

**CITY OF FORT WRIGHT, KENTUCKY**

***ANNUAL FINANCIAL STATEMENTS***

**Year Ended June 30, 2015**



# CITY OF FORT WRIGHT, KENTUCKY

## ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2015

### TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1
Management's Discussion and Analysis.....	5
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	11
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
Notes to the Financial Statements.....	14
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule-General Fund.....	28
Budgetary Comparison Schedule-Special Revenue Fund.....	29
Schedule of City Contributions.....	30
Schedule of Proportionate Share of Net Pension Liability-Hazardous and Nonhazardous.....	31
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Non-Major Funds.....	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-Non-Major Governmental Funds.....	33
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.....	34
SCHEDULE OF FINDINGS AND RESPONSES. ....	37





## **INDEPENDENT AUDITOR'S REPORT**

**To the Mayor and Council  
City of Fort Wright, 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 Fort Wright, Kentucky, as of and for the year ended June 30, 2015, 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 Fort Wright, Kentucky, as of June 30, 2015, 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 and budgetary comparison information, schedule of City contributions, and schedule of proportionate share of net pension liability-hazardous and non hazardous on pages 28 through 31 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 Fort Wright, Kentucky's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 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 December 9, 2015, on our consideration of the City of Fort Wright, 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 Fort Wright, Kentucky's internal control over financial reporting and compliance.

**RANKIN, RANKIN, & COMPANY**

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

**Ft. Wright, Kentucky  
December 9, 2015**

This page left blank intentionally.

## 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, 2015. Please read it in conjunction with the City's basic financial statements.

### FINANCIAL HIGHLIGHTS

The City's governmental funds fund balance was \$5,436,347 at year end, an increase of \$81,272 over the prior year. The City's cash balances increased \$47,252 over the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Position 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 position 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 position* and changes in them. You can think of the City's net position, 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 position 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 Position 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 position 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, 2015, net position changed as follows:

		<b>Governmental Activities</b>
Beginning net position	\$	11,965,479
Increase(decrease) in net position		1,203,317
Prior period adjustment		(3,096,000)
Ending net position	\$	<u><u>10,072,796</u></u>

		<b>Governmental Activities</b>		
		2015		2014
Current assets	\$	5,687,055	\$	5,658,162
Capital assets, net		7,465,762		7,025,932
Total assets		<u>13,152,817</u>		<u>12,684,094</u>
Deferred outflows of resources		500,327		-
Current liabilities		236,513		291,663
Noncurrent liabilities		72,434		426,952
Net pension liability		3,029,000		-
Total liabilities		<u>3,337,947</u>		<u>718,615</u>
Deferred inflows of resources		242,400		718,615
Net position	\$	<u><u>10,072,796</u></u>	\$	<u><u>11,965,479</u></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 \$303,375. Expenditures were less than budgeted by \$147,768. The City ended the year with a fund balance that was \$451,143 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, 2015 and 2014.

Revenues	2015 Amount	2014 Amount
Taxes	\$ 1,636,544	\$ 1,725,962
Licenses and permits	2,234,630	2,103,182
Intergovernmental	330,815	238,919
Charges for services	244,493	259,093
Waste fees	301,076	302,400
Fines and forfeitures	17,860	21,892
Interest	11,950	12,291
Miscellaneous	168,440	85,187
Total revenues	\$ <u>4,945,808</u>	\$ <u>4,748,926</u>

Revenues increased 4.2% primarily due to an increase in both license and permit revenues and intergovernmental revenues.

Expenditures	2015 Amount	2014 Amount
General government	\$ 412,591	\$ 397,865
Police	1,154,704	1,235,218
Fire and EMS	904,655	863,266
Public Works	412,539	476,201
Waste fees	300,601	300,601
Plant/community projects	136,139	127,701
Capital outlay	1,184,045	637,610
Debt service	359,262	152,000
Total expenditures	\$ <u>4,864,536</u>	\$ <u>4,190,462</u>

Capital outlay increased significantly due to road projects in 2015.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of June 30, 2015, the City had \$28.2 million invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks.

	Governmental Activities	
	2015	2014
Land and construction in progress	\$ 1,523,000	\$ 1,594,876
Buildings	1,485,754	1,481,888
Improvements/ Infrastructure	22,747,984	21,683,469
Equipment	1,169,229	1,042,615
Vehicles	1,310,384	1,296,623
<b>TOTALS</b>	<b>\$ 28,236,351</b>	<b>\$ 27,099,471</b>
This year's major additions included:		
Vehicles	\$ 53,559	\$ 77,946
Improvements/Infrastructure	1,064,515	543,488
Various equipment and improvements	137,848	16,178
	<b>\$ 1,255,922</b>	<b>\$ 637,612</b>

## Debt

At year-end, the City had paid the remaining lease balance of \$357,720 plus interest of \$1,541.

During the year the City incurred no additional debt. Other obligations of the City include accrued compensated absences in the amount of \$72,434.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2014-2015 Budget year had some very significant projects take place. The first was the city was able to pay \$359,261 toward the debt of Battery Hooper Park. This enabled the city to become debt free and allowed approximately \$250,000 per year to be used for future road reconstruction projects. Because the city paid off this debt the City Vehicle Sticker Fee was rescinded by Council. The removal of this fee was a promise made by council when it became no longer necessary for funding of the street program. The city also adopted the 5 year Capital Improvements Plan. This plan projects expenses both capital and personnel and determines how those expenses will be paid for in the future. And the most significant activity of the year was the dedication of the "Guardian Angel" statue by Greg Wyatt at the "Families of the Fallen" memorial site located by the Fort Wright City Building. This statue is a world class piece of art work given to the citizens of Fort Wright and dedicated to service members who gave their lives for their country.

The city continues to implement the 5 year street improvement program reconstructing, during 2014-2015, Basswood Circle, East Crittenden Drive and Cumberland Avenue at a cost of approximately \$1,100,000. And this plan continued with Beaumont Court in 2015-2016. Even with an aggressive street improvement program the city is able to maintain an adequate carry-over budget balance to fully fund the operations 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 Position**

June 30, 2014

	<b>Primary Government Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,140,809
Receivables:	
Taxes	515,037
Intergovernmental	18,987
Accounts	12,222
Capital assets not being depreciated - land	1,523,000
Capital assets, net of accumulated depreciation	5,942,762
<b>Total assets</b>	<b>13,152,817</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions subsequent to the measurement date	500,327
<b>LIABILITIES</b>	
Accounts payable	\$ 52,218
Accrued liabilities	107,063
Accrued interest payable	-
Escrow	17,150
Unearned revenue	60,082
Noncurrent liabilities:	
Compensated absences	72,434
Net pension liability	3,029,000
<b>Total liabilities</b>	<b>3,337,947</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Differences between projected and actual earnings on pension	242,400
<b>NET POSITION</b>	
Net investment in capital assets	7,465,762
Unrestricted	2,607,034
<b>Total net position</b>	<b>\$ 10,072,796</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, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs						
Primary government:						
Governmental activities:						
General government	\$ 433,110	\$ 13,551	\$ -	-	\$ (419,559)	
Police	1,194,716	29,409	50,696	-	(1,114,611)	
Fire/EMS	952,586	207,005	137,250	-	(608,331)	
Public works	970,614	-	-	131,557	(839,057)	
Waste fees	300,601	301,076	-	-	475	
Plant/community projects	217,020	12,388	-	-	(204,632)	
Interest on long-term debt	-	-	-	-	-	
Change in net pension liability, deferred inflows and outflows of resources	(324,927)	-	-	-	324,927	
Total governmental activities	<u>3,743,720</u>	<u>563,429</u>	<u>187,946</u>	<u>131,557</u>	<u>(2,860,788)</u>	
Total primary government	<u>\$ 3,743,720</u>	<u>\$ 563,429</u>	<u>\$ 187,946</u>	<u>\$ 131,557</u>	<u>\$ (2,860,788)</u>	
General revenues:						
Taxes:						
Property taxes, levied for general purposes					1,538,171	
Taxes levied on bank deposits					27,347	
Motor vehicle taxes					72,255	
Licenses and permits:						
Payroll					1,098,079	
Insurance premium					712,394	
Other					424,157	
Grants and contributions not restricted to specific programs					11,312	
Investment earnings					11,950	
Miscellaneous					168,440	
Total general revenues and special items					<u>4,064,105</u>	
Change in net position					1,203,317	
Prior period adjustment					(3,096,000)	
Net position-beginning					11,965,479	
Net position-ending					<u>\$ 10,072,796</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, 2015

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,631,782	\$ 721,126	\$ 787,901	\$ 5,140,809
Receivables:				
Taxes	515,037	-	-	515,037
Intergovernmental	3,728	15,259	-	18,987
Accounts	2,976	-	9,246	12,222
Total assets	<u>\$ 4,153,523</u>	<u>\$ 736,385</u>	<u>\$ 797,147</u>	<u>\$ 5,687,055</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 43,921	\$ 6,045	\$ 2,252	\$ 52,218
Accrued liabilities	107,063	-	-	107,063
Escrow	-	17,150	-	17,150
Unearned revenue	45,450	14,632	-	60,082
Total liabilities	<u>196,434</u>	<u>37,827</u>	<u>2,252</u>	<u>236,513</u>
Deferred inflows of resources				
Unavailable revenue-property taxes	14,195	-	-	14,195
Fund balances:				
Restricted:				
Street projects	-	698,558	-	698,558
Committed				
TIF Program	-	-	476,845	476,845
Assigned				
Special projects	-	-	318,050	318,050
Unassigned	3,942,894	-	-	3,942,894
Total fund balances	<u>3,942,894</u>	<u>698,558</u>	<u>794,895</u>	<u>5,436,347</u>
Total liabilities and fund balances	<u>\$ 4,153,523</u>	<u>\$ 736,385</u>	<u>\$ 797,147</u>	<u>\$ 5,687,055</u>
Total governmental fund balances				\$ 5,436,347
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 \$20,770,590				7,465,761
Contributions subsequent to net pension liability measurement date				500,327
Net pension liability actual investment earnings over projected				(242,400)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.				14,195
Accrued interest on long-term debt.				-
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				(72,434)
Net pension liability				(3,029,000)
Net position of governmental activities				<u>\$ 10,072,796</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, 2015

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 1,636,544	\$ -	\$ -	\$ 1,636,544
Licenses and permits	2,234,630	-	-	2,234,630
Intergovernmental	199,258	131,557	-	330,815
Charges for services	92,392	-	152,101	244,493
Waste fees	301,076	-	-	301,076
Fines and forfeitures	17,687	-	173	17,860
Uses of property	8,235	1,901	1,814	11,950
Miscellaneous	27,442	117,108	23,890	168,440
Total revenues	<u>4,517,264</u>	<u>250,566</u>	<u>177,978</u>	<u>4,945,808</u>
<b>EXPENDITURES</b>				
Current:				
General government	411,555	175	861	412,591
Police	1,151,054	-	3,650	1,154,704
Fire and EMS	892,402	-	12,253	904,655
Public works	347,963	64,576	-	412,539
Waste fees	300,601	-	-	300,601
Park/community projects	96,321	-	39,818	136,139
Capital outlay	191,406	992,639	-	1,184,045
Debt service:	-	-	-	-
Principal	357,720	-	-	357,720
Interest	1,542	-	-	1,542
Total expenditures	<u>3,750,564</u>	<u>1,057,390</u>	<u>56,582</u>	<u>4,864,536</u>
Excess (deficiency) of revenues over (under) expenditures	<u>766,700</u>	<u>(806,824)</u>	<u>121,396</u>	<u>81,272</u>
<b>OTHER FINANCING SOURCES(USES)</b>				
Transfers in	60,000	1,100,000	47,500	1,207,500
Transfers out	(1,147,500)	-	(60,000)	(1,207,500)
Total other financing sources and uses	<u>(1,087,500)</u>	<u>1,100,000</u>	<u>(12,500)</u>	<u>-</u>
Net change in fund balances	<u>(320,800)</u>	<u>293,176</u>	<u>108,896</u>	<u>81,272</u>
Fund balances - beginning	<u>4,263,694</u>	<u>405,382</u>	<u>685,999</u>	<u>5,355,075</u>
Fund balances - ending	<u>\$ 3,942,894</u>	<u>\$ 698,558</u>	<u>\$ 794,895</u>	<u>\$ 5,436,347</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, 2015**

Net change in fund balances-total governmental funds	\$ 81,272
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	1,184,045
Depreciation expense	(744,215)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,228
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 position.	357,720
Accrued interest on long-term debt is reported in the government wide funds and not reported in the governmental funds.	1,542
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.	(3,202)
Net pension liability expenses based on proportionate share of service cost and calculated pension cost from measurement date to measurement date	<u>324,927</u>
Change in net position of governmental activities	\$ <u><u>1,203,317</u></u>

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

# **CITY OF FORT WRIGHT, KENTUCKY**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

### **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 9, 2015, 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 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 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 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, 2015

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 position 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. Total real property assessments were \$472,460,900 and tangible tax assessments were \$28,207,229.

#### *Capital Assets*

These 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. 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

<b>CITY OF FORT WRIGHT, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2015</b>
--

general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Prior to July 1, 2000, governmental funds infrastructure assets were not capitalized. These assets (back to July 1, 1980) have been valued at estimated historical cost.

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

#### *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 (expenses/expenditure) until then. The government has no items of this category.

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.

ry. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source-property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

#### *Fund Equity*

Net position is the difference between assets and liabilities. Net position 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.

#### *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*

External transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as other financing sources (uses).

#### *Restricted Revenues*

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

#### *Use of Estimates*

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

### **NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

- A. In accordance with City ordinance, by May 31, the Mayor submits to the Council, a proposed operating budget on the modified accrual basis of accounting for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- B. A public meeting is conducted to obtain citizen comment.
- C. By July 1, the budget is legally enacted through passage of an ordinance.
- 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.

**CITY OF FORT WRIGHT, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**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, 2015, 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, 2015.

**NOTE D-CAPITAL ASSETS AND DEPRECIATION**

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Retirements/ Deletions	Balance June 30, 2015
Governmental activities:				
Not being depreciated:				
Construction in progress	\$ 71,876	\$ -	\$ (71,876)	\$ -
Land	1,523,000	-	-	1,523,000
Subtotal	1,594,876	-	(71,876)	1,523,000
Other capital assets:				
Buildings	1,481,888	3,866	-	1,485,754
Improvements/infrastructure	21,683,469	1,064,515	-	22,747,984
Equipment	1,042,615	133,981	(7,367)	1,169,229
Vehicles	1,296,623	53,560	(39,799)	1,310,384
Subtotal	25,504,595	1,255,922	(47,166)	26,713,351
Accumulated depreciation:				
Buildings	(884,884)	(43,500)	-	(928,384)
Improvements/infrastructure	(17,266,007)	(557,460)	-	(17,823,467)
Equipment	(799,347)	(84,586)	7,367	(876,566)
Vehicles	(1,123,301)	(58,670)	39,799	(1,142,172)
Subtotal	(20,073,539)	(744,216)	47,166	(20,770,589)
Net other assets	5,431,056	511,706	-	5,942,762
Net capital assets	\$ 7,025,932	\$ 511,706	\$ (71,876)	\$ 7,465,762

\*Depreciation was charged to functions as follows:

Governmental activities:

General government, police and fire	\$ 105,261
Public works	558,074
Plant	80,881
Total governmental activities depreciation expense	\$ <u>744,216</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, 2015 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 to 3.430%.

On July 16, 2014 the remaining loan balance of \$357,720 was paid in full plus interest of \$1,541.

Long-term liability activity for the year ended June 30, 2015, was as follows:

	June 30, 2014	Additions	Retirements	June 30, 2015	Due Within One Year
Governmental activities:					
Lease payable-Storer property	\$ 357,720	\$ -	\$ 357,720	\$ -	\$ -
Compensated absences	69,232	3,202	-	72,434	-
Totals	<u>\$ 426,952</u>	<u>\$ 3,202</u>	<u>\$ 357,720</u>	<u>\$ 72,434</u>	<u>\$ -</u>

**NOTE F-CLAIMS AND JUDGMENTS**

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

**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. On July 1, 2014, the COLA was not granted.

*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.

*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, 2015, 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 preceded-

# **CITY OF FORT WRIGHT, KENTUCKY**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

ing 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, 2015, participating employers contributed 17.67% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2015 was 17.67% 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 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 \$61,349 for the year ended June 30, 2015.

*Hazardous Contributions* - For the year ended June 30, 2015, 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, 2015, participating employers contributed 34.31% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2015 was 34.31% 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

<b>CITY OF FORT WRIGHT, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2015</b>
--

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 \$438,978 for the year ended June 30, 2015.

#### *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 retire-

# **CITY OF FORT WRIGHT, KENTUCKY**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

ment 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 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, 2015, the City reported a liability of \$452,000 for its proportionate share of the net pension liability for non-hazardous and \$2,577,000 for hazardous. The City's net pension liability was measured as of June 30, 2014, 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, 2014, the City's proportion was 0.014 percent for non-hazardous and 0.214 percent for hazardous.

For the year ended June 30, 2015, the City recognized pension expense of \$175,400. At June 30, 2015, the City reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF FORT WRIGHT, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

	GENERAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	242,400
Changes in proportion and difference between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	500,327	-
Total	\$ <u>500,327</u>	\$ <u>242,400</u>

The \$500,327 and \$242,400 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:

Year Ended June 30	General	
	Hazardous	Nonhazardous
2016	\$ 50,600	\$ 10,000
2017	50,600	10,000
2018	50,600	10,000
2019	50,600	10,000
2020	-	-
Totals	<u>202,400</u>	<u>40,000</u>

*Actuarial Assumptions* – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 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

<b>CITY OF FORT WRIGHT, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2015</b>
--

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, 2014 valuation were based on results of an actuarial experience study for the period July 1, 2005-June 30, 2008.

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 2005 through 2008, is outlined in a report dated August 25, 2009. 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Nominal Return</u>
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	11.25%
Real estate	5%	7.00%
Core US fixed income	10%	5.25%
High yield US fixed income	5%	7.25%
Non US fixed income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
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 2016.

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 29 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.

<b>CITY OF FORT WRIGHT, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2015</b>
--

*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 7.75% 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 (6.75%) or one percentage point higher (8.75%) than the current rate for non-hazardous and (6.75%) or one percentage point higher (8.75%) than the current rate for hazardous (\$ thousands):

	1% Decrease	Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
Non-hazardous	\$ 4,269,383	\$ 3,244,376	\$ 2,338,760
Hazardous	\$ 1,572,178	\$ 1,201,824	\$ 887,365

*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-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, 2015, 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, 2015, the City had contracted commitments in the amount of \$443,248 for the Beaumont Court Reconstruction which began in July 2015 and was expected to be completed by November.

**CITY OF FORT WRIGHT, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**

For the Year Ended June 30, 2015

	Required Supplementary Information			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
Budgetary fund balance, July 1	\$ 3,625,064	\$ 4,263,694	\$ 4,263,694	\$ -
Resources (inflows):				
Taxes	1,542,000	1,517,394	1,636,544	119,150
Licenses and permits	2,065,000	2,065,000	2,234,630	169,630
Intergovernmental	82,050	84,746	199,258	114,512
Charges for services	405,600	372,142	393,468	21,326
Fines and forfeitures	12,000	10,000	17,687	7,687
Uses of property	8,400	7,000	8,235	1,235
Miscellaneous	19,800	157,607	27,442	(130,165)
Transfers in	60,000	60,000	60,000	-
Amounts available for appropriation	7,819,914	8,537,583	8,840,958	303,375
Charges to appropriations (outflows)				
General government	399,895	380,006	411,555	(31,549)
Police	1,485,100	1,319,850	1,151,054	168,796
Fire/EMS	990,500	942,650	892,402	50,248
Public works	711,465	673,165	648,564	24,601
Plant/community projects	119,400	98,900	96,321	2,579
Debt Service	350,000	359,261	359,262	(1)
Capital outlay	137,500	124,500	191,406	(66,906)
Transfers out	1,147,500	1,147,500	1,147,500	-
Total charges to appropriations	5,341,360	5,045,832	4,898,064	147,768
Budgetary fund balance, June 30	\$ 2,478,554	\$ 3,491,751	\$ 3,942,894	\$ 451,143

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, 2015**

	Required Supplementary Information			Variance with
	Budgeted Amounts		Actual Amounts	Final Budget
	Original	Final		Positive (Negative)
Budgetary fund balances, July 1	\$ 477,124	\$ 405,382	\$ 405,382	\$ -
Resources (inflows):				
Intergovernmental	100,000	90,491	131,557	41,066
Interest	2,200	2,000	1,901	(99)
Miscellaneous	-	-	117,108	117,108
Transfers from other funds	1,100,000	1,100,000	1,100,000	-
Amounts available for appropriation	1,679,324	1,597,873	1,755,948	158,075
Charges to appropriations (outflows):				
Current				
Administration	175	180	175	5
Public works	1,245,000	1,145,000	64,576	1,080,424
Capital outlay	-	-	992,639	(992,639)
Total	1,245,175	1,145,180	1,057,390	87,790
Budgetary fund balances, June 30	\$ 434,149	\$ 452,693	\$ 698,558	\$ 245,865

The basis of budgeting is the same as GAAP.

**CITY OF FORT WRIGHT, KENTUCKY****SCHEDULE OF CITY CONTRIBUTIONS****For the Year Ended June 30, 2015**

	<u>2014</u>	<u>2015</u>
Non-hazardous:		
Contractually required contribution	\$ 65,334	\$ 61,349
Contributions in relation to the contractually required contribution	65,334	61,349
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>
City's covered payroll	\$ 345,867	\$ 347,193
Contributions as a percentage of covered-employee payroll	18.89%	17.67%
Hazardous:		
Contractually required contribution	\$ 396,388	\$ 438,978
Contributions in relation to the contractually required contribution	396,388	438,978
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>
City's covered payroll	\$ 1,098,975	\$ 1,117,628
Contributions as a percentage of covered-employee payroll	35.70%	34.31%

**CITY OF FORT WRIGHT, KENTUCKY****SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY-  
NON-HAZARDOUS AND HAZARDOUS**

Year Ended June 30, 2015

	<u>June 30, 2014</u>
Non-hazardous:	
City's proportion of the net pension liability	0.0139%
City's proportionate share of the net pension liability	\$ 452,000
City's covered-employee payroll	\$ 319,456
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	141.49%
Plan fiduciary net position as a percentage of the total pension liability	66.8%
Hazardous:	
City's proportion of the net pension liability	0.2144%
City's proportionate share of the net pension liability	\$ 2,577,000
City's covered-employee payroll	\$ 1,086,996
City's proportionate share of net pension liability as a percentage of its covered-employee payroll	237.08%
Plan fiduciary net position as a percentage of the total pension liability	63.4%

**CITY OF FORT WRIGHT, KENTUCKY**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2015**

	Parks & Recreation	Madison Pike TIF	Fire and EMS	Asset Forfeiture	Total Nonmajor Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 51,264	\$ 476,845	\$ 255,666	\$ 4,126	\$ 787,901
Accounts receivable	-	-	9,246	-	9,246
Total assets	<u>\$ 51,264</u>	<u>\$ 476,845</u>	<u>\$ 264,912</u>	<u>\$ 4,126</u>	<u>\$ 797,147</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 1,832	\$ -	\$ 420	\$ -	\$ 2,252
Total liabilities	<u>1,832</u>	<u>-</u>	<u>420</u>	<u>-</u>	<u>2,252</u>
<b>Fund balances:</b>					
Committed	\$ -	\$ 476,845	\$ -	\$ -	\$ 476,845
Assigned	49,432	-	264,492	4,126	318,050
Total fund balances	<u>49,432</u>	<u>476,845</u>	<u>264,492</u>	<u>4,126</u>	<u>794,895</u>
Total liabilities and fund balances	<u>\$ 51,264</u>	<u>\$ 476,845</u>	<u>\$ 264,912</u>	<u>\$ 4,126</u>	<u>\$ 797,147</u>

**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, 2015**

	Parks & Recreation	Madison Pike TIF	Fire and EMS	Asset Forfeiture	Total Nonmajor Governmental Funds
<b>REVENUES</b>					
Charges for services	\$ 12,388	\$ -	\$ 139,713	\$ -	\$ 152,101
Intergovernmental	-	-	-	-	-
Fines and forfeitures	-	-	-	173	173
Interest	125	1,102	571	16	1,814
Miscellaneous	23,890	-	-	-	23,890
Total revenues	<u>36,403</u>	<u>1,102</u>	<u>140,284</u>	<u>189</u>	<u>177,978</u>
<b>EXPENDITURES</b>					
Current:					
General government	245	246	198	172	861
Police	-	-	-	3,650	3,650
Fire and EMS	-	-	12,253	-	12,253
Public works	-	-	-	-	-
Parks & recreation	39,818	-	-	-	39,818
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	<u>40,063</u>	<u>246</u>	<u>12,451</u>	<u>3,822</u>	<u>56,582</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,660)</u>	<u>856</u>	<u>127,833</u>	<u>(3,633)</u>	<u>121,396</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	47,500	-	-	47,500
Transfers out	-	-	(60,000)	-	(60,000)
Total other financing sources and (uses)	<u>-</u>	<u>47,500</u>	<u>(60,000)</u>	<u>-</u>	<u>(12,500)</u>
Net change in fund balances	<u>(3,660)</u>	<u>48,356</u>	<u>67,833</u>	<u>(3,633)</u>	<u>108,896</u>
Fund balances - beginning	<u>53,092</u>	<u>428,489</u>	<u>196,659</u>	<u>7,759</u>	<u>685,999</u>
Fund balances - ending	\$ <u>49,432</u>	\$ <u>476,845</u>	\$ <u>264,492</u>	\$ <u>4,126</u>	\$ <u>794,895</u>



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

**To the Mayor and Council  
City of Fort Wright, 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 Fort Wright, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Fort Wright, Kentucky's basic financial statements and have issued our report thereon dated December 9, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Fort Wright, 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 Fort Wright, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fort Wright, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

This page left blank intentionally.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Fort Wright, 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*.

### **City of Fort Wright, Kentucky's Response to Findings**

The City of Fort Wright, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Fort Wright, 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 &amp; Company".

**Ft. Wright, Kentucky  
December 9, 2015**

**CITY OF FORT WRIGHT, KENTUCKY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**June 30, 2015**

**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 General Government incurred expenditures that exceeded the adopted budget by \$31,549 and the Capital Outlay expenditures exceeded the adopted budget by \$66,906.

**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.