

**CITY OF FORT WRIGHT, KENTUCKY**

***ANNUAL FINANCIAL STATEMENTS***

**Year Ended June 30, 2012**



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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Mayor and Council City of Fort Wright, Kentucky**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fort Wright, Kentucky, as of, and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Fort Wright, Kentucky's, management. Our responsibility is to express an opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Fort Wright, Kentucky, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012, on our consideration of the City of Fort Wright, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 23 through 24 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

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fort Wright, Kentucky's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**RANKIN, RANKIN, & COMPANY**

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

**Ft. Wright, Kentucky  
December 19, 2012**

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# The City of Fort Wright, Kentucky

409 Kyles Lane • Fort Wright, KY 41011-5146  
www.fortwright.com

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of City of Fort Wright, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's basic financial statements.

### FINANCIAL HIGHLIGHTS

The City's net assets increased \$342,589 over the prior year. The City's government funds fund balance was \$4,185,394 at year end.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base, license fee base, and the condition of the City's capital assets (roads, buildings, and sidewalks) to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, the City has only governmental activities:

- **Governmental activities:** most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general administration. License fees, property taxes, and state and federal grants finance most of these activities.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds-not the City as a whole. 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 (Ex. Capital Project Fund) or to show that it is meeting legal responsibilities for grant funds (Ex. Municipal Aid Grant Fund).

*Governmental funds:* Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation beside the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

For the year ended June 30, 2012, net assets changed as follows:

	Governmental Activities	
Beginning net assets	\$	10,496,526
Increase(decrease) in net assets		342,589
Ending net assets	\$	<u>10,839,115</u>

  

	Governmental Activities			
	2012		2011	
Current assets	\$	<u>4,441,847</u>	\$	<u>4,010,992</u>
Capital assets, net		<u>7,338,617</u>		<u>7,798,005</u>
Total assets		<u>11,780,464</u>		<u>11,808,997</u>
Current liabilities		<u>272,617</u>		<u>263,253</u>
Noncurrent liabilities		<u>668,732</u>		<u>1,049,218</u>
Total liabilities		<u>941,349</u>		<u>1,312,471</u>
Net assets	\$	<u>10,839,115</u>	\$	<u>10,496,526</u>

## GENERAL FUND BUDGETARY HIGHLIGHTS AND FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Over the course of the year, the City Council revised the General Fund budget. The budget amendment was to increase the beginning fund balance to actual and to change revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the year. The current year budget relied on the expectation of moderate increases in property and payroll taxes and licenses and permits. The actual results showed changes in each of these categories that resulted in revenues over budgeted amounts by \$768,644. Expenditures were less than budgeted by \$202,459. The City ended the year with a fund balance that was \$971,103 more than the final budget.

The following schedule presents a summary of general, special revenue and capital projects revenues and expenditures for the fiscal years ended June 30, 2012 and 2011.

<u>Revenues</u>	<u>2012 Amount</u>	<u>2011 Amount</u>
Taxes	\$ 1,459,322	\$ 1,399,022
Licenses and permits	1,956,029	1,844,650
Intergovernmental	235,510	245,606
Charges for services	211,569	192,705
Waste fees	298,225	296,287
Fines and forfeitures	24,944	52,135
Interest	12,420	21,107
Miscellaneous	<u>85,942</u>	<u>49,222</u>
Total revenues	\$ <u>4,283,961</u>	\$ <u>4,100,734</u>

Revenues increased 4.5% primarily due to an increase in license and permit revenues.

<u>Expenditures</u>	<u>2012 Amount</u>	<u>2011 Amount</u>
General government	\$ 356,531	\$ 360,448
Police	1,159,806	1,241,580
Fire and EMS	874,147	786,841
Public Works	384,126	393,736
Waste fees	292,156	292,156
Plan/community projects	132,738	124,945
Capital outlay	266,974	92,705
Debt service	<u>377,403</u>	<u>237,707</u>
Total expenditures	\$ <u>3,843,881</u>	\$ <u>3,530,118</u>

Capital outlay increased significantly due to road resurfacing projects in 2012.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of June 30, 2012, the City had \$26.3 million invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks.

	Governmental Activities	
	2012	2011
Land and construction in progress	\$ 1,523,000	\$ 1,523,000
Buildings	1,474,787	1,467,686
Improvements/ Infrastructure	20,962,802	20,773,985
Equipment	1,082,537	1,289,508
Vehicles	1,251,340	1,239,992
<b>TOTALS</b>	<b>\$ 26,294,466</b>	<b>\$ 26,294,171</b>

This year's major additions included:

Vehicles	\$ 54,816	\$ 25,273
Improvements/Infrastructure	189,335	
HVAC Replacement	7,101	7,101
Various equipment and improvements	15,722	60,331
	<b>\$ 266,974</b>	<b>\$ 92,705</b>

## Debt

At year-end, the City had \$625,197 outstanding capital leases compared to \$972,512 last year. That is a decrease of \$347,315. The City paid in full the outstanding City building debt.

During the year the City incurred no additional debt. Other obligations of the City include accrued compensated absences in the amount of \$67,289.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During the budget year 2011-2012 the city investigated long term solutions for funding the necessary street repairs which had been put on hold. In the previous year the city paid the city building off and substantially lowered the only other financial obligation the city has, Battery Hooper Park. Because of these actions some funds have become available for street projects.

The city also in last year approved a slight increase in three different taxes: the payroll tax was increased from 1% to 1.15%, the insurance tax was increased from 6% to 8% and there was a \$35.00 license fee placed on motor vehicles. It is estimated that \$500,000 per year in additional revenue will be realized. These three increases will help complete the funding necessary for the repairs on the streets of Fort Wright and will allow the city to return to the 5 year street improvement program to aggressively attempt completion over the next couple of years.

The city will still be able maintain an adequate carryover balance in the general fund and be able to fully fund the operation of the Police, Fire and Public Works Departments.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide for all those with an interest in the government's finances, a general overview of the City's finances. If you have questions about this report or requests for additional financial information, contact the City Administrator's office at 409 Kyles Lane, Ft. Wright, Kentucky 41011.

**BASIC FINANCIAL STATEMENTS**

**CITY OF FORT WRIGHT, KENTUCKY****Statement of Net Assets**

June 30, 2012

	<b>Primary Government Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,948,292
Receivables:	
Taxes	447,398
Intergovernmental	24,661
Accounts	21,496
Capital assets not being depreciated - land	1,523,000
Capital assets, net of accumulated depreciation	5,815,617
<b>Total assets</b>	<b>11,780,464</b>
<b>LIABILITIES</b>	
Accounts payable	58,320
Accrued liabilities	110,278
Accrued interest payable	1,629
Escrow	17,150
Deferred revenue	61,487
Noncurrent liabilities:	
Compensated absences	67,289
Due within one year	23,754
Due in more than one year	601,443
<b>Total liabilities</b>	<b>941,350</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	6,713,420
Unrestricted	4,125,695
<b>Total net assets</b>	<b>\$ 10,839,115</b>

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

**CITY OF FORT WRIGHT, KENTUCKY**  
**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 353,243	\$ 12,202	\$ -	\$ -	\$ (341,041)
Police	1,208,241	33,238	54,898	-	(1,120,105)
Fire/EMS	937,228	178,512	36,204	-	(722,512)
Public works	906,445	-	-	130,066	(776,379)
Waste fees	292,156	298,224	-	-	6,068
Plant/community projects	219,135	12,562	-	-	(206,573)
Interest on long-term debt	28,079	-	-	-	(28,079)
Total governmental activities	<u>3,944,527</u>	<u>534,738</u>	<u>91,102</u>	<u>130,066</u>	<u>(3,188,621)</u>
Total primary government	\$ 3,944,527	\$ 534,738	\$ 91,102	\$ 130,066	\$ (3,188,621)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					1,332,317
Taxes levied on bank deposits					46,993
Motor vehicle taxes					83,168
Licenses and permits:					
Payroll					1,003,072
Insurance premium					584,965
Other					367,992
Grants and contributions not restricted to specific programs					14,341
Investment earnings					12,420
Miscellaneous					85,942
Total general revenues and special items					<u>3,531,210</u>
Change in net assets					342,589
Net assets-beginning					10,496,526
Net assets-ending					<u>\$ 10,839,115</u>

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

**CITY OF FORT WRIGHT, KENTUCKY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2012

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,865,572	\$ 581,646	\$ 501,074	\$ 3,948,292
Receivables:				
Taxes	447,398	-	-	447,398
Intergovernmental	3,859	20,803	-	24,662
Accounts	2,010	-	19,486	21,496
Total assets	<u>\$ 3,318,839</u>	<u>\$ 602,449</u>	<u>\$ 520,560</u>	<u>\$ 4,441,848</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 46,219	\$ 5,147	\$ 6,954	\$ 58,320
Accrued liabilities	110,278	-	-	110,278
Escrow	-	17,150	-	17,150
Deferred revenue	56,074	14,632	-	70,706
Total liabilities	<u>212,571</u>	<u>36,929</u>	<u>6,954</u>	<u>256,454</u>
<b>Fund balances:</b>				
<b>Restricted:</b>				
Street projects	-	565,520	-	565,520
<b>Committed</b>				
TIP Program	-	-	331,943	331,943
<b>Assigned</b>				
Special revenues	-	-	181,663	181,663
Capital improvements	80,839	-	-	80,839
Unassigned	<u>3,025,429</u>	<u>-</u>	<u>-</u>	<u>3,025,429</u>
Total fund balances	<u>3,106,268</u>	<u>565,520</u>	<u>513,606</u>	<u>4,185,394</u>
Total liabilities and fund balances	<u>\$ 3,318,839</u>	<u>\$ 602,449</u>	<u>\$ 520,560</u>	<u>\$ 4,441,848</u>
Total governmental fund balances				\$ 4,185,394
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 \$18,955,849				7,338,617
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.				9,219
Accrued interest on long-term debt.				(1,629)
Long-term liabilities, including notes payable, are not due and payable in current period and therefore are not reported in the funds:				
Accrued absences payable				(67,289)
Notes and leases payable				<u>(625,197)</u>
Net assets of governmental activities				<u>\$ 10,839,115</u>

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

**CITY OF FORT WRIGHT, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2012

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 1,459,322	\$ -	\$ -	\$ 1,459,322
Licenses and permits	1,956,029	-		1,956,029
Intergovernmental	105,656	129,854		235,510
Charges for services	53,100	-	158,469	211,569
Waste fees	298,225	-		298,225
Fines and forfeitures	23,675	-	1,269	24,944
Uses of property	8,476	2,375	1,569	12,420
Miscellaneous	66,177	1,996	17,769	85,942
Total revenues	<u>3,970,660</u>	<u>134,225</u>	<u>179,076</u>	<u>4,283,961</u>
<b>EXPENDITURES</b>				
Current:				
General government	355,681	174	676	356,531
Police	1,159,806	-		1,159,806
Fire and EMS	796,329	-	77,818	874,147
Public works	373,170	10,956		384,126
Waste fees	292,156	-		292,156
Park/community projects	100,775	-	31,963	132,738
Capital outlay	77,639	189,335		266,974
Debt service:	-	-		-
Principal	347,315	-		347,315
Interest	30,088	-		30,088
Total expenditures	<u>3,532,959</u>	<u>200,465</u>	<u>110,457</u>	<u>3,843,881</u>
Excess (deficiency) of revenues over (under) expenditures	<u>437,701</u>	<u>(66,240)</u>	<u>68,619</u>	<u>440,080</u>
<b>OTHER FINANCING SOURCES(USES)</b>				
Transfers in	60,000	-	47,500	107,500
Transfers out	<u>(47,500)</u>	<u>-</u>	<u>(60,000)</u>	<u>(107,500)</u>
Total other financing sources and uses	<u>12,500</u>	<u>-</u>	<u>(12,500)</u>	<u>-</u>
Net change in fund balances	450,201	(66,240)	56,119	440,080
Fund balances - beginning	2,656,067	631,760	457,487	3,745,314
Fund balances - ending	<u>\$ 3,106,268</u>	<u>\$ 565,520</u>	<u>\$ 513,606</u>	<u>\$ 4,185,394</u>

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

**CITY OF FORT WRIGHT, 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, 2012

Net change in fund balances-total governmental funds \$ 440,080

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital asset purchases capitalized	266,974
Depreciation expense	(726,361)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,155
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Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	347,315
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Accrued interest on long-term debt is reported in the government wide funds and not reported in the governmental funds.	2,009
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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.	9,417
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Change in net assets of governmental activities	\$ <u>342,589</u>
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The notes to the financial statements are an integral part of this statement.

# CITY OF FORT WRIGHT, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

### NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Fort Wright, 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.

#### *Date of Management's Review*

Subsequent events were evaluated through December 19, 2012, which is the date the financial statements were available to be issued.

#### *Financial Reporting Entity*

The City of Fort Wright is a municipality governed by a mayor and six-member council. As required by generally accepted accounting principles, these financial statements present the government.

#### *Government-wide Financial Statements*

The government-wide financial statements (i.e., the statement of net assets 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 City has no business-type activities.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is 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 financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

#### *Measurement focus, basis of accounting and financial statement presentation*

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon

# CITY OF FORT WRIGHT, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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.

### *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.

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 deposits.
3. Bankers acceptances.
4. Commercial paper.
5. Bonds of other state or local governments.
6. Mutual funds.

#### *Property Tax Receivable*

Property taxes are levied as of July 1 on property values assessed as of the same date. The taxes are billed on approximately October 1 and are due and payable on December 31. On January 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on January 1.

#### *Capital Assets*

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

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General 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 general capital assets are historical costs, or where historical cost is not available, estimated his-

# CITY OF FORT WRIGHT, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

torical cost based on replacement cost. Prior to July 1, 2000, governmental funds infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each fixed asset class is as follows:

Buildings	40 years
Building Improvements	10-20 years
Public Domain Infrastructure	10-25 years
Vehicles	5 years
Office Equipment	3-7 years

### *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

### *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 long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

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 principle and interest reported as expenditures.

### *Fund Equity*

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

In the fund financial statements, government funds report 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



**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 budget amending ordinance during the year. All appropriations lapse at fiscal year end.

**NOTE C-DEPOSITS**

*Custodial credit risk – deposits.* For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2012, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City's behalf and the FDIC insurance.

The City held no investments at June 30, 2012.

**CITY OF FORT WRIGHT, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE D-CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Retirements/ Deletions	Balance June 30, 2012
Governmental activities:				
Not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	1,523,000	-	-	1,523,000
Subtotal	<u>1,523,000</u>	<u>-</u>	<u>-</u>	<u>1,523,000</u>
Other capital assets:				
Buildings	1,467,686	7,101	-	1,474,787
Improvements/infrastructure	20,773,985	189,335	(518)	20,962,802
Equipment	1,289,508	15,722	(222,693)	1,082,537
Vehicles	1,239,992	54,816	(43,468)	1,251,340
Subtotal	<u>24,771,171</u>	<u>266,974</u>	<u>(266,679)</u>	<u>24,771,466</u>
Accumulated depreciation:				
Buildings	(743,556)	(47,544)	-	(791,100)
Improvements/infrastructure	(15,711,812)	(538,004)	518	(16,249,298)
Equipment	(918,322)	(80,927)	222,693	(776,556)
Vehicles	(1,122,476)	(59,887)	43,468	(1,138,895)
Subtotal	<u>(18,496,166)</u>	<u>(726,362)</u>	<u>266,679</u>	<u>(18,955,849)</u>
Net other assets	<u>6,275,005</u>	<u>(459,388)</u>	<u>-</u>	<u>5,815,617</u>
Net capital assets	<u>\$ 7,798,005</u>	<u>\$ (459,388)</u>	<u>\$ -</u>	<u>\$ 7,338,617</u>

\*Depreciation was charged to functions as follows:

Governmental activities:

General government, police and fire	\$ 117,645
Public works	522,319
Plant	86,397
Total governmental activities depreciation expense	<u>\$ 726,361</u>

**NOTE E-LONG-TERM DEBT**

Lease Payables

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

Long-term debt outstanding at June 30, 2012 for the leases payable, consisted of the following:

*Lease Payable-Storer Property*

The City purchased park land known as the Storer property in the fall of 2003. The purchase was financed as a capital lease with the Bank of Kentucky. In 2006, the City refinanced the lease for 25 years with a fixed interest rate of 4.86% through August 31, 2011. In December 2011 the interest rate was adjusted to 3.125% through March 1, 2014, and adjusted in 2014, 2019, 2024 and 2029.

**CITY OF FORT WRIGHT, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

Annual debt service payment requirements to maturity, according to the original payment schedule, with the final principal payment adjusted due to prepayments:

Year Ending June 30,	Principal	Interest	Total
2013	23,754	19,534	43,288
2014	24,515	18,773	43,288
2015	25,301	17,987	43,288
2016	26,066	17,222	43,288
2017	26,948	16,340	43,288
2018-2022	148,230	68,210	216,440
2031-2027	173,577	42,863	216,440
2028-2032	176,806	13,344	190,150
Total	\$ 625,197	\$ 214,273	\$ 839,470

*Lease Payable-City Building*

The City entered into a lease agreement on January 15, 2003 with the Bank of Kentucky to re-finance the city building construction costs and the fire pumper. In 2006, the City refinanced the lease for thirteen years with a fixed interest rate of 4.86% through August 31, 2011 and adjusted each five years thereafter. The lease was paid in full on December 13, 2011.

Long-term liability activity for the year ended June 30, 2012, was as follows:

	June 30, 2011	Additions	Retirements	June 30, 2012	Due Within One Year
Governmental activities:					
Lease payable-Storer property	\$ 647,649	\$ -	\$ 22,452	\$ 625,197	\$ 23,754
Lease payable-City Building	324,863	-	324,863	-	-
Compensated absences	76,706	-	9,417	67,289	-
Totals	\$ 1,049,218	\$ -	\$ 356,732	\$ 692,486	\$ 23,754

**NOTE F-CLAIMS AND JUDGMENTS**

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

**NOTE G-EMPLOYEE RETIREMENT SYSTEM**

*County Employees Retirement System (CERS)*

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

# CITY OF FORT WRIGHT, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Trustees of Kentucky Retirement Systems administers the CERS.

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

**Plan Description** - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

**Non-hazardous Contributions** - For the year ended June 30, 2012, plan members were required to contribute 5% of their annual creditable compensation. Any plan members that entered the plan after August 31, 2008, are required to contribute an additional 1% of their annual creditable compensation for health insurance. 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 proceeding 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, 2012, participating employers contributed 18.96% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2012 was 18.96% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**Hazardous Contributions** - For the year ended June 30, 2012, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding 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, 2012, participating employers contributed 35.76% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2012 was 35.76% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

<u>Year</u>		<u>Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$	437,390	100%
2011	\$	402,673	100%
2010	\$	398,366	100%

*Medical Insurance Plan*

The CERS provides post-retirement healthcare benefits to eligible members and dependents, under cost sharing multiple employer defined benefit plans. Medical benefits are offered to members who have retired for service or disability. The post-retirement healthcare is financed through member and employer contribution.

*Deferred Compensation Plans*

The deferred compensation plan is a 457 plan administered by the ICMA Retirement Trust. All employees are eligible to participate. The City does not contribute to the plan for any employee. All payments made to ICMA are payroll withheld, requested by the employee.

The City also participates in a 401(k) plan administered by the Kentucky Employees Deferred Compensation Authority. All payments to the Authority are payroll withheld. The City does not contribute to the plan for any employee.

**NOTE H-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, 2012, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. There have been no claims in the past three fiscal years.

**NOTE I-COMMITMENTS**

At June 30, 2012, the City had no contracted commitments.

**CITY OF FORT WRIGHT, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Year Ended June 30, 2012

	Required Supplementary Information			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Budgetary fund balance, July 1	\$ 2,121,130	\$ 2,233,118	\$ 2,656,067	\$ 422,949
Resources (inflows):				
Taxes	1,306,000	1,302,180	1,459,322	157,142
Licenses and permits	1,830,000	1,805,000	1,956,029	151,029
Intergovernmental	86,650	88,730	105,656	16,926
Charges for services	330,031	334,400	351,325	16,925
Fines and forfeitures	24,500	21,800	23,675	1,875
Uses of property	12,100	10,300	8,476	(1,824)
Miscellaneous	22,600	62,555	66,177	3,622
Transfers in	60,000	60,000	60,000	-
Amounts available for appropriation	<u>5,793,011</u>	<u>5,918,083</u>	<u>6,686,727</u>	<u>768,644</u>
Charges to appropriations (outflows)				
General government	499,459	368,018	367,949	69
Police	1,501,550	1,392,693	1,216,470	176,223
Fire/EMS	889,700	824,298	797,829	26,469
Public works	683,110	667,291	671,333	(4,042)
Plant/community projects	107,900	101,800	101,975	(175)
Debt Service	231,000	381,318	377,403	3,915
Transfers out	47,500	47,500	47,500	-
Total charges to appropriations	<u>3,960,219</u>	<u>3,782,918</u>	<u>3,580,459</u>	<u>202,459</u>
Budgetary fund balance, June 30	\$ <u>1,832,792</u>	\$ <u>2,135,165</u>	\$ <u>3,106,268</u>	\$ <u>971,103</u>

The basis of budgeting is the same as GAAP.

**CITY OF FORT WRIGHT, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**SPECIAL REVENUE FUND-MUNICIPAL AID**  
**For the Year Ended June 30, 2012**

	Required Supplementary Information			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Budgetary fund balances, July 1	\$ 617,599	\$ 529,902	\$ 631,760	\$ 101,858
Resources (inflows):				
Intergovernmental	95,000	84,674	129,854	45,180
Interest	4,000	3,000	2,376	(624)
Miscellaneous	-	-	1,995	1,995
Transfers from other funds	-	-	-	-
Amounts available for appropriation	<u>716,599</u>	<u>617,576</u>	<u>765,985</u>	<u>148,409</u>
Charges to appropriations (outflows):				
Current				
Administration	175	175	174	1
Public works	285,000	285,000	10,956	274,044
Capital outlay				
Total	<u>285,175</u>	<u>285,175</u>	<u>200,465</u>	<u>84,710</u>
Budgetary fund balances, June 30	\$ <u>431,424</u>	\$ <u>332,401</u>	\$ <u>565,520</u>	\$ <u>233,119</u>

The basis of budgeting is the same as GAAP.

**CITY OF FORT WRIGHT, KENTUCKY**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
 June 30, 2012

	<u>Parks &amp; Recreation</u>	<u>Madison Pike TIF</u>	<u>Fire and EMS</u>	<u>Asset Forfeiture</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 49,592	\$ 331,943	\$ 113,228	\$ 6,311	\$ 501,074
Accounts receivable	-	-	19,486	-	19,486
<b>Total assets</b>	<b>\$ 49,592</b>	<b>\$ 331,943</b>	<b>\$ 132,714</b>	<b>\$ 6,311</b>	<b>\$ 520,560</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 238	\$ -	\$ 6,716	\$ -	\$ 6,954
<b>Total liabilities</b>	<b>238</b>	<b>-</b>	<b>6,716</b>	<b>-</b>	<b>6,954</b>
<b>Fund balances:</b>					
Committed	\$ -	\$ 331,943	\$ -	\$ -	\$ 331,943
Assigned	49,354	-	125,998	6,311	181,663
<b>Total fund balances</b>	<b>49,354</b>	<b>331,943</b>	<b>125,998</b>	<b>6,311</b>	<b>513,606</b>
<b>Total liabilities and fund balances</b>	<b>\$ 49,592</b>	<b>\$ 331,943</b>	<b>\$ 132,714</b>	<b>\$ 6,311</b>	<b>\$ 520,560</b>

**CITY OF FORT WRIGHT, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**

For The Year Ended June 30, 2012

	Parks & Recreation	Madison Pike TIF	Fire and EMS	Asset Forfeiture	Total Nonmajor Governmental Funds
<b>REVENUES</b>					
Charges for services	\$ 12,562	\$ -	\$ 145,907	\$ -	\$ 158,469
Intergovernmental	-	-	-	-	-
Fines and forfeitures	-	-	-	1,269	1,269
Interest	99	1,036	412	22	1,569
Miscellaneous	17,769	-	-	-	17,769
Total revenues	30,430	1,036	146,319	1,291	179,076
<b>EXPENDITURES</b>					
Current:					
General government	120	143	242	171	676
Police	-	-	-	-	-
Fire and EMS	-	-	77,818	-	77,818
Public works	-	-	-	-	-
Parks & recreation	31,963	-	-	-	31,963
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	32,083	143	78,060	171	110,457
Excess (deficiency) of revenues over (under) expenditures	(1,653)	893	68,259	1,120	68,619
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	47,500	-	-	47,500
Transfers out	-	-	(60,000)	-	(60,000)
Total other financing sources and (uses)	-	47,500	(60,000)	-	(12,500)
Net change in fund balances	(1,653)	48,393	8,259	1,120	56,119
Fund balances - beginning	51,007	283,550	117,739	5,191	457,487
Fund balances - ending	\$ 49,354	\$ 331,943	\$ 125,998	\$ 6,311	\$ 513,606

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*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the City of Fort Wright, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the finance committee, management, others within the entity, Mayor and Council and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**RANKIN, RANKIN & COMPANY**

*Rankin, Rankin & Company*

**Ft. Wright, Kentucky  
December 19, 2012**

