>1,550,970</u>	<u>108,834</u>	<u>515,435</u>	<u>1,144,369</u>
Other capital assets:				
Buildings	2,945,534	-	-	2,945,534
Improvements/infrastructure	22,252,811	1,577,867	-	23,830,678
Equipment	2,632,165	71,615	2,800	2,700,980
Vehicles	2,832,921	160,514	83,293	2,910,142
Subtotal	<u>30,663,431</u>	<u>1,809,996</u>	<u>86,093</u>	<u>32,387,334</u>
Accumulated depreciation:				
Buildings	1,651,217	86,149	-	1,737,366
Improvements/infrastructure	9,732,428	739,914	-	10,472,342
Equipment	2,122,686	96,812	2,800	2,216,698
Vehicles	1,947,175	184,071	83,293	2,047,953
Subtotal	<u>15,453,506</u>	<u>1,106,946</u>	<u>86,093</u>	<u>16,474,359</u>
Net other assets	<u>15,209,925</u>	<u>703,050</u>	<u>-</u>	<u>15,912,975</u>
Net capital assets	<u>\$ 16,760,895</u>	<u>\$ 811,884</u>	<u>\$ 515,435</u>	<u>\$ 17,057,344</u>

CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2016

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 86,376
Police	68,975
Fire	110,560
General services	812,203
Recreation	28,832
Total governmental activities depreciation expense	<u>\$ 1,106,946</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, 2016 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
2017	13,691
2018	13,691
2019	13,691
2020	13,691
2021	13,691
Thereafter	-
Subtotal	68,455
Less: interest	(4,126)
TOTAL	<u>\$ 64,329</u>

Capital Lease Payable - Towne Center

The City entered into a \$750,000 capital lease agreement on January 8, 2007 with the Kentucky League of Cities Funding Trust to finance the capital construction of the Towne Center development. The lease payable is for a period of ten years with a total interest and fee cost of from 0.91% to 2.45%.

Annual debt service payment requirements to maturity are as follows:

CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2016
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Year Ending June 30		Amount
2017	\$	61,966
Subtotal		61,966
Less: interest		(1,842)
Total	\$	60,124

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%.

Annual debt service payment requirements to maturity are as follows:

Year Ending June 30		Amount
2017	\$	98,036
2018		97,598
2019		96,982
Subtotal		292,616
Less: interest		(17,431)
Total	\$	275,185

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
2017	\$	155,513
2018		162,488
2019		158,888
2020		160,288
2021		156,225
2022-2026		657,550
2027-2030		140,400
Subtotal		1,591,352
Less: interest		(296,352)
Total	\$	1,295,000

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Capital Lease Payable – Parks

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

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Amount
2017	\$ 301,713
2018	294,437
2019	297,325
2020	299,350
2021	301,162
2022-2026	1,632,675
2027-2031	2,143,750
2032-2035	2,281,350
Subtotal	7,551,762
Less: interest	(3,356,762)
Total	\$ 4,195,000

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	June 30, 2015	Additions	Retirements	June 30, 2016	Due Within One Year
Governmental activities:					
Lease payable-real estate	\$ 76,612	\$ -	\$ 12,283	\$ 64,329	\$ 12,602
Lease payable - Towne Center	140,353	-	80,229	60,124	60,124
Lease payable - renovations	354,257	-	79,072	275,185	89,121
Lease payable - Midway	1,405,000	-	-	1,295,000	110,000
Lease payable - Parks	4,260,000	-	65,000	4,195,000	70,000
Net pension liability -single employer	53,128	24,391	-	77,519	-
Net pension liability - multi employer plan	10,034,000	1,933,144	-	11,967,144	-
Compensated absences	263,018	34,605	-	297,623	-
Totals	\$ 16,586,368	\$ 1,992,140	\$ 236,584	\$ 18,231,924	\$ 341,847

NOTE F-CLAIMS AND JUDGMENTS

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

NOTE G-EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System (CERS)

City employees who work at least 100 hours per month participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems (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, 2016

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, 2016, 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, 2016, participating employers contributed 17.06% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2016 was 17.06% 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, 2016

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 \$265,240 for the year ended June 30, 2016.

Hazardous Contributions - For the year ended June 30, 2016, 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, 2016, participating employers contributed 32.95% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2016 was 32.95% 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 \$1,127,717 for the year ended June 30, 2016

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Insurance Benefits

Plan Description – The Kentucky Retirement Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS and SPRS. The 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 based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of the Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Insurance Contributions – In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve a target rate for the full entry age normal funding within 20 years.

KRS commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which KRS assumes the financial risk for providing healthcare benefits to its retirees. The self-funded plan pays for claims out-of-pocket as they

CITY OF FT. THOMAS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

are presented instead of paying a pre-determined premium to an insurance carrier for a fully-insured plan. KRS funds the risk of its self-insured program directly from its insurance assets.

On August 6, 2012, the board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully-insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

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

At June 30, 2016, the City reported a liability of \$2,733,591 for its proportionate share of the net pension liability for non-hazardous and \$9,233,553 for hazardous. The City's net pension liability was measured as of June 30, 2015, 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, 2016, the City's proportion was 0.0636 percent for non-hazardous and 0.6015 percent for hazardous.

For the year ended June 30, 2016, the City recognized pension expense of \$1,662,224 for non-hazardous and hazardous. At June 30, 2016, the City reported deferred outflows or 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	\$ 178,612	\$ -
Change in assumptions	858,866	-
Net difference between projected and actual earnings on pension plan investments	65,992	610,200
Changes in proportion and difference between City contributions and proportionate share of contributions	-	506,710.00
City contributions subsequent to the measurement date	891,605	-
Total	<u>\$ 1,995,075</u>	<u>\$ 1,116,910</u>

The \$891,605 reported as deferred outflows of resources relating to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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, 2016

Year Ended June 30	General	
	Outflows Hazardous	Inflows Nonhazardous
2017	\$ 275,868	\$ 330,077
2018	275,868	330,077
2019	275,868	330,077
2020	275,868	126,677
2021	-	-
Totals	\$ 1,103,472	\$ 1,116,908

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation

The rates of mortality for the period after the service retirement are according to the 1983 Group Annuity Mortality Table for all retired member and beneficiaries as of June 30, 2006 and the 1994 Group Annuity mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 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 dated 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, 2016

Asset Class	Target Allocation	Long-Term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (Diversified Inflation Strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (Diversified Hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	2%	-0.25%
Total	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 28 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 7.5% 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 (6.5%) or one percentage point higher (8.5%) than the current rate for non-hazardous and (6.5%) or one percentage point higher (8.5%) than the current rate for hazardous (\$ thousands):

CERS	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Non-hazardous	\$ 5,488,878	\$ 4,299,525	\$ 3,280,950
Hazardous	\$ 1,964,988	\$ 1,535,106	\$ 1,178,941

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

NOTE H-EMPLOYEE RETIREMENT PLAN

The City of Ft. Thomas maintains a single employer, defined benefit pension plan: Police and Firemen's Pension Plan. A separate, audited post-employment benefit plan report prepared in accordance with U.S. generally accepted accounting principles is not available for this plan.

<p>CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2016</p>

Summary of Significant Accounting Policies

Basis of Accounting. The plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Police and Firemen's Pension Plan

Plan Description. The Police and Fireman's Pension Plan is a single-employer defined benefit pension plan that covers substantially all safety employees who were receiving benefits prior to February 1, 1988. The plan is administered by the Board of Trustees, which consists of: the Mayor, the City Manager, the Finance Director, and a former employee who is a member of the Fund appointed by the Mayor (currently unoccupied).

Benefits Provided. The plan provides retirement and death benefits to plan members and their beneficiaries. Plan members who retired with 20 years of service at age 50 were eligible to receive a monthly benefit.

Death benefits consist of a lump sum of \$100.

Contributions. As of June 30, 2016, there are 5 retirees and beneficiaries currently receiving benefits. The City is required to contribute at an actuarially determined rate. Contribution requirements of the City are established and may be amended by City ordinance. Administrative costs are financed through investment earnings. The plan is closed to new entrants and doesn't have any active plan members.

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

Concentrations. The Employees' Pension Plan investments concentration as of June 30, 2016:

<u>Investment</u>	<u>Concentration</u>
Cash and money markets	\$ <u>178,401</u>

Net Pension Liability. The Employees' Pension net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The components of the net pension liability of the City at June 30, 2016 were as follows:

CITY OF FT. THOMAS, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2016

Total pension liability	\$	254,849
Pension Plan fiduciary net position		(177,330)
City's net pension liability	\$	<u>77,519</u>

Employees' Pension Plan net position as a percentage of total pension liability	69.60%
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Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return 5.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2016 Mortality Table M/F.

Discount rate. The discount rate used to measure the total pension liability was 5.0 percent.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 5.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is ½ percentage-point higher (0.5%) or 1 percentage-point higher (1.0%) than the current rate:

	Discount Rate	Net Pension Liability
Current discount rate	5.00%	\$ 254,849
1/2 % increase	5.50%	not available
1% increase	6.00%	not available

Pension Expense. For the year ended June 30, 2016, the City recognized pension expense of \$33,377.

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, 2016, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE K – INTERFUND BALANCES AND TRANSFERS

The General Fund records a \$664,558 receivable from the Central Business District Fund for funds advanced for construction projects and a \$814,243 receivable from the Bond Fund for funds advanced to the Bond Fund. It records \$236,640 due to the Public Works/KDOT and Central Business District funds for past costs incurred by those funds for the General Fund.

The General Fund (\$112,348) and Central Business District Fund (\$538,518) transferred \$650,866 to the Debt Service Fund for payment of the City's debt. The General Fund transferred \$638,000 to the Central Business District Fund representing a .25 percent tax collected by the General Fund on behalf of the CBD.

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, 2016

	Required Supplementary Information Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
Budgetary fund balance, July 1	\$ 10,135,549	\$ 10,779,309	\$ 10,311,781	\$ (467,528)
Resources (inflows):				
Taxes	5,142,000	5,166,900	5,385,829	218,929
Licenses and permits	4,789,000	4,801,050	5,574,933	773,883
Intergovernmental	248,000	259,160	199,520	(59,640)
Uses of property	-	-	149,038	149,038
Fines and forfeitures	64,000	59,000	66,841	7,841
Charges for services	566,500	587,515	660,329	72,814
Interest	199,062	244,362	40,565	(203,797)
Lease proceeds	-	-	-	-
Miscellaneous	84,681	113,935	98,902	(15,033)
Transfer in	250,000	-	-	-
Amounts available for appropriation	<u>21,478,792</u>	<u>22,011,231</u>	<u>22,487,738</u>	<u>476,507</u>
Charges to appropriations (outflows):				
General government	1,257,348	1,258,844	1,292,893	(34,049)
Police	3,225,327	3,246,750	3,097,413	149,337
Fire	2,828,234	2,859,338	2,717,265	142,073
General services and property mgt.	2,299,324	2,251,032	1,707,677	543,355
Recreation	626,202	580,256	487,955	92,301
Capital outlay	-	-	545,878	(545,878)
Debt service	-	-	189	(189)
Transfers out	<u>750,348</u>	<u>750,348</u>	<u>750,348</u>	<u>-</u>
Total charges to appropriations	<u>10,986,783</u>	<u>10,946,568</u>	<u>10,599,618</u>	<u>346,950</u>
Budgetary fund balance, June 30	<u>\$ 10,492,009</u>	<u>\$ 11,064,663</u>	<u>\$ 11,888,120</u>	<u>\$ 823,457</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, 2016

	Required Supplementary Information			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Budgetary fund balances, July 1	\$ 1,710,451	\$ 1,876,754	\$ 1,876,755	\$ 1
Resources (inflows):				
Taxes	100,000	100,000	94,156	(5,844)
Intergovernmental	300,000	317,000	324,346	7,346
Interest	1,500	3,000	4,572	1,572
Special assessments	125,000	127,000	124,108	(2,892)
Miscellaneous	65,000	65,000	63,710	(1,290)
Transfers	-	-	-	-
Amounts available for appropriation	<u>2,301,951</u>	<u>2,488,754</u>	<u>2,487,647</u>	<u>(1,107)</u>
Charges to appropriations (outflows):				
Current:				
General services	-	-	-	-
Capital outlay:				
Street and sidewalk projects	1,030,000	983,650	1,021,704	(38,054)
Transfers to other funds	-	-	-	-
Total	<u>1,030,000</u>	<u>983,650</u>	<u>1,021,704</u>	<u>(38,054)</u>
Budgetary fund balances, June 30	\$ <u>1,271,951</u>	\$ <u>1,505,104</u>	\$ <u>1,465,943</u>	\$ <u>(39,161)</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, 2016**

	Required Supplementary Information			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Budgetary fund balances, July 1	\$ (603,067)	\$ (508,024)	\$ (508,024)	\$ -
Resources (inflows):				
Current services	71,500	94,750	98,422	3,672
Special assessments	-	-	632	632
Interest	500	250	167	(83)
Miscellaneous	-	1,000	2,287	1,287
Lease Proceeds	-	-	-	-
Transfers from other funds	638,000	638,000	638,000	-
Amounts available for appropriation	106,933	225,976	231,484	5,508
Charges to appropriations (outflows):				
Current:				
General government	-	-	-	-
General services and recreation	189,125	163,900	171,494	(7,594)
Capital outlay	-	3,850	-	3,850
Transfers to other funds	538,518	538,518	538,518	-
Total	727,643	706,268	710,012	(3,744)
Budgetary fund balances, June 30	\$ (620,710)	\$ (480,292)	\$ (478,528)	\$ 1,764

CITY OF FT. THOMAS, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIREMEN'S PENSION PLAN
For the Year Ended June 30, 2016

	<u>2016</u>
<u>Schedule of City Contributions</u>	
Actuarially determined contribution	\$ 33,377
Contributions in relation to the actuarially determined contribution	-
Contribution deficiency (excess)	\$ <u>33,377</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	\$ 22,785
Benefit payments	<u>(33,377)</u>
Net change in total pension liability	(10,592)
Total pension liability - June 30 2015	<u>265,441</u>
Total pension liability - June 30 2016	<u>254,849</u>
Plan fiduciary net position	
Contributions-employer, less plan costs	(1,871)
Net investment income	265
Benefit payments	<u>(33,377)</u>
Net change in plan fiduciary net position	(34,983)
Plan fiduciary net position - June 30, 2015	<u>212,313</u>
Plan fiduciary net position - ending June 30, 2016	<u>177,330</u>
Net pension liability	\$ <u>77,519</u>
Plan fiduciary net position as percentage of the total pension liability	69.6%
Covered-employee payroll	No active employees
Net pension liability as a percentage of covered-employee payroll	No active employees

CITY OF FT. THOMAS, KENTUCKY NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2016

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 2016, 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
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 2016 Mortality Table M/F

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF CITY CONTRIBUTIONS
Year Ended June 30, 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Non-hazardous:			
Contractually required contribution	\$ 299,553	\$ 281,426	\$ 265,240
Contributions in relation to the contractually required contribution	299,553	281,426	265,240
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City's covered payroll	\$ 1,585,672	\$ 1,592,675	\$ 1,554,748
Contributions as a percentage of covered-employee payroll	18.89%	17.67%	17.06%
Hazardous:			
Contractually required contribution	\$ 1,171,637	\$ 1,139,420	\$ 1,127,717
Contributions in relation to the contractually required contribution	1,171,637	1,139,420	1,127,717
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City's covered payroll	\$ 3,281,896	\$ 3,320,955	\$ 3,422,510
Contributions as a percentage of covered-employee payroll	35.70%	34.31%	32.95%

CITY OF FT. THOMAS, KENTUCKY
SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY-
NON-HAZARDOUS AND HAZARDOUS
Year Ended June 30, 2016

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-hazardous:		
City's proportion of the net pension liability	0.0693%	0.0636%
City's proportionate share of the net pension liability	\$ 2,248,000	\$ 2,733,591
City's covered-employee payroll	\$ 1,585,672	\$ 1,554,748
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	141.77%	175.82%
Plan fiduciary net position as a percentage of the total pension liability	66.8%	60.0%
Hazardous:		
City's proportion of the net pension liability	0.6478%	0.6015%
City's proportionate share of the net pension liability	\$ 7,786,000	\$ 9,233,553
City's covered-employee payroll	\$ 3,320,955	\$ 3,422,510
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	234.45%	269.79%
Plan fiduciary net position as a percentage of the total pension liability	63.40%	57.5%

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, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ 489,294	\$ 489,294	\$ 513,953	\$ 24,659
Resources (inflows):				
Intergovernmental	-	-	-	-
Interest	500	500	693	193
Miscellaneous	5,000	5,000	1,085	(3,915)
Transfers in from other funds	-	-	-	-
Amounts available for appropriation	<u>494,794</u>	<u>494,794</u>	<u>515,731</u>	<u>20,937</u>
Charges to appropriations (outflows):				
General services and recreation	15,000	15,000	10,841	4,159
Capital outlay	5,000	5,000	-	5,000
Transfers to other funds	-	-	-	-
Total	<u>20,000</u>	<u>20,000</u>	<u>10,841</u>	<u>9,159</u>
Budgetary fund balances, June 30	\$ <u><u>474,794</u></u>	\$ <u><u>474,794</u></u>	\$ <u><u>504,890</u></u>	\$ <u><u>30,096</u></u>

CITY OF FT. THOMAS, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2016

	Special Revenue		Total Nonmajor Governmental Funds
	Waste Fee	Debt Service	
ASSETS			
Cash and cash equivalents	\$ 85,904	\$ 1,257,578	\$ 1,343,482
Accounts receivable	7,476	-	7,476
Total assets	<u>\$ 93,380</u>	<u>\$ 1,257,578</u>	<u>\$ 1,350,958</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 70,886	\$ 1,141	\$ 72,027
Deferred revenues	6,701	-	6,701
Due to General Fund	-	814,243	814,243
Total liabilities	<u>77,587</u>	<u>815,384</u>	<u>892,971</u>
Fund balances:			
Assigned to:			
Debt service	-	442,194	442,194
Waste	15,793	-	15,793
Total fund balances	<u>15,793</u>	<u>442,194</u>	<u>457,987</u>
Total liabilities and fund balances	<u>\$ 93,380</u>	<u>\$ 1,257,578</u>	<u>\$ 1,350,958</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, 2016

	Special Revenue		Total Nonmajor Governmental Funds
	Waste Fee	Debt Service	
REVENUES			
Charges for services	\$ 853,105	\$ -	\$ 853,105
Interest	310	671	981
Miscellaneous income	790	-	790
Total revenues	854,205	671	854,876
EXPENDITURES			
Current:			
General government	-	-	-
General services	846,875	-	846,875
Debt service:		346,583	346,583
Principal	-	292,619	292,619
Interest	-	-	-
Total expenditures	846,875	639,202	1,486,077
Excess (deficiency) of revenues over(under) expenditures	7,330	(638,531)	(631,201)
OTHER FINANCING SOURCES(USES)			
Transfers in	-	650,866	650,866
Transfers out	-	-	-
Total other financing sources and uses	-	650,866	650,866
Net change in fund balances	7,330	12,335	19,665
Fund balances - beginning	8,463	429,859	438,322
Fund balances - ending	\$ 8,463	\$ 442,194	\$ 457,987



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, 2016, and the related notes to the financial statements, which collectively comprise the City of Ft. Thomas, Kentucky's basic financial statements and have issued our report thereon dated February 27, 2017.

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 an instance 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'.

**Ft. Wright, Kentucky
February 27, 2017**

CITY OF FT. THOMAS, KENTUCKY SCHEDULE OF FINDINGS AND RESPONSES June 30, 2016
--

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/recreations line item and the General Fund recreation line item exceeded the budget.

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. In FY2016 certain capital expenditures were accrued at year end, which caused the expenditures to exceed the Public Works/KDOT budget.

Finding 2:

Under KRS 91A.040, each city, with 30 days of the acceptance of the audit, shall Publish certain audit information as prescribed by 91A.040. The City inadvertently did not publish the audit information in a timely matter. It did publish the information when the omission was discovered.

City's Response:

The City will monitor its compliance of 91A.040.



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, 2016, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated February 27, 2017 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
February 27 , 2017**

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, 2016, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2017, on our consideration of the City of Ft. Thomas, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ft. Thomas, Kentucky's internal control over financial reporting and compliance.

RANKIN, RANKIN, & COMPANY

A handwritten signature in cursive script that reads "Rankin, Rankin & Company". The signature is written in dark ink and is positioned to the right of the printed company name.

**Ft. Thomas, Kentucky
February 27, 2017**

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, 2016, and the related notes to the financial statements, which collectively comprise the City of Ft. Thomas, Kentucky's basic financial statements and have issued our report thereon dated February 27, 2017.

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.

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Compliance and Other Matters

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

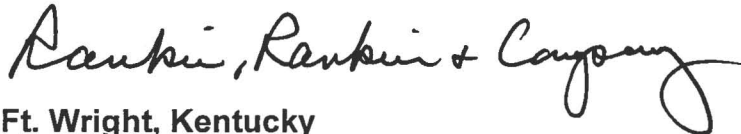
City of Ft. Thomas, Kentucky's Response to Findings

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 black ink that reads "Rankin, Rankin & Company". The signature is written in a cursive, flowing style.

**Ft. Wright, Kentucky
February 27, 2017**

**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, 2016, 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.

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RANKIN, RANKIN & COMPANY

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**Ft. Wright, Kentucky
February 27 , 2017**