

CITY OF FORT WRIGHT, KENTUCKY

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council City of Fort Wright, Kentucky

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fort Wright, Kentucky, as of, and for the year ended June 30, 2007, which collectively comprise the City of Fort Wright's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Fort Wright, Kentucky's, management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fort Wright, Kentucky, as of June 30, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007 on our consideration of the City of Fort Wright, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and required supplementary information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Fort Wright's basic financial statements. The other supplementary information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RANKIN, RANKIN, & COMPANY

**Fort Wright, Kentucky
December 13, 2007**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of City of Fort Wright, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's basic financial statements.

USING THIS ANNUAL REPORT

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

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes (Ex. Capital Project Fund) or to show that it is meeting legal responsibilities for grant funds (Ex. Municipal Aid Grant Fund).

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

THE CITY AS A WHOLE

For the year ended June 30, 2007, net assets changed as follows:

| | Governmental Activities | |
|----------------------------------|------------------------------------|------------------|
| Beginning net assets | \$ | 9,038,747 |
| Increase(decrease) in net assets | | 524,864 |
| Ending net assets | \$ | <u>9,563,611</u> |

That reflects an increase of 5.8% for governmental activities. The increase in the governmental activities resulted from an increase in general revenues from the prior year.

Governmental Activities

| | Governmental Activities | |
|------------------------|------------------------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Current assets | \$ 4,144,488 | \$ 3,755,910 |
| Capital assets, net | 7,799,981 | 7,414,405 |
| Total assets | <u>11,944,469</u> | <u>11,170,315</u> |
| Current liabilities | 700,985 | 345,147 |
| Noncurrent liabilities | 1,679,873 | 1,786,421 |
| Total liabilities | <u>2,380,858</u> | <u>2,131,568</u> |
| Net assets | \$ <u>9,563,611</u> | \$ <u>9,038,747</u> |

The City's total net assets increased by \$524,864 due mainly to street infrastructure improvements.

THE CITY'S FUNDS

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the General Fund budget. The budget amendment was to increase the beginning fund balance to actual and to increase revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the year. The current year budget relied on the expectation of moderate increases in property and payroll taxes and licenses and permits. The actual results showed changes in each of these categories that resulted in revenues exceeding budgeted amounts by \$24,728. Actual expenditures in total were less than the budgeted amounts. As a result of higher than anticipated revenues, the City ended the year with a fund balance that was \$53,846 greater than the final budget. The fund balance was \$216,103 more than the original budget.

The following schedule presents a summary of general, special revenue and capital projects revenues and expenditures for the fiscal year ended June 30, 2007.

| <u>Revenues</u> | <u>2007 Amount</u> | <u>2006 Amount</u> |
|-----------------------|------------------------|------------------------|
| Taxes | \$ 1,160,469 | \$ 1,066,227 |
| Licenses and permits | 1,756,432 | 1,857,551 |
| Intergovernmental | 550,601 | 284,787 |
| Charges for services | 256,476 | 222,773 |
| Waste fees | 261,413 | 247,151 |
| Fines and forfeitures | 25,004 | 19,661 |
| Interest | 183,664 | 138,295 |
| Miscellaneous | <u>34,444</u> | <u>34,940</u> |
| Total revenues | <u>\$ 4,228,503</u> | <u>\$ 3,871,385</u> |

The decrease in license and permits is the result of decreases in payroll license taxes and insurance premium receipts, which may reflect a slightly weaker economy.

Intergovernmental revenues increased due to additional grants received from the State for street reconstruction projects.

Interest income revenue increased mainly due to the increase in interest rates.

| <u>Expenditures</u> | <u>2007 Amount</u> | <u>2006 Amount</u> |
|--------------------------|------------------------|------------------------|
| General government | \$ 453,844 | \$ 422,461 |
| Police | 1,119,211 | 982,478 |
| Fire and EMS | 561,076 | 510,669 |
| Public Works | 334,718 | 397,381 |
| Waste fees | 255,551 | 244,066 |
| Plant/community projects | 148,566 | 127,987 |
| Capital outlay | 1,145,331 | 620,705 |
| Debt service | <u>177,949</u> | <u>181,404</u> |
| Total expenditures | <u>\$ 4,196,246</u> | <u>\$ 3,487,151</u> |

The general government increase reflects fringe benefit increases, in particular, an increase for the retirement plan managed by the state. Legal fees also increased.

The police and fire departments increases reflect increased personnel costs and related fringe benefits.

Capital outlay increased due to the various city street projects under construction.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2007, the City had \$23.9 million invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$1,145,331, or 5.0 percent, over last year.

| | Activities | |
|-----------------------------------|----------------------|----------------------|
| | 2007 | 2006 |
| Land and construction in progress | \$ 2,124,572 | \$ 1,985,877 |
| Buildings | 1,332,264 | 1,332,264 |
| Improvements/ Infrastructure | 18,209,354 | 17,297,207 |
| Equipment | 1,027,544 | 984,238 |
| Vehicles | 1,185,777 | 1,134,594 |
| TOTALS | <u>\$ 23,879,511</u> | <u>\$ 22,734,180</u> |

This year's major additions included:

| | |
|--|---------------------|
| Vehicles | \$ 51,183 |
| Completed construction projects | 660,792 |
| Various construction projects in process | 385,050 |
| | <u>\$ 1,097,025</u> |

Debt

At year-end, the City had \$1,613,269 in outstanding notes and capital leases compared to \$1,721,990 last year. That is an decrease of 6.3 percent as shown in the following table.

| | Governmental | |
|--|---------------------|---------------------|
| | Activities | |
| | 2007 | 2006 |
| Notes (backed by fee revenues) \$ | 103,386 | \$ 155,079 |
| Capital lease obligations (backed by city) | 1,509,883 | 1,566,911 |
| Totals | <u>\$ 1,613,269</u> | <u>\$ 1,721,990</u> |

During the year the City incurred no additional debt. Other obligations of the City include accrued compensated absences in the amount of \$66,604.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During the City's July 1, 2006 through June 30, 2007 budget year, and anticipated for the FYE 2007/2008 budget, there continue to be steady increases in revenue as a result of growth and investment in the City. The upscale Williams Creek condominium development on Old KY 17, which increases the availability of new housing in the City and which is marketed toward empty nesters, retired individuals, and small, young families and single households, is under way. This type of development reflects national and local trends and that area of the City is a likely place for it to continue. The demand for this type of residential development was reported in the City's 2004 Madison Pike Land Use and Economic Development Study, which included a market study that identified a need for quality housing in the City for residents who wanted to down-size but remain as Fort Wright residents. The Devou Lofts on Sleepy Hollow Road completed its second building of residential condominiums in 2006 with two more buildings planned. The other upscale residential condominium development proposed for KY 17 targeted toward active retirees is still being pursued by those developers but now with a commercial component due to a change in the project's financing structure. Other commercial developments took place in the City in 2006 and 2007 along KY 17, including the Middendorf Funeral Home, Shoppes of Highland Pike, White Castle restaurant, Shoppes of Edgewood, and the marketing of the prime Michels property site on KY 17 continues. The second office building on the former Dixie Gardens site on Dixie Highway broke ground in late 2007 offering another 40,000 square feet of office space in the City at one of our prime locations. The Kuchle property on Dixie Highway is also being marketed for commercial redevelopment and there are several interested parties. The opening of the KY 1072 extension to the Fidelity Investments campus in Covington was completed in the fall of 2007 and greatly improved access to the Eaton Asphalt site. The Fidelity Investments campus in Covington, with its large, high wage workforce will also have a positive impact on the level of commercial and residential development on Madison Pike, which is already one of the most viable commercial development areas in Kenton County. Other essential elements of the Madison Pike Study include traffic and access management regulations intended to minimize negative traffic impacts of commercial development for our residents. The City's Madison Pike Tax Increment Financing (TIF) Fund established in 2005 will accumulate nearly \$140,000 by the end of the current FYE 2007/2008 and from which City Council has authorized a \$5,000 expenditure toward planning for active and passive public recreational development and ecological restoration along the Banklick Creek. The TIF funds are further permitted to be used for road improvements, landscaping, public amenities, and other aesthetic improvements within the TIF District, and demonstrate the City's commitment to partner with private development in implementation of the Madison Pike Land Use Plan. Investment in Fort Wright for residential and commercial development, with its easy access to the interstate highway system, downtown Cincinnati, international airport, and crossroads location for the ever-growing residential areas in the southern portion of Kenton County, will ensure a continuation of this trend.

With such continued development come challenges, especially to maintain and improve services to residents and others, efficiently and economically, and to maintain the City's competitive and attractive tax climate for businesses and residents. In the recent past the City has increased its quality and level of service, adding a second, two-ton dump truck to our snow removal fleet for a total of five vehicles, assuring an even more efficient level of snow removal service to our residents and businesses. The acquisition of a second life squad unit last year in the Fire/EMS Department assures the availability of equipment to respond to multiple calls for service in the City and our contracted service areas, the cities of Kenton Vale and Park Hills, the income from which helps to offset the cost of this service for Fort Wright residents. The Fire/EMS Department also obtained a grant in 2007 to replace twenty-five year old outdated

radio communication equipment; another grant to replace turnout gear for all Fire/EMS paid and Volunteer staff; and a SAFER grant to add an additional full-time employee in the Department. Further, in 2007 the Department improved service by initiating a 24/7 schedule for paid staff to ensure timely and sufficient response of personnel and equipment for fire and emergency medical services. The City also enhanced its Volunteer Incentive program in order to have more Volunteers commit to "on-duty" status either at home or at the station, for more reliable and quicker responses to ensure timely and sufficient response to calls for service. The City should continue its efforts to cooperate, coordinate, or consolidate services wherein the level of service can be maintained or improved and adequate City controls over the quality and cost are in place.

The City's Police Department continues to offer high-quality protection to persons and property in the City, despite annual increases in calls for service, due not only to increased development and traffic in the City, but increased residential development at the southern end of Kenton County that traverse Fort Wright with its crossroads location. Calls for service for the Fort Wright Police Department rival those for the largest cities in Kenton County and Northern Kentucky, and increase year after year, due in most part to the presence of two interstate highway systems, KY 17 and Highland Pike, and US 25 (Dixie Highway). Fort Wright lies geographically at the crossroads for every major north/south route in Kenton County. The Police Department remains very successful at obtaining Highway Safety Grants from the state for traffic enforcement on state roads in the City, the additional benefit of which means that extra personnel are on duty, paid for with state funds, and available to assist other Fort Wright officers when needed. The twelfth Police Officer position, added in the last budget year, has helped to address the increases in calls for service and to maintain an emphasis on security for residents and other taxpayers in the City. The City needs to continue to seek opportunities with other communities to share the costs of Police and Fire/EMS services as long as those partnerships bring improved levels of service to Fort Wright residents. Also in the FYE 2006/2007, the Administration Department began a new program that is generating additional revenue to the City, as a Passport Acceptance Facility, on behalf of the United States Department of State. This program requires no new equipment, personnel, or additional hours or benefits or other costs for the City.

The trend of rising operating costs especially that of competitive personnel-related compensation such as pension costs and health benefits are a challenge to meet in order to maintain the high level of services our citizens have come to expect. A DECREASE in the City's employer pension contribution in FYE 2008/2009 will provide some relief. The City has maintained a competitive and cost-efficient personnel compensation system due in large part to annual revisions to employee health insurance benefits to maximize taxpayer dollars that have resulted in lower health insurance premiums than most other cities and counties. Each year the City has obtained competitive quotes from alternative health insurance providers and each year modifies plan benefits, such as co-pays, deductibles, pharmaceutical benefits, and maximum out of pocket benefits, in order to decrease the cost of this benefit to the taxpayer yet provide a high quality plan and benefit for employees. The City also offers payments in lieu of health insurance benefits for employees as an incentive to reduce overall employee health benefit costs.

All City Departments and personnel are constantly vigilant to costs, and opportunities to reduce them, as well as opportunities for supplemental funding sources, all with the intent of maximizing taxpayer dollars. As an example, all City Departments have for the past five years coordinated with the Kenton County Detention Center so that a Volunteer(s) from that facility work every day in the City picking up litter from City streets; clean City facilities and equipment;

remove overgrown brush from public right of way; perform maintenance work in City parks; and other such tasks, all at no cost to residents. Further, the City has continued to work cooperatively with other communities, especially in the area of emergency medical services, wherein costs can be shared with those communities and with no reduction in the level of service to our residents. The City should continue to seek partnerships with neighboring communities especially in the area of emergency services including Advanced Life Support service that is currently contracted to a private provider.

The City's infrastructure continues to be addressed as aggressively as resources allow. The City has increased its annual expenditure on street improvements, not repairs, in the current year completing an improvement of Saint Anthony and Marcella Drives, and last year Kennedy and Lake Streets, wherein storm water improvements were also made, at a 50/50 cost sharing arrangement with Sanitation District #1. The City continues to coordinate other utility improvements with its annual street program including water main replacement, in order to maximize taxpayer and ratepayer dollars, and minimize further disruption and inconvenience to residents and new City streets. The current budget continues that trend with street improvements to Saint Agnes and Vidot Circle, along with water main replacement and storm sewer improvements there. In addition, the City continues preventative maintenance practices to recently improved streets in the form of crack sealing to extend the useful life of streets. Also during the year, the Sanitation District #1 continued to implement projects in the City that benefit residents and improve property values, as part of its federal consent decree, removing combined sewer overflows in the City, on Highland Avenue, and elsewhere in the South Hills neighborhood, and also in the City's Nature Center on Highland Pike. Further, the City's interest-free, ten-year note with the Sanitation District, will be paid off two years sooner than estimated in early 2008, allowing the City to remove the sanitary sewer user fee assessed on residents and businesses to discharge this debt when the City originally turned over all ownership, operation and maintenance of its sanitary sewer system to Sanitation District #1 in 1995. Further on that note is that seven (7) homes in the City will be connected to a public sanitary sewer main in 2008 due to a state grant of \$140,000 that will replace these residents' dependence on private septic systems.

Another project long in planning, the realignment of Kyles Lane and East and West Henry Clay Avenues and the signalization of that intersection, for safer ingress and egress for over 400 Fort Wright homes and 1,100 residents in adjacent neighborhoods, will occur in 2008 as the final amount of funding necessary to complete this project, \$200,000, was realized in December of 2007. The project will be bid and completed in the City's FYE 2007/2008 budget, all of which is due to leadership and persistence by the City and our elected state representatives, in pursuing financial assistance from the state, in the amount of \$550,000, to complete this project.

As stated, the City has maintained and even improved its level of services and programs to the residents of Fort Wright in the past year, all the while maintaining some of Northern Kentucky's lowest property tax and business-related taxes, and maintaining higher than average property values. The City needs to continue its efforts to "do more with less" and should explore the expanded use of Volunteers for other identified tasks and duties in the City. The dividend to Fort Wright residents from commercial development in the City is being realized through improved services, equipment, and record expenditures on streets and infrastructure. Also in 2007, the City held its third annual Battery Hooper Days, organized and staffed by the City's Museum Board and Volunteers and Parks and Recreation Board which attracted a record number of visitors at 1,350 over the two day event that promotes the City's history and preservation of it for future generations to learn.

The exterior of the City's South Hills Community Center was extensively renovated in the current budget, along with much-needed resurfacing of the parking lot, to make it a more enjoyable and attractive public facility in this residential area. This facility is greatly enjoyed by residents with over 200 users each year. In addition, during a Sanitation District #1 project in this area, the City benefitted as an improve and well-defined pedestrian connection was established from the SHCC to the Bluegrass Swim Club, providing an improved access for children, bikers, and walkers with adjoining neighborhoods. This was done at no cost to the City but coordinated with SD1's contractor.

These improved park facilities will enhance the enjoyment and opportunity for our residents in the form of additional recreational events and performances at Battery Hooper Park. The James A. Ramage Civil War Museum, and the public archaeological excavations at Battery Hooper, continues to be outstanding successes. The efforts of the Museum Board in obtaining grants and contributions to fund new displays and exhibits and other improvements has been remarkable. Battery Hooper Park is certain to be as enjoyed and utilized by residents and businesses for outdoor activities and events, as is South Hills Civic Club has been for smaller, private events.

The City continues to pursue its long term plan as recommended by the Vision Committee and as adopted each year by City Council. Planning for the development of park facilities at Battery Hooper Park continues by City Council; the signalization of the intersection at Kyles Lane and Henry Clay Avenues providing safer ingress and egress for residents in abutting neighborhoods; the City continues to share emergency service resources very successfully with neighboring Kenton Vale and Park Hills; and additional active and passive recreational opportunities are being pursued along the Banklick Creek; and a renewed dedication to Parks and Recreation programs and activities has begun. All of these elements of the City's long term plan are in various stages of progress with some to be completed in the next twelve months, helping the City to realize its goals in the long term plan and the City's Vision Statement, making Fort Wright, "...a community where people want to live, raise their families; and where citizens can live their lives with access to the services they need and want; where businesses want to locate; where people want to work...".

In summary, the City of Fort Wright enjoys a very high level of professional services, excellent facilities, vehicles and other equipment, and most importantly, a well-trained, experienced, and committed workforce, as well as a host of dedicated Volunteers in the Fire/EMS Department, Parks and Recreation Board, Garden Club, and Museum Board and Volunteers, and all at very low tax rates. The City needs to continue its efforts in attracting and retaining Volunteers in all areas of public service within the City. The City's future is promising in terms of continued and steady, high-quality economic development and its benefit for residents in terms of high-quality services, facilities, programs and opportunities, low tax rates, high property values, and an ever-improving quality of life!

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

June 30, 2007

| | Primary Government Governmental Activities |
|---|---|
| ASSETS | |
| Cash and cash equivalents | \$ 3,727,231 |
| Receivables: | |
| Taxes | 381,047 |
| Intergovernmental | 3,902 |
| Accounts | 32,308 |
| Capital assets not being depreciated - land | 2,124,572 |
| Capital assets, net of accumulated depreciation | 5,675,409 |
| Total assets | 11,944,469 |
| LIABILITIES | |
| Accounts payable | 411,095 |
| Accrued liabilities | 99,185 |
| Escrow | 119,363 |
| Deferred revenue | 71,342 |
| Noncurrent liabilities: | |
| Compensated absences | 66,604 |
| Due within one year | 198,528 |
| Due in more than one year | 1,414,741 |
| Total liabilities | 2,380,858 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 6,290,098 |
| Unrestricted | 3,273,513 |
| Total net assets | \$ 9,563,611 |

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

CITY OF FORT WRIGHT, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and |
|--|---------------------|----------------------|------------------------------------|----------------------------------|----------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Changes in Net Assets |
| | | | | | Governmental Activities |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 526,246 | \$ 39,297 | \$ - | \$ - | \$ (486,949) |
| Police | 1,163,565 | 30,221 | - | - | (1,133,344) |
| Fire/EMS | 577,387 | 171,211 | 61,961 | 8,594 | (335,621) |
| Public works | 866,150 | - | 13,494 | 8,250 | (844,406) |
| Waste fees | 255,551 | 261,413 | - | 439,682 | 445,544 |
| Plant/community projects | 245,995 | 2,015 | - | - | (243,980) |
| Interest on long-term debt | 69,228 | 38,736 | - | - | (30,492) |
| Total governmental activities | <u>3,704,122</u> | <u>542,893</u> | <u>75,455</u> | <u>456,526</u> | <u>(2,629,248)</u> |
| | | | | | |
| Total primary government | \$ <u>3,704,122</u> | \$ <u>542,893</u> | \$ <u>75,455</u> | \$ <u>456,526</u> | \$ <u>(2,629,248)</u> |
| | | | | | |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purposes | | | | | 1,033,533 |
| Taxes levied on bank deposits | | | | | 47,599 |
| Motor vehicle taxes | | | | | 79,820 |
| Licenses and permits: | | | | | |
| Payroll | | | | | 951,801 |
| Insurance premium | | | | | 400,584 |
| Other | | | | | 404,047 |
| Grants and contributions not restricted to specific programs | | | | | 18,620 |
| Investment earnings | | | | | 183,664 |
| Miscellaneous | | | | | 34,444 |
| Total general revenues and special items | | | | | <u>3,154,112</u> |
| | | | | | |
| Change in net assets | | | | | 524,864 |
| Net assets-beginning | | | | | <u>9,038,747</u> |
| Net assets-ending | | | | | \$ <u><u>9,563,611</u></u> |

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

CITY OF FORT WRIGHT, KENTUCKY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2007

| | General | Special Revenue | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|---------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,456,907 | \$ 952,604 | \$ 883,815 | \$ 433,905 | \$ 3,727,231 |
| Receivables: | | | | | |
| Taxes | 381,047 | - | - | - | 381,047 |
| Intergovernmental | 3,902 | - | - | - | 3,902 |
| Accounts | 5,675 | - | - | 26,633 | 32,308 |
| Total assets | <u>\$ 1,847,531</u> | <u>\$ 952,604</u> | <u>\$ 883,815</u> | <u>\$ 460,538</u> | <u>\$ 4,144,488</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 61,075 | \$ 342,523 | \$ 2,830 | \$ 4,667 | \$ 411,095 |
| Accrued liabilities | 99,185 | - | - | - | 99,185 |
| Escrow | - | 119,363 | - | - | 119,363 |
| Deferred revenue | 18,613 | 22,132 | 32,500 | - | 73,245 |
| Total liabilities | <u>178,873</u> | <u>484,018</u> | <u>35,330</u> | <u>4,667</u> | <u>702,888</u> |
| Fund balances: | | | | | |
| Unreserved, reported in: | | | | | |
| General fund | 1,668,658 | - | - | - | 1,668,658 |
| Special revenue funds | - | 468,586 | - | 455,871 | 924,457 |
| Capital projects funds | - | - | 848,485 | - | 848,485 |
| Total fund balances | <u>1,668,658</u> | <u>468,586</u> | <u>848,485</u> | <u>455,871</u> | <u>3,441,600</u> |
| Total liabilities and fund balances | <u>\$ 1,847,531</u> | <u>\$ 952,604</u> | <u>\$ 883,815</u> | <u>\$ 460,538</u> | <u>\$ 4,144,488</u> |
| Total governmental fund balances | | | | \$ | 3,441,600 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation \$16,079,530 | | | | | 7,799,981 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | | | | 1,903 |
| Long-term liabilities, including notes payable, are not due and payable in current period and therefore are not reported in the funds: | | | | | |
| Accrued absences payable | | | | | (66,604) |
| Notes and leases payable | | | | | <u>(1,613,269)</u> |
| Net assets of governmental activities | | | | \$ | <u>9,563,611</u> |

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

CITY OF FORT WRIGHT, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

| | General | Special Revenue | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|---------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 1,160,469 | \$ - | \$ - | \$ - | \$ 1,160,469 |
| Licenses and permits | 1,756,432 | - | - | - | 1,756,432 |
| Intergovernmental | 102,477 | 347,858 | 91,672 | 8,594 | 550,601 |
| Charges for services | 71,764 | - | 2,015 | 182,697 | 256,476 |
| Waste fees | 261,413 | - | - | - | 261,413 |
| Fines and forfeitures | 15,909 | - | - | 9,095 | 25,004 |
| Uses of property | 99,904 | 33,734 | 29,453 | 20,573 | 183,664 |
| Miscellaneous | 22,652 | - | 10,945 | 847 | 34,444 |
| Total revenues | <u>3,491,020</u> | <u>381,592</u> | <u>134,085</u> | <u>221,806</u> | <u>4,228,503</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 451,654 | 177 | 1,346 | 667 | 453,844 |
| Police | 1,111,229 | - | - | 7,982 | 1,119,211 |
| Fire and EMS | 498,280 | - | - | 62,796 | 561,076 |
| Public works | 329,993 | 4,725 | - | - | 334,718 |
| Waste fees | 255,551 | - | - | - | 255,551 |
| Plant/community projects | 133,384 | - | 15,182 | - | 148,566 |
| Capital outlay | - | 940,367 | 179,624 | 25,340 | 1,145,331 |
| Debt service: | | | | | |
| Principal | 42,476 | - | 14,552 | 51,693 | 108,721 |
| Interest | 66,044 | - | 3,184 | - | 69,228 |
| Total expenditures | <u>2,888,611</u> | <u>945,269</u> | <u>213,888</u> | <u>148,478</u> | <u>4,196,246</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>602,409</u> | <u>(563,677)</u> | <u>(79,803)</u> | <u>73,328</u> | <u>32,257</u> |
| OTHER FINANCING SOURCES(USES) | | | | | |
| Lease proceeds | - | - | - | - | - |
| Transfers in | 50,000 | 439,000 | 350,000 | 42,435 | 881,435 |
| Transfers out | <u>(831,435)</u> | <u>-</u> | <u>-</u> | <u>(50,000)</u> | <u>(881,435)</u> |
| Total other financing sources and uses | <u>(781,435)</u> | <u>439,000</u> | <u>350,000</u> | <u>(7,565)</u> | <u>-</u> |
| Net change in fund balances | <u>(179,026)</u> | <u>(124,677)</u> | <u>270,197</u> | <u>65,763</u> | <u>32,257</u> |
| Fund balances - beginning | <u>1,847,684</u> | <u>593,263</u> | <u>578,288</u> | <u>390,108</u> | <u>3,409,343</u> |
| Fund balances - ending | <u>\$ 1,668,658</u> | <u>\$ 468,586</u> | <u>\$ 848,485</u> | <u>\$ 455,871</u> | <u>\$ 3,441,600</u> |

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

CITY OF FORT WRIGHT, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

| | | |
|---|----|----------------|
| Net change in fund balances-total governmental funds | \$ | 32,257 |
| <p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:</p> | | |
| Capital asset purchases capitalized | | 1,145,331 |
| Depreciation expense | | (759,755) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 483 |
| Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | 108,721 |
| 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. | | (2,173) |
| Change in net assets of governmental activities | \$ | <u>524,864</u> |

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

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities.

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

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Measurement focus, basis of accounting and financial statement presentation

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

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

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

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

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

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

Assets, liabilities and net assets or equity

Cash and Cash Equivalents

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

The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposits.
3. Bankers acceptances.
4. Commercial paper.
5. Bonds of other state or local governments.
6. Mutual funds.

Property Tax Receivable

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

Capital Assets

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

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

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

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

Compensated Absences

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

Long-Term Obligations

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

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principle and interest reported as expenditures.

Fund Equity

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

In the fund financial statements, government funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Expenditures/Expenses

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

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

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

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

Interfund Transactions

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

Use of Estimates

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

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

E. Appropriations continue in effect until a new budget is adopted.

F. The Council may authorize supplemental appropriations during the year.

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

NOTE C-DEPOSITS

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2007, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City's behalf and the FDIC insurance.

The City held no investments at June 30, 2007.

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2007 was as follows:

| | Balance June 30, 2006 | Additions | Retirements/ Deletions | Balance June 30, 2007 |
|-----------------------------|-----------------------------|-------------------|---------------------------|-----------------------------|
| Governmental activities: | | | | |
| Not being depreciated: | | | | |
| Construction in progress | \$ 467,877 | \$ 385,050 | \$ (251,355) | \$ 601,572 |
| Land | 1,518,000 | 5,000 | - | 1,523,000 |
| Subtotal | <u>1,985,877</u> | <u>390,050</u> | <u>(251,355)</u> | <u>2,124,572</u> |
| Other capital assets: | | | | |
| Buildings | 1,332,264 | - | - | 1,332,264 |
| Improvements/infrastructure | 17,297,207 | 912,147 | - | 18,209,354 |
| Equipment | 984,238 | 43,306 | - | 1,027,544 |
| Vehicles | 1,134,594 | 51,183 | - | 1,185,777 |
| Subtotal | <u>20,748,303</u> | <u>1,006,636</u> | <u>-</u> | <u>21,754,939</u> |
| Accumulated depreciation: | | | | |
| Buildings | (493,513) | (69,073) | - | (562,586) |
| Improvements/infrastructure | (12,947,174) | (529,372) | - | (13,476,546) |
| Equipment | (890,120) | (105,202) | - | (995,322) |
| Vehicles | (988,968) | (56,108) | - | (1,045,076) |
| Subtotal | <u>(15,319,775)</u> | <u>(759,755)</u> | <u>-</u> | <u>(16,079,530)</u> |
| Net other assets | <u>5,428,528</u> | <u>246,881</u> | <u>-</u> | <u>5,675,409</u> |
| Net capital assets | <u>\$ 7,414,405</u> | <u>\$ 636,931</u> | <u>\$ (251,355)</u> | <u>\$ 7,799,981</u> |

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

*Depreciation was charged to functions as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 70,229 |
| Police | 44,354 |
| Fire | 16,311 |
| Public works | 531,432 |
| Plant | 97,429 |
| Total governmental activities depreciation expense | <u>\$ 759,755</u> |

NOTE E-LONG-TERM DEBT

Note Payable

The note payable long-term debt is payable from special revenue funds.

Long-term debt outstanding at June 30, 2007 for the note payable, consisted of the following:

Note Payable-Sanitation District

The City entered into a loan agreement on June 26, 1995 with the Sanitation District No. 1 of Campbell County and Kenton Counties, Kentucky as a result of a municipal merger agreement agreeing to relinquish ownership of the City of Fort Wright sanitary sewer lines. The City is responsible for paying 50% of the estimated costs that the Sanitation District will incur for improvements to the sanitary sewer system. The loan agreement is for \$516,930 and repayment began on May 25, 1999 and is payable over 10 years in equal annual installments.

The following is a schedule of future debt service requirements to maturity at June 30, 2007:

| | |
|-----------------------------------|---|
| Year Ended June 30, | Note Payable Sanitation District |
| <u>2008</u> | \$ <u>51,693</u> |
| 2009 | <u>51,693</u> |
| Total debt service payments | 103,386 |
| Less amount representing interest | <u>-</u> |
| Principal balance | <u>\$ 103,386</u> |

Lease Payables

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

Long-term debt outstanding at June 30, 2007 for the leases payable, consisted of the following:

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Lease Payable-Storer Property

The City purchased park land known as the Storer property in the fall of 2003. The purchase was financed as a capital lease with the Bank of Kentucky. The lease is for three years, maturing September 19, 2006, with all principal due on that date and an interest rate of 2.52%. The City has been paying an amount toward principal during the year ended June 30, 2007, although the lease does not require it. In 2006, the City refinanced the lease for 25 years with a fixed interest rate of 4.86% through August 31, 2011 and adjusted each five years thereafter.

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

| Year Ending June 30, | Principal | Interest |
|-------------------------|-------------------|-------------------|
| 2008 | \$ 16,301 | \$ 35,347 |
| 2009 | 17,108 | 34,540 |
| 2010 | 17,954 | 33,694 |
| 2011 | 18,843 | 32,805 |
| 2012 | 19,775 | 31,873 |
| 2013-2017 | 113,564 | 144,676 |
| 2018-2022 | 145,863 | 112,377 |
| 2023-2027 | 185,713 | 72,527 |
| 2028-2031 | 186,839 | 21,264 |
| Total | \$ <u>721,960</u> | \$ <u>519,103</u> |

Lease Payable-City Building

The City entered into a lease agreement on January 15, 2003 with the Bank of Kentucky to refinance the city building construction costs and the fire pumper. The lease payable is for a period of seventeen years at an initial rate of 2.593%. In 2006, the City refinanced the lease for thirteen years with a fixed interest rate of 4.86% through August 31, 2011 and adjusted each five years thereafter. Annual debt service payment requirements to maturity, as initially determined based on the initial interest rate are as follows:

| Year Ended June 30, | Principal | Interest |
|------------------------|-------------------|-------------------|
| 2008 | \$ 44,355 | \$ 36,280 |
| 2009 | 46,550 | 34,085 |
| 2010 | 48,854 | 31,781 |
| 2011 | 51,272 | 29,363 |
| 2012 | 53,810 | 26,825 |
| 2013-2017 | 311,732 | 91,443 |
| 2018-2019 | 170,760 | 15,128 |
| TOTAL | \$ <u>727,333</u> | \$ <u>264,905</u> |

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

The following lease payable is payable from the capital projects fund.

Long-term debt outstanding at June 30, 2007 for the lease payable, consisted of the following:

Lease Payable-Truck

The City entered into a lease agreement in March 2006 with the Kentucky League of Cities to finance the purchase of a truck. The lease payable is for a period of five years at a rate of between 3.533% and 3.923%. Annual debt service payment requirements to maturity are as follows:

| Year Ending June 30, | Principal | Interest |
|-------------------------|------------------|-----------------|
| 2008 | \$ 15,054 | \$ 2,062 |
| 2009 | 15,574 | 1,542 |
| 2010 | 16,112 | 1,004 |
| 2011 | 13,850 | 413 |
| TOTAL | <u>\$ 60,590</u> | <u>\$ 5,021</u> |

Long-term liability activity for the year ended June 30, 2007, was as follows:

| | June 30, 2006 | Additions | Retirements | June 30, 2007 | Due Within One Year |
|-------------------------------|---------------------|-----------------|-------------------|---------------------|------------------------|
| Governmental activities: | | | | | |
| Lease payable-Storer property | \$ 730,084 | \$ - | \$ 8,124 | \$ 721,960 | \$ 51,648 |
| Lease payable-City Building | 761,685 | - | 34,352 | 727,333 | 80,635 |
| Lease payable -truck | 75,142 | - | 14,552 | 60,590 | 14,552 |
| Note payable | 155,079 | - | 51,693 | 103,386 | 51,693 |
| Compensated absences | 64,431 | 2,173 | - | 66,604 | - |
| Totals | <u>\$ 1,786,421</u> | <u>\$ 2,173</u> | <u>\$ 108,721</u> | <u>\$ 1,679,873</u> | <u>\$ 198,528</u> |

NOTE F-CLAIMS AND JUDGMENTS

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

NOTE G-EMPLOYEE RETIREMENT SYSTEM

County Employees Retirement System (CERS)

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

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

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

Non-hazardous Contributions - For the year ended June 30, 2007, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2007, participating employers contributed 13.19% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2006 was 13.19% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2007, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2007, participating employers contributed 28.21% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2006 was 28.21% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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

| Year | Required Contribution | Percentage Contributed |
|------|-----------------------|------------------------|
| 2007 | \$ 271,258 | 100% |
| 2006 | \$ 216,610 | 100% |
| 2005 | \$ 194,862 | 100% |

Deferred Compensation Plans

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

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

NOTE H-RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2007, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. There have been no claims in the past three fiscal years.

NOTE I-COMMITMENTS

At June 30, 2007, the City had contracted for the reconstruction of Marcella Drive and St. Anthony Drive. The total contract amount is \$1,101,709. At June 30, 2007, \$716,410 represented work completed and \$483,348 remains on the contract.

CITY OF FORT WRIGHT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2007

| | Required Supplementary Information | | | Variance with Final Budget Positive (Negative) |
|--------------------------------------|------------------------------------|---------------------|---------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| Budgetary fund balance, July 1 | \$ 1,764,617 | \$ 1,847,684 | \$ 1,847,684 | \$ - |
| Resources (inflows): | | | | |
| Taxes: | 1,084,000 | 1,153,352 | 1,160,469 | (7,117) |
| Licenses and permits | 1,772,000 | 1,772,000 | 1,756,432 | (15,568) |
| Intergovernmental | 70,300 | 81,489 | 102,477 | 20,988 |
| Charges for services | 305,800 | 336,712 | 333,177 | (3,535) |
| Fines and forfeitures | 15,000 | 14,100 | 15,909 | 1,809 |
| Uses of property | 75,200 | 90,200 | 99,904 | 9,704 |
| Miscellaneous | 19,100 | 18,439 | 22,652 | 4,213 |
| Transfers in | 50,000 | 50,000 | 50,000 | - |
| Amounts available for appropriation | <u>5,156,017</u> | <u>5,363,976</u> | <u>5,388,704</u> | <u>24,728</u> |
| Charges to appropriations (outflows) | | | | |
| General government | 425,363 | 454,154 | 451,654 | 2,500 |
| Police | 1,132,039 | 1,120,335 | 1,111,229 | 9,106 |
| Fire/EMS | 571,015 | 509,713 | 498,280 | 11,433 |
| Public works | 582,985 | 588,904 | 585,544 | 3,360 |
| Plant/community projects | 133,260 | 136,123 | 133,384 | 2,739 |
| Debt Service | 108,500 | 108,500 | 108,520 | (20) |
| Transfers out | 750,300 | 831,435 | 831,435 | - |
| Total charges to appropriations | <u>3,703,462</u> | <u>3,749,164</u> | <u>3,720,046</u> | <u>29,118</u> |
| Budgetary fund balance, June 30 | <u>\$ 1,452,555</u> | <u>\$ 1,614,812</u> | <u>\$ 1,668,658</u> | <u>\$ 53,846</u> |

The basis of budgeting is the same as GAAP.

CITY OF FORT WRIGHT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND-MUNICIPAL AID
For the Year Ended June 30, 2007

| | Required Supplementary Information | | | Variance with Final Budget Positive (Negative) |
|---------------------------------------|------------------------------------|-------------------------|--------------------------|---|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| Budgetary fund balances, July 1 | \$ 856,324 | \$ 593,263 | \$ 593,263 | \$ - |
| Resources (inflows): | | | | |
| Intergovernmental | 470,000 | 449,211 | 347,858 | (101,353) |
| Interest | 23,430 | 28,000 | 33,734 | 5,734 |
| Transfers from other funds | 350,000 | 439,000 | 439,000 | - |
| Amounts available for appropriation | <u>1,699,754</u> | <u>1,509,474</u> | <u>1,413,855</u> | <u>(95,619)</u> |
| Charges to appropriations (outflows): | | | | |
| Current | | | | |
| Administration | 175 | 175 | 177 | (2) |
| Public works | 57,150 | 20,000 | 9,725 | 10,275 |
| Capital outlay | <u>1,635,000</u> | <u>1,420,187</u> | <u>935,367</u> | <u>484,820</u> |
| Total | <u>1,692,325</u> | <u>1,440,362</u> | <u>945,269</u> | <u>495,093</u> |
| Budgetary fund balances, June 30 | \$ <u><u>7,429</u></u> | \$ <u><u>69,112</u></u> | \$ <u><u>468,586</u></u> | \$ <u><u>399,474</u></u> |

The basis of budgeting is the same as GAAP.

CITY OF FORT WRIGHT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2007

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Budgetary fund balances, July 1 | \$ 587,207 | \$ 578,288 | \$ 578,288 | \$ - |
| Resources (inflows): | | | | |
| Interest | 19,000 | 24,000 | 29,453 | 5,453 |
| Grants and contributions | 330,000 | 102,915 | 102,617 | (298) |
| Charges for services | - | 2,000 | 2,015 | 15 |
| Other income | 501,000 | - | - | - |
| Transfers from other funds | 350,000 | 350,000 | 350,000 | - |
| Amounts available for appropriation | <u>1,787,207</u> | <u>1,057,203</u> | <u>1,062,373</u> | <u>5,170</u> |
| Charges to appropriations (outflows): | | | | |
| Current | | | | |
| Administration | 200 | 200 | 1,346 | (1,146) |
| Police | 36,600 | 36,100 | 34,749 | 1,351 |
| Public works | 28,000 | 25,874 | 25,874 | - |
| Plant/community projects | 20,000 | 8,869 | 8,869 | - |
| Capital outlay | 1,148,400 | 119,316 | 125,314 | (5,998) |
| Debt service | 37,000 | 17,717 | 17,736 | (19) |
| Total | <u>1,270,200</u> | <u>208,076</u> | <u>213,888</u> | <u>(5,812)</u> |
| Budgetary fund balances, June 30 | <u>\$ 517,007</u> | <u>\$ 849,127</u> | <u>\$ 848,485</u> | <u>\$ (642)</u> |

The basis of budgeting is the same as GAAP.

CITY OF FORT WRIGHT, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2007

| | Special Revenue Funds | | | | Total Nonmajor Governmental Funds |
|--------------------------------------|-----------------------|----------------------|-------------------|---------------------|--|
| | Madison Pike TIF | Sewer Replacement | Fire and EMS | Asset Forfeiture | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 94,377 | \$ 83,509 | \$ 243,581 | \$ 12,438 | \$ 433,905 |
| Accounts receivable | - | 4,707 | 21,926 | - | 26,633 |
| Total assets | <u>\$ 94,377</u> | <u>\$ 88,216</u> | <u>\$ 265,507</u> | <u>\$ 12,438</u> | <u>\$ 460,538</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ - | \$ - | \$ 4,667 | \$ - | \$ 4,667 |
| Total liabilities | <u>-</u> | <u>-</u> | <u>4,667</u> | <u>-</u> | <u>4,667</u> |
| Fund balances: | | | | | |
| Unreserved, reported in: | | | | | |
| Special revenue funds | <u>94,377</u> | <u>88,216</u> | <u>260,840</u> | <u>12,438</u> | <u>455,871</u> |
| Total fund balances | <u>94,377</u> | <u>88,216</u> | <u>260,840</u> | <u>12,438</u> | <u>455,871</u> |
| Total liabilities and fund balances | <u>\$ 94,377</u> | <u>\$ 88,216</u> | <u>\$ 265,507</u> | <u>\$ 12,438</u> | <u>\$ 460,538</u> |

CITY OF FORT WRIGHT, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2007

| | Special Revenue Funds | | | | Total Nonmajor Governmental Funds |
|--|-----------------------|----------------------|-------------------|---------------------|--|
| | Madison Pike TIF | Sewer Replacement | Fire and EMS | Asset Forfeiture | |
| REVENUES | | | | | |
| Charges for services | \$ - | \$ 38,736 | \$ 143,961 | \$ - | \$ 182,697 |
| Intergovernmental | - | - | 8,594 | - | 8,594 |
| Fines and forfeitures | - | - | - | 9,095 | 9,095 |
| Interest | 2,348 | 4,764 | 12,721 | 740 | 20,573 |
| Miscellaneous | - | - | 847 | - | 847 |
| Total revenues | <u>2,348</u> | <u>43,500</u> | <u>166,123</u> | <u>9,835</u> | <u>221,806</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 70 | 176 | 248 | 173 | 667 |
| Police | - | - | - | 7,982 | 7,982 |
| Fire and EMS | - | - | 62,796 | - | 62,796 |
| Capital outlay | - | - | 21,583 | 3,757 | 25,340 |
| Debt service: | | | | | |
| Principal | - | 51,693 | - | - | 51,693 |
| Interest | - | - | - | - | - |
| Total expenditures | <u>70</u> | <u>51,869</u> | <u>84,627</u> | <u>11,912</u> | <u>148,478</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>2,278</u> | <u>(8,369)</u> | <u>81,496</u> | <u>(2,077)</u> | <u>73,328</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | 42,435 | - | - | - | 42,435 |
| Transfers out | - | - | (50,000) | - | (50,000) |
| Total other financing sources and (uses) | <u>42,435</u> | <u>-</u> | <u>(50,000)</u> | <u>-</u> | <u>(7,565)</u> |
| Net change in fund balances | <u>44,713</u> | <u>(8,369)</u> | <u>31,496</u> | <u>(2,077)</u> | <u>65,763</u> |
| Fund balances - beginning | 49,664 | 96,585 | 229,344 | 14,515 | 390,108 |
| Fund balances - ending | <u>\$ 94,377</u> | <u>\$ 88,216</u> | <u>\$ 260,840</u> | <u>\$ 12,438</u> | <u>\$ 455,871</u> |

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

To the Mayor and Council City of Fort Wright, Kentucky

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fort Wright, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 13, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Fort Wright, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fort Wright, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fort Wright, Kentucky's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Fort Wright, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Fort Wright, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Fort Wright, Kentucky's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Fort Wright, Kentucky's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

RANKIN, RANKIN & COMPANY

**Ft. Wright, Kentucky
December 13, 2007**