

CITY OF FORT WRIGHT, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2018

CITY OF FORT WRIGHT, KENTUCKY

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>Pages</u>
Introductory Section	
City Officials.....	1
Financial Section	
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-8
Basic Financial Statements	
Government - Wide Financial Statements	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	11
Reconciliation of the Balance Sheet to the Statement of Net Position.....	12
Statement of Revenues, Expenditures and Changes in	
Fund Balances - Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	14
Notes to Financial Statements.....	15-35
Required Supplementary Information	
Budgetary Comparison Schedule - Budget to Actual - General Fund.....	36
Budgetary Comparison Schedule - Budget to Actual - Municipal Aid Road Fund.....	37
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure - Non-Hazardous....	38
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure - Hazardous.....	39
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure - Non-Hazardous.....	40
Multiple Employer, Cost Sharing, Defined Benefit OPEB Plan Disclosure - Hazardous.....	41
Supplementary Information	
Combining Balance Sheet - Special Revenue Funds.....	42
Combining Statement of Revenues, Expenditures and Changes	
in Fund Balances - Special Revenue Funds.....	43
Independent Auditor's Report on Internal Control Over Financial Reporting and on	
Compliance and Other Matters Based on an Audit of Financial Statements	
<i>Performed in Accordance with Government Auditing Standards.....</i>	44-46

CITY OF FORT WRIGHT, KENTUCKY

CITY OFFICIALS

As of June 30, 2018

Mayor

David Hatter

Council Members

Dave Abeln

Adam Feinauer

Mike Hoerlein

Scott Wall

Bernie Wessels

Margie Witt

City Administrator

Jill Cain Bailey



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

Our responsibility is to express an opinion 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 from 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 opinion.

-Opinion

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

Emphasis of a Matter – Implementation of New GASB Accounting Standard

As discussed in Note H to the financial statements, effective July 1, 2017, the City adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Our opinions are not modified with respect to this matter.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–8, and the major fund budgetary comparison, pension, and OPEB disclosure schedules on pages 36–41 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.

-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules for the minor funds on pages 42–43 are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019 on our consideration of the City of Ft. 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 Ft. Wright, Kentucky's internal control over financial reporting and compliance.



Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
January 4, 2019

CITY OF FORT WRIGHT, KENTUCKY
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Year Ended June 30, 2018

Our discussion and analysis of the City of Ft. Wright, Kentucky's financial performance provides a overview and analysis of the City's financial activities during the fiscal year ended June 30, 2018. Please read this analysis in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net position is \$9,471,349.
- During the year, the City's net position decreased (\$421,089).
- GASB No. 68 - Accounting and Financial Reporting for Pensions - requires the City to record its proportionate share of the County Employees' Retirement System (CERS) net pension liability. The City has recorded a net pension liability of \$5,646,858 as well as related deferred outflows and inflows of resources as a result of this standard.
- GASB No. 75 - Accounting and Financial Reporting for Other Post-Employment Health Insurance Benefits (OPEB) - requires the City to record its proportionate share of the County Employees' Retirement System (CERS) net OPEB liability. The City has recorded a net pension liability of \$2,070,260 as well as related deferred outflows and inflows of resources as a result of this standard.

USING THIS ANNUAL REPORT

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. Fund financial statements follow these statements. 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 significant funds.

REPORTING THE CITY AS A WHOLE

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. 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. All 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 positions 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 positions are one indicator of whether its financial health is improving or deteriorating. However, to assess the *overall health* of the City, you will need to consider other non-financial factors, such as improvements in services and capabilities.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements: A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are categorized as governmental funds.

CITY OF FORT WRIGHT, KENTUCKY
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
For the Year Ended June 30, 2018

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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

The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balances for the major funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Ft. Wright, Kentucky, assets and deferred outflows exceeded liabilities and deferred inflows by \$4,870,892 as of June 30, 2018. A large portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, infrastructure, vehicles and equipment); less any related debt used to acquire those assets that is still outstanding as well as the net pension liability. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The following is a comparison of net position at June 30, 2018 and 2017:

Net Position

	Governmental Activities	
	2018	(Restated) 2017
Current assets	\$ 8,254,416	\$ 7,448,040
Capital assets	6,696,539	7,318,409
Total assets	14,950,955	14,766,449
Deferred outflows of resources	3,088,638	1,274,917
Total assets and deferred outflows of resources	18,039,593	16,041,366
Current liabilities	163,627	167,313
Long-term liabilities	7,798,689	4,444,081
Total liabilities	7,962,316	4,611,394
Deferred inflows of resources	605,928	81,628
Total liabilities and deferred inflows of resources	8,568,244	4,693,022
Net investment in capital assets	6,696,539	7,318,409
Restricted-Municipal Road Aid	1,091,174	1,702,741
Unrestricted	1,683,636	871,288
Total Net Position	\$ 9,471,349	\$ 9,892,438

CITY OF FORT WRIGHT, KENTUCKY
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
For the Year Ended June 30, 2018

A portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$1,683,636 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position.

The following is a comparison of the change in net position for 2018 and 2017:

Changes in Net Position

	Governmental Activities	
		(Restated)
	2018	2017
Revenues:		
Program revenues:		
Charges for services	\$ 622,619	\$ 600,099
Operating grants	292,334	251,797
Capital grants	233,260	-
General revenues:		
Property taxes	1,875,505	1,756,299
Payroll license fees	2,558,924	2,514,097
Other licenses, fines	13,304	19,981
Investment income	70,361	42,132
Other	30,467	19,913
Total revenues	<u>5,696,774</u>	<u>5,204,318</u>
Expenses:		
General government	539,814	569,624
Police	1,877,319	1,492,291
Fire	1,464,669	1,034,792
Public works	2,045,778	1,390,665
Plant operations	159,293	-
Parks and recreation	30,990	135,368
Total expenses	<u>6,117,863</u>	<u>4,622,740</u>
Change in net position	(421,089)	581,578
Net position-Beginning	9,892,438	10,766,766
Adjustment	-	(1,455,906)
Net position-End of year	<u>\$ 9,471,349</u>	<u>\$ 9,892,438</u>

The City's net position decreased by (\$421,089) during the current fiscal year, however this decrease includes both \$775,497 in non-cash depreciation expense and \$748,906 in non-cash actuarial pension expense.

CITY OF FORT WRIGHT, KENTUCKY
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
For the Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved* fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported an *unassigned* balance of \$6,355,007. This is available for spending for our citizens.

GENERAL FUND BUDGETING HIGHLIGHTS

City Council passed an original budget for 2017-2018 and made one set of amendments to the budget. Actual revenues were \$669,584 more than the amount budgeted. Taxes were \$65,505 more than budget due to increased collections. License and permit revenues was \$196,924 more than budgeted because continuous payroll and gross receipts tax growth in the City.

Actual expenditures were \$707,936 less than budgeted amounts. The most significant variances were in Capital Outlay, which was \$221,891 less than budgeted; Public Works, which was \$211,986 less than budgeted; and Police which was \$207,941 less than budgeted. Administrative expenses were slightly more than budgeted at \$35,435 over budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: The City's investment in capital assets for its governmental activities as of June 30, 2018, amounts to \$6,696,539. The following table details the capital assets owned by the City in 2018 and 2017 and the corresponding change in capital assets in 2018:

Capital Assets

	Governmental Activities	
	2018	2017
Land	\$ 1,523,000	\$ 1,523,000
Buildings	1,529,239	1,485,754
Infrastructure	23,876,137	23,876,137
Equipment	1,240,989	1,189,229
Vehicles	1,438,543	1,508,161
Subtotals	29,607,908	29,582,281
Accumulated depreciation	(22,911,369)	(22,263,872)
Net Capital Assets	<u>\$ 6,696,539</u>	<u>\$ 7,318,409</u>

This year's major additions and deletions included:

Improvements to buildings	\$ 43,485
Purchases of vehicles	58,382
Purchases of equipment	51,760
Net depreciation added	(647,497)
Disposal of vehicles, equipment, and infrastructure	(128,000)
Net change in Net Capital Assets	<u>\$ (621,870)</u>

CITY OF FORT WRIGHT, KENTUCKY
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)
For the Year Ended June 30, 2018

Debt: During the 2018 fiscal year, the City's only debt is the amount owed to employees for unused vacation time. The following table details the long-term debt owed by the City in 2018 and 2017 and the corresponding change in debt in 2018:

Long Term Debt

	Governmental Activities	
	2018	2017
Compensated absences	\$ 81,571	\$ 76,172
Total Long Term Debt	\$ 81,571	\$ 76,172

The City's long term debt, on the statement of net position, also includes a net unfunded pension and unfunded OPEB liabilities of \$5,646,858 and \$2,070,260, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City has experienced increasing revenues (up 9% over the previous year) and slightly increasing operating costs (up 5.5% over the previous year). Personal property tax revenues, tangible taxes, payroll taxes and occupational license taxes have all increased slightly in the past year, and the City anticipates that trend to continue.

The expenditures for the General Fund include above average increases in insurance and retirement costs. These increases are driven by outside economic factors beyond the City's control. The City has responded to these increases in certain expenditures by reducing budgeted expenditures in other areas.

The budget for infrastructure projects includes street resurfacing projects and urban renewal/upgrade projects as the City continues to annually invest in these areas. The City has adequate contingency funds to address any non-catastrophic unforeseen conditions and events. The fiscal year 2018-2019 budget provides adequate resources for the continuation of services and programs at the present levels. Budgeted expenditures for 2018-2019 approximate projected revenues, and the City continues to monitor budget variances on an ongoing basis to respond appropriately.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Jill Cain Bailey, City Administrator, City of Ft. Wright, Kentucky, 409 Kyles Lane, Ft. Wright, KY 41011.

CITY OF FORT WRIGHT, KENTUCKY STATEMENT OF NET POSITION June 30, 2018
--

	Primary Government Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 7,729,445
Receivables:	
Taxes	496,210
Intergovernmental	18,758
Accounts	10,003
Total Current Assets	8,254,416
Capital Assets, Net of Depreciation	6,696,539
Total Assets	14,950,955
Deferred Outflows of Resources	
Deferred Outflows Related to Net Pension and OPEB Liabilities	3,088,638
Total Assets and Deferred Outflows of Resources	18,039,593
Liabilities	
Current Liabilities	
Accounts Payable	38,677
Payroll Related Liabilities	107,800
Other Liabilities	17,150
Total Current Liabilities	163,627
Long Term Liabilities	
Compensated Absences	81,571
Net Pension Liability	5,646,858
Net OPEB Liability	2,070,260
Total Long Term Liabilities	7,798,689
Total Liabilities	7,962,316
Deferred Inflows of Resources	
Deferred inflows related to net pension and OPEB liabilities	605,928
Total Liabilities and Deferred Inflows of Resources	8,568,244
Net Position	
Invested in capital assets, net of related debt	6,696,539
Restricted	1,091,174
Unrestricted	1,683,636
Total Net Position	\$ 9,471,349

The accompanying notes are an integral part of these financial statements.

CITY OF FORT WRIGHT, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

					Net (Expense) Revenue and Changes in Net Position
					Primary Government
Functions/Programs:			Operating	Capital	
Primary Government	Expenses	Charges for	Grants and	Grants and	Governmental
		Services	Contributions	Contributions	Activities
Governmental Activities:					
General Government	\$ 539,814	\$ 10,310	\$ 34,300	\$ -	\$ (495,204)
Public Safety - Police	1,877,319	77,200	79,658	-	(1,720,461)
Public Safety - Fire / EMS	1,464,669	197,791	34,149	-	(1,232,729)
Public Works	2,045,778	320,644	132,541	233,260	(1,359,333)
Plant Operations	159,293	-	-	-	(159,293)
Parks and Recreation	30,990	16,674	11,686	-	(2,630)
Total Primary Government	\$ 6,117,863	\$ 622,619	\$ 292,334	\$ 233,260	(4,969,650)
General Revenues:					
Property and Other Taxes					1,875,505
Licenses and Permits					2,558,924
Fines and Forfeitures					13,304
Other					30,467
Investment Income					70,361
Total General Revenues					4,548,561
Change in Net Position					(421,089)
Net Position - Beginning					11,348,344
Prior Period Adjustment					(1,455,906)
Net Position - Ending					\$ 9,471,349

The accompanying notes are an integral part of these financial statements

CITY OF FORT WRIGHT, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2018

	General Fund	Municipal Aid	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 5,979,391	\$ 1,110,874	\$ 639,180	\$ 7,729,445
Receivables:				
Taxes	496,210	-	-	496,210
Intergovernmental	5,263	13,495	-	18,758
Accounts	757	-	9,246	10,003
Total Assets	<u>\$ 6,481,621</u>	<u>\$ 1,124,369</u>	<u>\$ 648,426</u>	<u>\$ 8,254,416</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 18,814	\$ 16,045	\$ 3,818	\$ 38,677
Payroll Liabilities	107,800	-	-	107,800
Escrow	-	17,150	-	17,150
Total Liabilities	<u>126,614</u>	<u>33,195</u>	<u>3,818</u>	<u>163,627</u>
Fund Balances				
Restricted	-	1,091,174	-	1,091,174
Committed	-	-	135,314	135,314
Assigned	-	-	509,294	509,294
Unassigned	6,355,007	-	-	6,355,007
Total Fund Balances	<u>6,355,007</u>	<u>1,091,174</u>	<u>644,608</u>	<u>8,090,789</u>
Total Liabilities and Fund Balances	<u>\$ 6,481,621</u>	<u>\$ 1,124,369</u>	<u>\$ 648,426</u>	<u>\$ 8,254,416</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FORT WRIGHT, KENTUCKY RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2018

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

Total fund balance per balance sheet	\$ 8,090,789
---	---------------------

Capital assets of \$29,607,908, less accumulated depreciation of (\$22,911,369), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,696,539
---	-----------

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, not reportable in the funds:

Deferred outflows related to pension	2,204,142
Deferred outflows related to post-employment health insurance (OPEB)	884,496
Deferred inflows related to pension	(473,567)
Deferred inflows related to post-employment health insurance (OPEB)	(132,361)

Long-term liabilities, including net pension and OPEB liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds.

Net pension liability	(5,646,858)
Net post-employment health insurance (OPEB) liability	(2,070,260)
Compensated absences	(81,571)

Net position of governmental activities	<u>\$ 9,471,349</u>
--	----------------------------

The accompanying notes are an integral part of the financial statements.

CITY OF FORT WRIGHT, KENTUCKY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE For the Year Ended June 30, 2018

	General Fund	Municipal Road Aid Fund	Other Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,875,505	\$ -	\$ -	\$ 1,875,505
Licenses and Permits	2,558,924	-	-	2,558,924
Intergovernmental	425,769	132,541	-	558,310
Charges for Services	329,452	-	214,465	543,917
Grants and Contributions	-	-	45,986	45,986
Fines and Forfeitures	13,304	-	-	13,304
Uses of Money and Property	56,259	6,362	7,740	70,361
Other Revenue	17,546	-	12,921	30,467
Total Revenues	<u>5,276,759</u>	<u>138,903</u>	<u>281,112</u>	<u>5,696,774</u>
Expenditures				
General Government	517,669	-	20	517,689
Public Safety - Police	1,385,327	-	52	1,385,379
Public Safety - Fire / EMS	999,626	-	54,469	1,054,095
Public Works	891,042	549,573	-	1,440,615
Plant Operations	159,293	-	-	159,293
Parks and Recreation	-	-	30,990	30,990
Capital Outlay	101,867	-	51,760	153,627
Total Expenditures	<u>4,054,824</u>	<u>549,573</u>	<u>137,291</u>	<u>4,741,688</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>1,221,935</u>	<u>(410,670)</u>	<u>143,821</u>	<u>955,086</u>
Other Financing Sources (Uses)				
Transfers In	640,784	650,000	106,900	1,397,684
Transfers Out	(756,900)	-	(640,784)	(1,397,684)
Total Other Financing Sources (Uses)	<u>(116,116)</u>	<u>650,000</u>	<u>(533,884)</u>	<u>-</u>
Change in Fund Balances	<u>1,105,819</u>	<u>239,330</u>	<u>(390,063)</u>	<u>955,086</u>
Fund Balances - Beginning	<u>5,394,212</u>	<u>851,844</u>	<u>1,034,671</u>	<u>7,280,727</u>
Prior Period Adjustment	(145,024)	-	-	(145,024)
Fund Balances - Ending	<u>\$ 6,355,007</u>	<u>\$ 1,091,174</u>	<u>\$ 644,608</u>	<u>\$ 8,090,789</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FORT WRIGHT, KENTUCKY RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2018
--

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

Net change in fund balance - total governmental funds	\$ 955,086
--	-------------------

Governmental funds report capital outlays as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays for the period:

Capital outlays	\$ 153,627	
Depreciation expense	<u>(775,497)</u>	(621,870)

Governmental funds report pension and other post-employment health insurance (OPEB) contributions as expenditures, however, in the statement of activities, the cost of the pension and OPEB benefits earned, net of employer contributions is reported as pension and OPEB expense:

Costs of pension benefits earned	(595,203)
Costs of post-employment health insurance benefits (OPEB) earned	(153,703)

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, such as compensated absences.	<u>(5,399)</u>
---	----------------

Change in net position of governmental activities	<u><u>\$ (421,089)</u></u>
--	-----------------------------------

The accompanying notes are an integral part of the financial statements.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Ft. 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.

REPORTING ENTITY – The City of Ft. Wright, Kentucky is a municipality governed by a mayor and six-member council. As defined by GAAP, and established by GASB, the financial reporting entity consists of the primary government (The City of Ft. Wright, Kentucky as legally defined). Potential component units were considered for inclusion in the financial reporting entity. Component units are separate organizations for which the elected officials of the primary government would be financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose its will is held by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. A component unit which is fiscally dependent upon the primary government even when the primary government does not have a voting majority of the component unit's board is also to be included in the statements of the primary government.

The City does not have any component units to be included in its financial report.

BASIS OF PRESENTATION***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 non-fiduciary activities of the primary government. For the most part, the effect of inter-fund 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 services. The City has no business-type activities.

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

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 another 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.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

Fund Financial Statements

Separate financial statements are provided for governmental funds. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The City uses funds to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The City's major governmental funds are as follows:

General Fund – 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.

Special Revenue Funds – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Special Revenue Funds include:

- *Municipal Road Aid Fund* – to account for revenues and related expenses provided by the Commonwealth of Kentucky's Transportation Cabinet through the Department for Local Government.
- *Fire and EMS Fund* – to account for City fire and EMS capital projects.
- *Asset Forfeiture Fund* – to account for funds seized by the Police Department
- *Madison Pike TIF Fund* – to account for the revenues and related expenses for the City's Tax Increment Financing District on Madison Pike. This fund was closed during the fiscal year and all assets were transferred to the General Fund.
- *Parks and Recreation Fund* – to account for City park expenditures and projects.
- *Dixie/Kyles TIF Fund* – to account for the revenues and related expenses for the City's Tax Increment Financing District on Dixie Highway and Kyles Lane.

BASIS OF ACCOUNTING – Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual – The governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Property taxes, license fees, interest, and other revenues associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. No allowance for doubtful accounts is required for any receivables as of June 30, 2018.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents include 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:

- Obligations of the United States and of its agencies and instrumentalities
- Certificates of deposits
- Bankers acceptances
- Commercial paper
- Bonds of other state or local governments
- Mutual funds

PROPERTY TAXES AND TAX CALENDAR – Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed in September and are due and payable in November. The due date is set each year by council, by ordinance. After the due date, the bill becomes delinquent and penalties and interest may be assessed by the City and a lien may be placed on the property. Property tax rates for the year ended June 30, 2018, were \$0.283 per \$100 valuation for real property and \$.413 per \$100 valuation for personal property. The assessed value of property on which the levy for 2017 was based was \$515,540,200 for real property.

PREPAIDS – Payments made to vendors for services that will benefit periods reported as prepaid items under the purchases method.

INTERFUND ACTIVITY AND ADVANCE RECEIVABLE – Reciprocal interfund activity includes interfund loans – amounts provided with a requirement for repayment, reported as interfund receivables and payables in the respective funds and interfund services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value, recorded as revenues and expenses in the respective funds. Unpaid amounts would be reported as receivables and payables in the respective funds. Nonreciprocal interfund activity includes interfund transfers – flows of assets without equivalent flows of assets in return, and interfund reimbursements – repayments by the responsible fund.

SHORT-TERM INTER-FUND RECEIVABLE/PAYABLES – During the course of operation, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from/to other funds” on the balance sheet. Short-term inter-fund loans are classified as “inter-fund receivables/payables”.

CAPITAL ASSETS – General capital assets are those assets not specifically related to activities in the proprietary fund. These assets are reported in the governmental activities column of the government-wide statement of net position.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

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 in the government-wide financial statements. Generally, capitalizable items with a cost of \$5,000 or more and two years of useful life are capitalized. 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 historical cost based on replacement cost. Prior to July 1, 2004, governmental funds infrastructure assets had not previously been capitalized. The City has opted to not retroactively report its major general infrastructure assets. Infrastructure assets (starting July 1, 2004) have been valued at 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 capital asset class is as follows:

Buildings	40	years
Public Doman Infrastructure	40	years
Improvements	15	years
Vehicles	5	years
Machinery and Equipment	7	years
Furniture and Fixtures	7	years

COMPENSTATED ABSENCES – The City reports compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. It is the government's policy to permit employees to accumulate earned but unused vacation 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 the government funds only if they have matured, for example, as a result of employee resignations and retirements. The general fund has typically been used to liquidate compensated absences as they become due and payable.

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

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principle and interest as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

FUND EQUITY – In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

Non-spendable fund balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form – long-term receivables and prepaid items; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The Municipal Road Aid Fund has a restricted fund balance

Committed fund balance – These amounts can only be used for specific purposes to constraints imposed by formal ordinances of the City Council (the government's highest level of decision making authority). Those committed amounts cannot be used for any other purposes unless the City Council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Madison Pike TIF and the Dixie Highway / Kyles Lane TIF Special Revenue Funds have committed fund balances.

Assigned fund balance – This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed. The Parks and Recreation, Fire and EMS, and the Asset Forfeiture Funds have assigned fund balances.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds. The City Council has no General Fund minimum fund balance target as of June 30, 2018. No other fund balance policies exist.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources – committed, assigned and unassigned – in order as needed. The City has no outstanding encumbrances as of June 30, 2018.

ESTIMATES AND UNCERTAINTIES – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

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 June 1st, the Mayor submits to the City Council, a proposed operating budget 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. Prior to June 30, 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 City Council explaining any variance from the approved budget.
- E. Appropriations continue in effect until a new budget is adopted.
- F. The Council authorizes supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the department 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 two supplementary appropriation ordinances. All appropriations lapse at fiscal year-end. Annual budgets are adopted on a basis consistent with GAAP.

Deficit net position – No funds of the City ended the fiscal year in a deficit net position.

NOTE C – DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits – The City's deposits at June 30, 2018, were partially secured by Federal Depository Insurance. Deposits in excess of the Federal Depository Insurance limit are to be collateralized with securities held by the bank, its trust department or by its agent, but not in the City's name. The carrying amount of the City's deposits with financial institutions at June 30, 2018 was \$7,729,445. Of the total bank balance, \$250,000 was insured by the Federal Depository Insurance Corporation. The remainder is collateralized with securities held by the financial institution and pledged to collateralize the City's deposits.

Kentucky Revised Statutes authorize cities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state charter banks insured by federal agencies, repurchase agreements, and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Interest rate risk – In accordance with the City's investment policy, interest rate risk is minimized by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

NOTE D – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for governmental activities for the year ended June 30, 2018 is as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Governmental activities:				
Assets not being depreciated				
Land	\$ 1,523,000	\$ -	\$ -	\$ 1,523,000
	<u>1,523,000</u>	<u>-</u>	<u>-</u>	<u>1,523,000</u>
Other capital assets				
Buildings	1,485,754	43,485	-	1,529,239
Infrastructure	23,876,137	-	-	23,876,137
Vehicles	1,508,161	58,382	(128,000)	1,438,543
Equipment	1,189,229	51,760	-	1,240,989
Subtotal	<u>28,059,281</u>	<u>153,627</u>	<u>(128,000)</u>	<u>28,084,908</u>
Accumulated depreciation				
Buildings	(1,015,384)	(44,742)	-	(1,060,126)
Infrastructure	(18,921,461)	(554,707)	-	(19,476,168)
Vehicles	(1,279,290)	(84,286)	128,000	(1,235,576)
Equipment	<u>(1,047,737)</u>	<u>(91,762)</u>	<u>-</u>	<u>(1,139,499)</u>
Subtotal	<u>(22,263,872)</u>	<u>(775,497)</u>	<u>128,000</u>	<u>(22,911,369)</u>
Other capital assets, less depreciation	<u>5,795,409</u>	<u>(621,870)</u>	<u>-</u>	<u>5,173,539</u>
Capital assets, net	<u>\$ 7,318,409</u>	<u>\$ (621,870)</u>	<u>\$ -</u>	<u>\$ 6,696,539</u>

Depreciation was charged to the following governmental activities:

<u>Activity</u>	<u>Depreciation</u>
Administration	\$ 12,461
Police	57,862
Fire / EMS	107,963
Infrastructure - Public Works	554,707
Public Works	42,504
Current year governmental activity depreciation expense	<u>\$ 775,497</u>

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

NOTE E – 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 general liability risk management activities are accounts for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonable estimated.

NOTE F – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances as of June 30, 2018. Interfund transfers for the year ended June 30, 2018, consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 640,784	\$ 756,900
Municipal Road Aid Fund	650,000	-
Fire / EMS	-	60,000
Park Fund	20,000	-
Madison Pike TIF	-	580,784
Dixie Kyles TIF	86,900	-
	<u>\$ 1,397,684</u>	<u>\$ 1,397,684</u>

Transfers are used to move funds from the fund that statute or budget requires such funds to be received into the fund that statute or budget requires such funds to be disbursed from. Transfers are also used to move unrestricted funds collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to fund from which it was originally provided once a project is completed.

NOTE G – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

Governmental fund balances as of June 30, 2018, consist of the following:

	General Fund	Municipal Road Aid Fund	Minor Funds	Total
Restricted	\$ -	\$ 1,091,174	\$ -	\$ 1,091,174
Committed	-	-	135,314	135,314
Assigned	-	-	509,294	509,294
Unassigned	6,355,007	-	-	6,355,007
Total Fund Balance	<u>\$ 6,355,007</u>	<u>\$ 1,091,174</u>	<u>\$ 644,608</u>	<u>\$ 8,090,789</u>

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

NOTE H – COUNTY EMPLOYEES’ RETIREMENT SYSTEM

The City’s eligible employees are covered by the County Employees Retirement System (Plan)

General information about the County Employees Retirement System (“CERS”)

Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications.

Membership in CERS consisted of the following at June 30, 2016:

	Non-hazardous	Hazardous	Total
Inactive memberships	138,631	11,393	150,024
Active Plan Members	80,664	9,084	89,748
	<u>219,295</u>	<u>20,477</u>	<u>239,772</u>
	Number of participating employers		<u>1,110</u>

PENSION PLAN

Non-Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
		At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	5%
Tier 2	5%
Tier 3	5%

Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	At least one month of hazardous duty service credit or 55 years old
	Reduced retirement	15 years service and 50 years old or any age with 20 years service
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old
	Reduced retirement	15 years service and 50 years old or any age with 25 years service
Tier 3	Participation date	On or after January 1, 2014
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old or 25 or more years of service, with no age requirement
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40%

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	8%
Tier 2	8%
Tier 3	8%

Contributions

For non-hazardous duty employees, the City contributed 19.18%, of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018. For hazardous duty employees, the City contributed 31.55%, of which 22.20% was for the pension fund and 9.35% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$83,528, of which \$60,060 was for the pension fund and \$20,468 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year in the amount of \$448,120 of which \$315,317 was for the pension fund and \$132,803 was for the health insurance fund.

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

At June 30, 2018, the City reported a liability of \$5,646,858 (\$623,787 – non-hazardous and \$5,023,071 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's non-hazardous employer allocation proportion was 0.0107% of the total CERS non-hazardous duty employees and 0.2245% of the total CERS hazardous duty employees. For the year ended June 30, 2018, the City recognized actuarial pension expense of \$595,203 in addition to its \$378,377 pension contribution.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Difference from expected and actual experience	\$ 774	\$ (15,834)	\$ 184,240	\$ -	\$ 185,014	\$ (15,834)
Net difference between projected actual earnings on plan investments	49,403	(41,688)	329,472	(285,578)	378,875	(327,266)
Changes of assumptions	115,106	-	1,001,988	-	1,117,094	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(86,036)	144,782	(44,431)	144,782	(130,467)
Contributions subsequent to the measurement date	63,060	-	315,317	-	378,377	-
	<u>\$ 228,343</u>	<u>\$ (143,558)</u>	<u>\$ 1,975,799</u>	<u>\$ (330,009)</u>	<u>\$ 2,204,142</u>	<u>\$ (473,567)</u>

The City's contributions subsequent to the measurement date of \$378,377 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2019	\$ 578,523
2020	604,738
2021	231,757
2022	(62,820)
	<u>\$ 1,352,198</u>

Actuarial Assumptions

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

Valuation date	June 30, 2016
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05%, average, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting 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 covers 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, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Non-hazardous	\$ 786,730	\$ 623,787	\$ 487,486
Hazardous	6,315,601	5,023,071	3,955,629
Total	<u>\$ 7,102,331</u>	<u>\$ 5,646,858</u>	<u>\$ 4,443,115</u>

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the year ended June 30, 2018, was 4.70% of covered-employee payroll for non-hazardous duty employees and 9.35% of covered-employee payroll for hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the City were \$20,468 for non-hazardous duty employees and \$132,803 for hazardous duty employees for the year ended June 30, 2018.

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

At June 30, 2018, the City reported a liability of \$2,070,260 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2017, the City's non-hazardous employer allocation proportion for OPEB was 0.0107% of the total CERS non-hazardous duty employees and 0.2245% of the total CERS

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

hazardous duty employees. For the year ended June 30, 2018, the City recognized an OPEB actuarial expense of \$153,703 in addition to its \$153,271 OPEB contribution.

In addition, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ -	\$ (595)	\$ -	\$ (4,325)	\$ -	\$ (4,920)
Net difference between projected actual earnings on plan investments	-	(10,125)	-	(116,450)	-	(126,575)
Changes of assumptions	46,618	-	684,607	-	731,225	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(497)	-	(369)	-	(866)
Contributions subsequent to the measurement date	20,468	-	132,803	-	153,271	-
	<u>\$ 67,086</u>	<u>\$ (11,217)</u>	<u>\$ 817,410</u>	<u>\$ (121,144)</u>	<u>\$ 884,496</u>	<u>\$ (132,361)</u>

The City's contributions subsequent to the measurement date, \$20,468 for non-hazardous duty employees and \$132,803 for hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2019	\$ 169,045
2020	169,045
2021	169,045
2022	80,694
2023	8,622
Thereafter	2,413
	<u>\$ 598,864</u>

Actuarial Assumptions

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

Actuarial cost method:	Entry Age Normal
Asset valuation method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

Amortization method:	Level, percent of pay
Amortization period:	28 years, closed
Payroll growth rate:	2.00%
Investment return:	6.25%
Inflation	2.30%
Salary increases:	3.05%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%

Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%
- For the hazardous plan, the single discount rate changed from 7.37% to 5.96%

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

Discount Rate

The discount rate used to measure the total OPEB liability was 5.84% for the non-hazardous plan and 5.96% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.84% for the non-hazardous plan and 5.96% for the hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.84%	5.84%	6.84%
Net OPEB liability, non-hazardous	\$ 272,611	\$ 214,242	\$ 16,567
Discount rate, hazardous	4.96%	5.96%	6.96%
Net OPEB liability, hazardous	2,487,319	1,856,018	1,339,511
Total	\$ 2,759,930	\$ 2,070,260	\$ 1,356,078

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 164,335	\$ 214,242	\$ 279,119
Net OPEB liability, hazardous	1,313,847	1,856,018	2,527,038
Total	\$ 1,478,182	\$ 2,070,260	\$ 2,806,157

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports may be obtained, in writing, from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

NOTE I – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal or state governments. 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. The City is not a defendant in any known litigation.

NOTE J – TAX ABATEMENTS

In accordance with GASB 77, the must disclose tax abatements and incentives provided within the City. The City has two Tax Increment Financing (TIF) Districts on which tax abatements are provided to the developer to fund the cost to develop infrastructure in the District.

Dixie Kyles Lane TIF District – The local participation TIF district for Dixie Highway Kyles Lane created in 2013 and required the City to collect and hold 80% of the real property taxes collected in the district footprint for the city in a given year. This incentive allowed the City to finance the infrastructure expenses associated with the project. The incentive is in place for 30 years. \$135,314 has been withheld and remains in the project fund for future expenses of the project.

Madison Pike TIF District – The local participation TIF district for Madison Pike began in 2005 and required the City to collect and hold 80% of the real property taxes collected in the district footprint for the city in a given year. This incentive allowed the City to finance the infrastructure expenses associated with the project. The incentive was in place for 20 years and no project was formally undertaken. In 2018, the fund was closed and \$580,784 was transferred to the City's General Fund with no restrictions.

Von Lehman CPA & Advisory Firm – In 2016, to facilitate the move of Von Lehman CPA & Advisory Firm to Ft. Wright, the City agreed to abate 50% of occupational license tax for 5 years and 25% for the next 5 years. This abatement totaled \$42,130 in 2018 and will remain in effect until 2026.

NOTE K – CONDUIT DEBT OBLIGATION / CAPITAL LEASE (LESSOR) AGREEMENT

In December 2008, the City entered into an agreement with a developer to issue City of Fort Wright Industrial Revenue Bonds, with a maturity date of December 1, 2028, in the amount of \$4,000,000 to provide financial assistance to a private-sector developer for the construction of an office complex development within the City. The bonds are secured by the properties financed and are payable solely from the developer. Neither the City nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. As of June 30, 2018, there was one Industrial Building Revenue Bond outstanding with principal amounts totaling \$2,387,779.

This agreement also assigned the City as the owner of the property who will then, in turn, lease the property back to the developer under a capital (financing) lease agreement ending on December 31, 2028. The developer agreed to pay the Industrial Revenue Bond principal and interest to the bond trust in lieu of rent to the City. The developer has also agreed to pay the City additional rents, in lieu of the City's *ad valorem* property tax lost on the development, in an amount equal to the *ad valorem* property tax rate plus \$1 for each \$1,000 of assessed value of the development. This payment to the City totaled \$46,512 in the year ended June 30, 2018.

CITY OF FT. WRIGHT, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS Year Ended June 30, 2018
--

NOTE L – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement 81 – *Irrevocable Split-Interest Agreement* – Standard is not applicable to the City of Ft. Wright

Statement 85 – *Omnibus 2017*

Statement 86 – *Certain Debt Extinguishment Issues* – Standard is not applicable to the City of Ft. Wright

NOTE M – FUTURE ACCOUNTING STANDARDS

Statement 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2019

Statement 84 – *Fiduciary Activities* – Implementation in FY 2020

Statement 87 – *Leases* – Implementation in FY 2021

Statement 88 – *Certain Disclosures Related to Debt* – Implementation in FY 2019

Statement 89 – *Accounting for Interest Cost* – Implementation in FY 2021

NOTE N – PRIOR PERIOD ADJUSTMENTS

The City's funds have recorded adjustments to the Beginning Fund Balance of (\$145,027) at June 30, 2017. This adjustment is a cumulative effect of overstatements and understatements of several receivable, payable, and cash accounts in the previous years.

The City has recorded an adjustment to the Beginning Net Position of (\$1,164,423) at June 30, 2017. This adjustment accounts for the estimated net OPEB liability at June 30, 2017, and is being recorded in accordance with Government Accounting Standards Board Statement No. 75.

The City as recorded an adjustment to the Beginning Net Position of (\$146,459) at June 30, 2017. This adjustment accounts for an overstatement of deferred outflows of resources in which the OPEB portion of the 2017 CERS contribution was erroneously included as a deferred outflow.

NOTE O – SUBSEQUENT EVENTS

Management has evaluated events through January 4, 2019, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2018 through January 4, 2019 disclose.

CITY OF FORT WRIGHT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 4,887,137	\$ 4,887,137	\$ 5,394,212	\$ 507,075
Resources (inflows):				
Taxes	1,810,000	1,810,000	1,875,505	65,505
Licenses and Permits	2,362,000	2,362,000	2,558,924	196,924
Fines and Forfeitures	7,500	7,500	13,304	5,804
Uses of Money and Property	20,000	20,000	56,259	36,259
Intergovernmental	442,712	442,712	425,769	(16,943)
Current Services	373,092	373,092	329,452	(43,640)
Other Revenues	21,400	21,400	17,546	(3,854)
Interfund Transfers	60,000	60,000	640,784	580,784
Amounts Available for Appropriation	9,983,841	9,983,841	11,311,755	1,327,914
Charges to Appropriations (outflows):				
Administration	462,235	482,234	517,669	(35,435)
Police	1,576,850	1,576,850	1,368,909	207,941
Fire/EMS	1,100,400	1,100,400	999,626	100,774
Public Works	1,068,650	1,068,650	856,664	211,986
Plant Operations	129,400	129,400	103,347	26,053
Capital Outlay	430,500	430,500	208,609	221,891
Interfund Transfers	731,626	731,626	756,900	(25,274)
Total Charges to Appropriations:	5,499,661	5,519,660	4,811,724	707,936
Budgetary Fund Balance, June 30	\$ 4,484,180	\$ 4,464,181	\$ 6,500,031	\$ 2,035,850

**Reconciliation of Budgetary Basis to GAAP Statement of
Revenues, Expenditures and Changes in Fund Balance**

Budgetary Fund Balance	\$ 6,500,031
Less: Prior Period Adjustment to Fund Balance	(145,024)
	<u>\$ 6,355,007</u>

The accompanying notes are an integral part of these financial statements.

NOTE -1 BUDGETING POLICIES

The City follows the procedures established pursuant to Chapter 108 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. The budget for the governmental fund type is adopted on a basis consistent with the general accepted accounting principles. Budgeted amounts in the financial statements are as adopted by the City Council.

CITY OF FORT WRIGHT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL ROAD AID FUND
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 759,995	\$ 759,995	\$ 851,844	\$ 91,849
Resources (inflows):				
Intergovernmental	110,000	110,000	132,541	22,541
Uses of Money and Property	2,500	2,500	6,362	3,862
Interfund Transfers	650,000	650,000	650,000	-
Amounts Available for Appropriation	<u>1,522,495</u>	<u>1,522,495</u>	<u>1,640,747</u>	<u>118,252</u>
Charges to Appropriations (outflows):				
Administration	200	200	11	189
Public Works	794,000	794,000	549,562	244,438
Total Charges to Appropriations:	<u>794,200</u>	<u>794,200</u>	<u>549,573</u>	<u>244,627</u>
Budgetary Fund Balance, June 30	<u>\$ 728,295</u>	<u>\$ 728,295</u>	<u>\$ 1,091,174</u>	<u>\$ 362,879</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FORT WRIGHT, KENTUCKY**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - NON-HAZARDOUS****Year Ended June 30, 2018**

**Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	1.0670%	0.0130%	0.0380%	0.0140%						
Proportionate share of the net pension liability (asset)	\$ 623,787	\$ 655,804	\$ 588,586	\$ 452,000						
Covered payroll in year of measurement	\$ 312,238	\$ 270,252	\$ 347,193	\$ 319,456						
Share of the net pension liability (asset) as a percentage of its covered payroll	199.78%	242.66%	169.53%	141.49%						
Plan fiduciary net position as a percentage of total pension liability	53.30%	55.50%	59.97%	66.80%						

**Schedule of the City's Contributions
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 63,060	\$ 43,557	\$ 33,565	\$ 44,267	\$ 43,893					
Actual contribution	63,060	43,557	33,565	44,267	\$ 43,893					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	\$ 435,498	\$ 312,237	\$ 270,250	\$ 347,192	\$ 319,456					
Contributions as a percentage of employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%					

**Notes to Required Supplementary Information
for the Year Ended June 30, 2018**

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial Statements.

CITY OF FORT WRIGHT, KENTUCKY**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE - HAZARDOUS****Year Ended June 30, 2018**

**Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	0.2245%	0.2160%	0.2050%	0.2140%						
Proportionate share of the net pension liability (asset)	\$ 5,023,071	\$ 3,712,105	\$ 3,157,084	\$ 2,577,000						
Covered payroll in year of measurement	\$ 1,408,474	\$ 1,081,584	\$ 1,117,628	\$ 1,086,996						
Share of the net pension liability (asset) as a percentage of its covered payroll	356.63%	343.21%	282.48%	237.08%						
Plan fiduciary net position as a percentage of total pension liability	49.80%	57.52%	53.95%	63.46%						

**Schedule of the City's Contributions
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 315,317	\$ 305,780	\$ 219,129	\$ 256,496	\$ 236,639					
Actual contribution	315,317	305,780	219,129	256,496	236,639					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	\$ 1,420,347	\$ 1,408,474	\$ 1,081,584	\$ 1,117,628	\$ 1,086,996					
Contributions as a percentage of covered payroll	22.20%	21.71%	20.26%	22.95%	21.77%					

**Notes to Required Supplementary Information
for the Year Ended June 30, 2018**

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial Statements.

CITY OF FORT WRIGHT, KENTUCKY**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - NON-HAZARDOUS****Year Ended June 30, 2018**

**Schedule of the City's Proportionate Share of the Net OPEB Liability
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.0107%									
Proportionate share of the net OPEB liability (asset)	\$ 214,242									
Covered payroll in year of measurement	\$ 312,238									
Share of the net OPEB liability (asset) as a percentage of its covered payroll	66.61%									
Plan fiduciary net position as a percentage of total OPEB liability	52.40%									

**Schedule of the City's Contributions
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 20,468	\$ 14,769								
Actual contribution	20,468	14,769								
Contribution deficiency (excess)	-	-								
Covered payroll	\$ 435,498	\$ 312,238								
Contributions as a percentage of covered payroll	4.70%	4.73%								

**Notes to Required Supplementary Information
for the Year Ended June 30, 2018**

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial Statements.

CITY OF FORT WRIGHT, KENTUCKY**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - HAZARDOUS****Year Ended June 30, 2018****Schedule of the City's Proportionate Share of the Net OPEB Liability
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.2245%									
Proportionate share of the net OPEB liability (asset)	\$ 1,856,018									
Covered payroll in year of measurement	\$ 1,408,474									
Share of the net OPEB liability (asset) as a percentage of its covered payroll	131.78%									
Plan fiduciary net position as a percentage of total liability	59.00%									

**Schedule of the City's Contributions
County Employees' Retirement System (CERS)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 132,803	\$ 131,692								
Actual contribution	132,803	131,692								
Contribution deficiency (excess)	-	-								
Covered payroll	\$ 1,420,348	\$ 1,408,474								
Contributions as a percentage of covered payroll	9.35%	9.35%								

**Notes to Required Supplementary Information
for the Year Ended June 30, 2018**

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation.. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE H in the Notes to the Financial Statements.

CITY OF FORT WRIGHT, KENTUCKY COMBINING BALANCE SHEET - Non-Major Governmental Funds June 30, 2018

	Parks and Recreation Fund	Dixie Kyles TIF Fund	Madison Pike TIF Fund	Fire and EMS Fund	Asset Foreiture Fund	Total Non-Major Governmental Funds
Assets						
Cash and Cash Equivalents	\$ 64,305	\$ 135,314	\$ -	436,126	3,435	\$ 639,180
Accounts Receivable	-	-	-	9,246	-	9,246
Total Assets	<u>\$ 64,305</u>	<u>\$ 135,314</u>	<u>\$ -</u>	<u>\$ 445,372</u>	<u>\$ 3,435</u>	<u>\$ 648,426</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$ 2,830	\$ -	\$ -	\$ 988	\$ -	\$ 3,818
Total Liabilities	<u>2,830</u>	<u>-</u>	<u>-</u>	<u>988</u>	<u>-</u>	<u>3,818</u>
Fund Balances						
Restricted	-	-	-	-	-	-
Committed	-	135,314	-	-	-	135,314
Assigned	61,475	-	-	444,384	3,435	509,294
Total Fund Balances	<u>61,475</u>	<u>135,314</u>	<u>-</u>	<u>444,384</u>	<u>3,435</u>	<u>644,608</u>
Total Liabilities and Fund Balances	<u>\$ 64,305</u>	<u>\$ 135,314</u>	<u>\$ -</u>	<u>\$ 445,372</u>	<u>\$ 3,435</u>	<u>\$ 648,426</u>

The accompanying notes are an integral part of the financial statements.

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, 2018

	Parks and Recreation Fund	Dixie Kyles TIF Fund	Madison Pike TIF Fund	Fire and EMS Fund	Asset Forfeiture Fund	Total Non-Major Governmental Funds
Revenues						
Charges for Service	\$ 16,674	\$ -	\$ -	\$ 197,791	\$ -	\$ 214,465
Uses of Money and Property	405	-	3,876	3,430	29	7,740
Grants and Contributions	11,686	34,300	-	-	-	45,986
Other Revenue	390	-	-	11,170	1,361	12,921
Total Revenues	29,155	34,300	3,876	212,391	1,390	281,112
Expenditures						
Current						
Parks and Recreation	30,978	-	-	-	-	30,978
Fire / EMS	-	-	-	106,212	-	106,212
Administration	12	12	8	17	52	101
Total Expenditures	30,990	12	8	106,229	52	137,291
Excess (Deficit) of Revenues Over (Under) Expenditures Before Other Sources	(1,835)	34,288	3,868	106,162	1,338	143,821
Other Financing Sources (Uses)						
Transfers In	20,000	86,900	-	-	-	106,900
Transfers Out	-	-	(580,784)	(60,000)	-	(640,784)
Total Other Financing Sources (Uses)	20,000	86,900	(580,784)	(60,000)	-	(533,884)
Excess (Deficit) of Revenues Over (Under) Expenditures	18,165	121,188	(576,916)	46,162	1,338	(390,063)
Fund Balances, Beginning of Year	43,310	14,126	576,916	398,222	2,097	1,034,671
Fund Balances, End of Year	\$ 61,475	\$ 135,314	\$ -	\$ 444,384	\$ 3,435	\$ 644,608

The accompanying notes are an integral part of the financial statements.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**INDEPENDENT AUDITOR'S 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 Honorable Mayor and
Members of Council
City of Fort Wright, Kentucky**

We have audited, in accordance with the 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 and each major fund of the City of Fort Wright, Kentucky as of June 30, 2018 and the related notes to the financial statements which collectively comprise the City of Fort Wright, Kentucky's financial statements, and have issued our report thereon dated January 4, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.



Lack of Segregation of Duties

Condition: We noted that the City Clerk regularly performs the following three internal control procedures that are incompatible with appropriate segregation of duties:

- Control of cash receipts and disbursements
- Record keeping in Sage accounting software
- Reconciliation of cash, revenues, and disbursements between the accounting software and the bank statements

Criteria: The process of executing a transaction (custody of cash receipts and disbursements) should be segregated from the process of recording the transaction (record keeping) and reconciliation of the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for cash receipts to be diverted away from the City and expenses not attributed to the City could be paid for from the City's cash account.

Recommendation: The City should immediately review its internal control structure with guidance from its consultant accountant. Internal controls should be implemented to segregate the control of cash, record keeping, and reconciliation duties. Management should continue to monitor controls to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

Lack of Control over Financial Reporting

Condition: In the Funds, the City keeps its books on a cash basis. There are no accruals made in the funds for accounts receivables, prepaid expenses, accounts payable, payroll liabilities, and deferrals of revenue. In the Government-Wide Financial Statements, the City does not keep a fixed asset schedule, listing of assets purchased or disposed, depreciation schedule, compensated absence schedule, or pension and OPEB liability schedule. The City has relied upon the auditor to prepare the financial statements, make all accruals, and maintain the fixed asset, long-term debt, and pension schedules.

Criteria: The financial statements are the responsibility of the City. The City's auditor is prevented by Generally Accepted Governmental Auditing Standards from taking responsibility for the accrual and maintenance of City schedules, and the preparation of the financial statements from those schedules.

Effect: City management has relinquished control of their financial reporting to the auditor, who is prohibited from being responsible for it. The City cannot generate, internally, the schedules produced within the audit report.

Recommendation: The City should consider the use of a consultant accountant or professional accounting staff member to provide the following services:

- Make annual balance sheet accruals to accounts receivables, prepaid expenses, accounts payable, payroll liabilities, and deferrals of revenue.
- Maintain fixed asset listing, with annual additions and deletions
- Calculate the annual depreciation expense by governmental function (Administration, Police, Fire, etc.) for all assets.
- Maintain a compensated absences schedule for City employees, with vacation hours available and rates of pay.
- Maintain any long-term debt schedule for the City. (Currently not applicable).
- Maintain schedules of net pension liability and net OPEB liabilities for the City, by governmental function and by CERS classification (Hazardous and Non-Hazardous).



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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 audits, 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*.

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.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
January 4, 2019