

CITY OF FORT WRIGHT, KENTUCKY

ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2011

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ANNUAL FINANCIAL STATEMENTS

Year Ended June 30, 2011

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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, 2011, 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 opinions.

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, 2011, 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 a report dated December 8, 2011 on our consideration of the City of Fort Wright, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and certain required budgetary comparison information 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

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auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

RANKIN, RANKIN, & COMPANY

**Ft. Wright, Kentucky
December 8, 2011**

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The City of Fort Wright, Kentucky

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

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, 2011. Please read it in conjunction with the City's basic financial statements.

FINANCIAL HIGHLIGHTS

The City's net assets increased \$110,453 over the prior year. The City's government funds fund balance was \$3,745,314 at year end.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

- Governmental activities: most of the City's basic services are reported here, including the police, fire, street maintenance, parks and recreation, and general

administration. License fees, property taxes, and state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

For the year ended June 30, 2011, net assets changed as follows:

	Governmental Activities	
Beginning net assets	\$	10,386,073
Increase(decrease) in net assets		110,453
Ending net assets	\$	<u>10,496,526</u>

	Governmental Activities			
	<u>2011</u>		<u>2010</u>	
Current assets	\$	4,010,992	\$	3,439,375
Capital assets, net		7,798,005		8,451,306
Total assets		<u>11,808,997</u>		<u>11,890,681</u>
Current liabilities		263,253		266,390
Noncurrent liabilities		1,049,218		1,238,218
Total liabilities		<u>1,312,471</u>		<u>1,504,608</u>
Net assets	\$	<u>10,496,526</u>	\$	<u>10,386,073</u>

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

Over the course of the year, the City Council revised the General Fund budget. The budget amendment was to increase the beginning fund balance to actual and to change revenues and expenditures to more closely reflect the anticipated actual revenues and expenditures for the

year. The current year budget relied on the expectation of moderate increases in property and payroll taxes and licenses and permits. The actual results showed changes in each of these categories that resulted in revenues over budgeted amounts by \$324,700. Expenditures were less than budgeted by \$368,373. The City ended the year with a fund balance that was \$693,073 more than the final budget.

The following schedule presents a summary of general, special revenue and capital projects revenues and expenditures for the fiscal years ended June 30, 2011 and 2010.

Revenues	2011 Amount	2010 Amount
Taxes	\$ 1,399,022	\$ 1,331,222
Licenses and permits	1,844,650	1,859,812
Intergovernmental	245,606	357,397
Charges for services	192,705	190,685
Waste fees	296,287	292,314
Fines and forfeitures	52,135	32,153
Interest	21,107	18,939
Miscellaneous	49,222	29,846
Total revenues	\$ 4,100,734	\$ 4,112,368

Intergovernmental revenues decreased due to lower grant amount received from the State.

Expenditures	2011 Amount	2010 Amount
General government	\$ 360,448	\$ 407,063
Police	1,241,580	1,292,834
Fire and EMS	786,841	763,091
Public Works	393,736	355,891
Waste fees	292,156	280,676
Plant/community projects	124,945	145,381
Capital outlay	92,705	750,159
Debt service	237,707	247,245
Total expenditures	\$ 3,530,118	\$ 4,242,340

Capital outlay decreased significantly due to no major road construction projects in 2011.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had \$26.3 million invested in capital assets including police and fire equipment, buildings, park facilities, roads and sidewalks. This represents a net increase of \$50,815 over last year.

	Activities	
	2011	2010
Land and construction in progress	\$ 1,523,000	\$ 1,523,000
Buildings	1,467,686	1,460,585
Improvements/ Infrastructure	20,773,985	20,773,985
Equipment	1,289,508	1,229,177
Vehicles	1,239,992	1,256,609
TOTALS	\$ 26,294,171	\$ 26,243,356

This year's major additions included:

Vehicles	\$ 25,273	\$ 27,152
Roof repairs	7,101	815,336
Various equipment and improvements	60,331	70,268
	\$ 92,705	\$ 912,756

Debt

At year-end, the City had \$972,512 outstanding capital leases compared to \$1,163,291 last year. That is a decrease of \$190,779.

During the year the City incurred no additional debt. Other obligations of the City include accrued compensated absences in the amount of \$76,706.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Fort Wright's July 1, 2011 through June 30, 2012 budget year was generally the same as the previous year with one exception. Because of the low interest rates paid on funds on deposit the City Council decided to reallocate funds to pay off the loan on the twenty year old city building. That action will save the city approximately \$6,000 a year in interest payments. In addition, the Council also refinanced the debt on Battery Hooper Park from an interest rate of 4.6% to 3.125% which will also save the city an additional \$10,000.

These savings will be used to help fund the gap in the needed street infrastructure improvements. The city continues to investigate long term ways in which to fund the street program without going into additional debt while continuing to pursue the long term improvement plan recommended by the Vision Committee and adopted by Council.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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

June 30, 2011

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 3,559,301
Receivables:	
Taxes	414,948
Intergovernmental	19,931
Accounts	16,812
Capital assets not being depreciated - land	1,523,000
Capital assets, net of accumulated depreciation	6,275,005
	<hr/>
Total assets	11,808,997
	<hr/>
LIABILITIES	
Accounts payable	69,862
Accrued liabilities	114,046
Accrued interest payable	3,638
Escrow	17,150
Deferred revenue	58,557
Noncurrent liabilities:	
Compensated absences	76,706
Due within one year	163,723
Due in more than one year	808,789
	<hr/>
Total liabilities	1,312,471
	<hr/>
NET ASSETS	
Invested in capital assets, net of related debt	6,825,493
Unrestricted	3,671,033
	<hr/>
Total net assets	\$ 10,496,526
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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, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Primary government:					
Governmental activities:					
General government	\$ 369,848	\$ 25,063	\$ -	\$ -	\$ (344,785)
Police	1,285,110	43,276	59,313	-	(1,182,521)
Fire/EMS	850,073	161,357	50,943	-	(637,773)
Public works	932,335	-	-	119,672	(812,663)
Waste fees	292,156	296,288	-	-	4,132
Plant/community projects	217,968	15,144	-	-	(202,824)
Interest on long-term debt	46,285	-	-	-	(46,285)
Total governmental activities	<u>3,993,775</u>	<u>541,128</u>	<u>110,256</u>	<u>119,672</u>	<u>(3,222,719)</u>
Total primary government	\$ <u>3,993,775</u>	\$ <u>541,128</u>	\$ <u>110,256</u>	\$ <u>119,672</u>	\$ <u>(3,222,719)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					1,276,196
Taxes levied on bank deposits					49,321
Motor vehicle taxes					77,000
Licenses and permits:					
Payroll					950,247
Insurance premium					534,065
Other					360,338
Grants and contributions not restricted to specific programs					15,676
Investment earnings					21,107
Miscellaneous					49,222
Total general revenues and special items					<u>3,333,172</u>
Change in net assets					110,453
Net assets-beginning					10,386,073
Net assets-ending					<u>\$ 10,496,526</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, 2011**

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,436,426	\$ 669,451	\$ -	\$ 453,424	\$ 3,559,301
Receivables:					
Taxes	414,948	-	-	-	414,948
Intergovernmental	4,131	15,800	-	-	19,931
Accounts	1,997	-	-	14,815	16,812
Total assets	<u>\$ 2,857,502</u>	<u>\$ 685,251</u>	<u>\$ -</u>	<u>\$ 468,239</u>	<u>\$ 4,010,992</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 37,401	\$ 21,709	\$ -	\$ 10,752	\$ 69,862
Accrued liabilities	114,046	-	-	-	114,046
Escrow	-	17,150	-	-	17,150
Deferred revenue	49,988	14,632	-	-	64,620
Total liabilities	<u>201,435</u>	<u>53,491</u>	<u>-</u>	<u>10,752</u>	<u>265,678</u>
Fund balances:					
Restricted:					
Street projects	-	631,760	-	-	631,760
Committed					
TIP Program	-	-	-	283,550	283,550
Assigned					
Special revenues	-	-	-	173,937	173,937
Capital improvements	164,873	-	-	-	164,873
Unassigned	2,491,194	-	-	-	2,491,194
Total fund balances	<u>2,656,067</u>	<u>631,760</u>	<u>-</u>	<u>457,487</u>	<u>3,745,314</u>
Total liabilities and fund balances	<u>\$ 2,857,502</u>	<u>\$ 685,251</u>	<u>\$ -</u>	<u>\$ 468,239</u>	<u>\$ 4,010,992</u>
Total governmental fund balances					\$ 3,745,314
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation \$18,496,166.					7,798,005
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.					6,063
Accrued interest on long-term debt.					(3,638)
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					(76,706)
Notes and leases payable					(972,512)
Net assets of governmental activities					<u>\$ 10,496,526</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, 2011

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,399,022	\$ -	\$ -	\$ -	\$ 1,399,022
Licenses and permits	1,844,650	-	-	-	1,844,650
Intergovernmental	126,134	119,472	-	-	245,606
Charges for services	48,708	-	-	143,997	192,705
Waste fees	296,287	-	-	-	296,287
Fines and forfeitures	50,315	-	-	1,820	52,135
Uses of property	12,499	4,314	1,435	2,859	21,107
Miscellaneous	33,728	-	-	15,494	49,222
Total revenues	<u>3,811,343</u>	<u>123,786</u>	<u>1,435</u>	<u>164,170</u>	<u>4,100,734</u>
EXPENDITURES					
Current:					
General government	359,566	172	171	539	360,448
Police	1,241,580	-	-	-	1,241,580
Fire and EMS	706,458	-	-	80,383	786,841
Public works	371,455	21,756	525	-	393,736
Waste fees	292,156	-	-	-	292,156
Park/community projects	99,944	-	-	25,001	124,945
Capital outlay	35,393	-	32,374	24,938	92,705
Debt service:					
Principal	176,929	-	13,851	-	190,780
Interest	46,852	-	75	-	46,927
Total expenditures	<u>3,330,333</u>	<u>21,928</u>	<u>46,996</u>	<u>130,861</u>	<u>3,530,118</u>
Excess (deficiency) of revenues over (under) expenditures	<u>481,010</u>	<u>101,858</u>	<u>(45,561)</u>	<u>33,309</u>	<u>570,616</u>
OTHER FINANCING SOURCES(USES)					
Transfers in	224,873	-	-	72,500	297,373
Transfers out	<u>(72,500)</u>	<u>-</u>	<u>(164,873)</u>	<u>(60,000)</u>	<u>(297,373)</u>
Total other financing sources and uses	<u>152,373</u>	<u>-</u>	<u>(164,873)</u>	<u>12,500</u>	<u>-</u>
Net change in fund balances	633,383	101,858	(210,434)	45,809	570,616
Fund balances - beginning	<u>2,022,684</u>	<u>529,902</u>	<u>210,434</u>	<u>411,678</u>	<u>3,174,698</u>
Fund balances - ending	<u>\$ 2,656,067</u>	<u>\$ 631,760</u>	<u>\$ -</u>	<u>\$ 457,487</u>	<u>\$ 3,745,314</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, 2011

Net change in fund balances-total governmental funds	\$ 570,616
<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	92,705
Depreciation expense	(746,005)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,495
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.	190,779
Accrued interest on long-term debt is reported in the government wide funds and not reported in the governmental funds.	642
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.	(1,779)
Change in net assets of governmental activities	\$ <u>110,453</u>

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

CITY OF FORT WRIGHT, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Date of Management's Review

Subsequent events were evaluated through December 8, 2011, which is the date the financial statements were available to be issued.

Financial Reporting Entity

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

Government-wide Financial Statements

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

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

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

Measurement focus, basis of accounting and financial statement presentation

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

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

CITY OF FORT WRIGHT, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

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

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

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

Assets, liabilities and net assets or equity

Cash and Cash Equivalents

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

The City is authorized by state statute to invest in:

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

Property Tax Receivable

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

Capital Assets

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

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the government-wide financial statements. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated his-

CITY OF FORT WRIGHT, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

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

Compensated Absences

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

Long-Term Obligations

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

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

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

Fund Equity

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

In the fund financial statements, government funds report components of fund balance for amounts that are nonspendable, restricted, committed, assigned or unassigned:

Nonspendable fund balances arise when resources cannot be spent because of their form and because resources must be maintained intact.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or

CITY OF FORT WRIGHT, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the Council, The Council must approve the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance is the residual classification for the general fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

Expenditures/Expenses

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

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

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

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

Interfund Transactions

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

Restricted Revenues

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

Use of Estimates

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

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

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

NOTE C-DEPOSITS

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2011, 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, 2011.

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE D-CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Retirements/ Deletions	Balance June 30, 2011
Governmental activities:				
Not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	1,523,000	-	-	1,523,000
Subtotal	<u>1,523,000</u>	<u>-</u>	<u>-</u>	<u>1,523,000</u>
Other capital assets:				
Buildings	1,460,585	7,101	-	1,467,686
Improvements/infrastructure	20,773,985	-	-	20,773,985
Equipment	1,229,177	60,331	-	1,289,508
Vehicles	1,256,609	25,273	(41,890)	1,239,992
Subtotal	<u>24,720,356</u>	<u>92,705</u>	<u>(41,890)</u>	<u>24,771,171</u>
Accumulated depreciation:				
Buildings	(696,920)	(46,636)	-	(743,556)
Improvements/infrastructure	(15,161,615)	(550,197)	-	(15,711,812)
Equipment	(891,480)	(26,842)	-	(918,322)
Vehicles	(1,042,035)	(122,331)	41,890	(1,122,476)
Subtotal	<u>(17,792,050)</u>	<u>(746,006)</u>	<u>41,890</u>	<u>(18,496,166)</u>
Net other assets	<u>6,928,306</u>	<u>(653,301)</u>	<u>-</u>	<u>6,275,005</u>
Net capital assets	<u>\$ 8,451,306</u>	<u>\$ (653,301)</u>	<u>\$ -</u>	<u>\$ 7,798,005</u>

*Depreciation was charged to functions as follows:

Governmental activities:

General government, police and fire	\$ 114,383
Public works	538,599
Plant	93,023
Total governmental activities depreciation expense	<u>\$ 746,005</u>

NOTE E-LONG-TERM DEBT

Lease Payables

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

Long-term debt outstanding at June 30, 2011 for the leases payable, consisted of the following:

Lease Payable-Storer Property

The City purchased park land known as the Storer property in the fall of 2003. The purchase was financed as a capital lease with the Bank of Kentucky. In 2006, the City refinanced the lease for 25 years with a fixed interest rate of 4.86% through August 31, 2011 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:

CITY OF FORT WRIGHT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Year Ending June 30,	Principal	Interest	Total
2012	21,691	29,923	51,614
2013	22,802	28,812	51,614
2014	23,885	27,729	51,614
2015	25,018	26,596	51,614
2016	26,136	25,478	51,614
2017-2020	86,308	68,534	154,842
2021-2025	181,587	76,484	258,071
2026-2030	260,222	29,082	289,304
Total	\$ 647,649	\$ 312,638	\$ 960,287

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. 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	Total
2012	44,767	18,713	63,480
2013	46,778	16,701	63,479
2014	48,827	14,652	63,479
2015	50,965	12,514	63,479
2016	43,288	26,065	69,353
2017-2019	90,238	39,794	130,032
TOTAL	\$ 324,863	\$ 128,439	\$ 453,302

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

Long-term debt outstanding at June 30, 2011 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%. This lease was paid off in 2011.

Long-term liability activity for the year ended June 30, 2011, was as follows:

	June 30, 2010	Additions	Retirements	June 30, 2011	Due Within One Year
Governmental activities:					
Lease payable-Storer property	\$ 668,435	\$ -	\$ 20,786	\$ 647,649	\$ 20,786
Lease payable-City Building	481,006	-	156,143	324,863	142,937
Lease payable -truck	13,850	-	13,850	-	-
Compensated absences	74,927	1,779	-	76,706	-
Totals	\$ 1,238,218	\$ 1,779	\$ 190,779	\$ 1,049,218	\$ 163,723

CITY OF FORT WRIGHT, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011, plan members were required to contribute 5% of their annual creditable compensation. Any plan members that entered the plan after August 31, 2008, are required to contribute an additional 1% of their annual creditable compensation for health insurance. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2011 was 16.93% 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, 2011, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 33.25% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2011 was 33.25% 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, 2011
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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
2011	\$ 402,673	100%
2010	\$ 398,366	100%
2009	\$ 349,526	100%

Medical Insurance Plan

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

Deferred Compensation Plans

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

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

NOTE H-RISK MANAGEMENT

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

The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2011, 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, 2011, the City had no contracted commitments.

CITY OF FORT WRIGHT, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Year Ended June 30, 2011

	Required Supplementary Information			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Budgetary fund balance, July 1	\$ 1,230,798	\$ 2,022,684	\$ 2,022,684	\$ -
Resources (inflows):				
Taxes	1,273,000	1,269,500	1,399,022	129,522
Licenses and permits	1,832,000	1,830,000	1,844,650	14,650
Intergovernmental	107,860	136,733	126,134	(10,599)
Charges for services	327,400	329,311	344,995	15,684
Fines and forfeitures	21,200	32,102	50,315	18,213
Uses of property	8,100	14,100	12,499	(1,601)
Miscellaneous	18,260	39,770	33,728	(6,042)
Transfers in	60,000	60,000	224,873	164,873
Amounts available for appropriation	<u>4,878,618</u>	<u>5,734,200</u>	<u>6,058,900</u>	<u>324,700</u>
Charges to appropriations (outflows)				
General government	409,375	461,157	359,566	101,591
Police	1,463,250	1,378,844	1,264,925	113,919
Fire/EMS	849,350	844,150	718,506	125,644
Public works	673,250	672,660	663,611	9,049
Plant/community projects	117,680	110,895	99,944	10,951
Debt Service	231,000	231,000	223,781	7,219
Transfers out	72,500	72,500	72,500	-
Total charges to appropriations	<u>3,816,405</u>	<u>3,771,206</u>	<u>3,402,833</u>	<u>368,373</u>
Budgetary fund balance, June 30	\$ <u>1,062,213</u>	\$ <u>1,962,994</u>	\$ <u>2,656,067</u>	\$ <u>693,073</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, 2011

	Required Supplementary Information			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Budgetary fund balances, July 1	\$ 577,051	\$ 529,902	\$ 529,902	\$ -
Resources (inflows):				
Intergovernmental	95,000	103,672	119,472	15,800
Interest	2,000	4,200	4,314	114
Miscellaneous	-	-	-	-
Transfers from other funds	-	-	-	-
Amounts available for appropriation	<u>674,051</u>	<u>637,774</u>	<u>653,688</u>	<u>15,914</u>
Charges to appropriations (outflows):				
Current				
Administration	175	175	172	3
Public works	375,000	20,000	21,756	(1,756)
Capital outlay	-	-	-	-
Total	<u>375,175</u>	<u>20,175</u>	<u>21,928</u>	<u>(1,753)</u>
Budgetary fund balances, June 30	\$ <u><u>298,876</u></u>	\$ <u><u>617,599</u></u>	\$ <u><u>631,760</u></u>	\$ <u><u>14,161</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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 244,902	\$ 210,434	\$ 210,434	\$ -
Resources (inflows):				
Interest	2,000	1,600	1,435	(165)
Grants and contributions	-	-	-	-
Other income	-	-	-	-
Amounts available for appropriation	<u>246,902</u>	<u>212,034</u>	<u>211,869</u>	<u>(165)</u>
Charges to appropriations (outflows):				
Current				
Administration	20,000	14,700	696	14,004
Police	27,000	25,273	-	25,273
Public works	-	-	-	-
Capital outlay	-	-	32,374	(32,374)
Debt service	12,500	13,925	13,926	(1)
Transfers to other funds	-	-	164,873	(164,873)
Total	<u>59,500</u>	<u>53,898</u>	<u>211,869</u>	<u>(157,971)</u>
Budgetary fund balances, June 30	\$ <u>187,402</u>	\$ <u>158,136</u>	\$ -	\$ <u>(158,136)</u>

The \$32,374 capital outlay was budgeted under administration and Police departments.
The Capital Projects Fund was closed into the General Fund

The basis of budgeting is the same as GAAP.

CITY OF FORT WRIGHT, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011

	<u>Parks & Recreation</u>	<u>Madison Pike TIF</u>	<u>Fire and EMS</u>	<u>Asset Forfeiture</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 53,392	\$ 283,550	\$ 105,751	\$ 10,731	\$ 453,424
Accounts receivable	-	-	14,815	-	14,815
Total assets	<u>\$ 53,392</u>	<u>\$ 283,550</u>	<u>\$ 120,566</u>	<u>\$ 10,731</u>	<u>\$ 468,239</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,385	\$ -	\$ 2,827	\$ 5,540	\$ 10,752
Total liabilities	<u>2,385</u>	<u>-</u>	<u>2,827</u>	<u>5,540</u>	<u>10,752</u>
Fund balances:					
Committed	\$ -	\$ 283,550	\$ -	\$ -	\$ 283,550
Assigned	51,007	-	117,739	5,191	173,937
Total fund balances	<u>51,007</u>	<u>283,550</u>	<u>117,739</u>	<u>5,191</u>	<u>457,487</u>
Total liabilities and fund balances	<u>\$ 53,392</u>	<u>\$ 283,550</u>	<u>\$ 120,566</u>	<u>\$ 10,731</u>	<u>\$ 468,239</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, 2011**

	Parks & Recreation	Madison Pike TIF	Fire and EMS	Asset Forfeiture	Total Nonmajor Governmental Funds
REVENUES					
Charges for services	\$ 15,144	\$ -	\$ 128,853	\$ -	\$ 143,997
Intergovernmental	-	-	-	-	-
Fines and forfeitures	-	-	-	1,820	1,820
Interest	38	1,722	1,032	67	2,859
Miscellaneous	15,494	-	-	-	15,494
Total revenues	30,676	1,722	129,885	1,887	164,170
EXPENDITURES					
Current:					
General government	-	120	247	172	539
Police	-	-	-	-	-
Fire and EMS	-	-	80,383	-	80,383
Public works	-	-	-	-	-
Parks & recreation	25,001	-	-	-	25,001
Capital outlay	-	-	19,398	5,540	24,938
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	25,001	120	100,028	5,712	130,861
Excess (deficiency) of revenues over (under) expenditures	5,675	1,602	29,857	(3,825)	33,309
OTHER FINANCING SOURCES (USES)					
Transfers in	25,000	47,500	-	-	72,500
Transfers out	-	-	(60,000)	-	(60,000)
Total other financing sources and (uses)	25,000	47,500	(60,000)	-	12,500
Net change in fund balances	30,675	49,102	(30,143)	(3,825)	45,809
Fund balances - beginning	20,332	234,448	147,882	9,016	411,678
Fund balances - ending	\$ 51,007	\$ 283,550	\$ 117,739	\$ 5,191	\$ 457,487



**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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 8, 2011. 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'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'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.

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Compliance and Other Matters

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

This report is intended solely for the information and use of the finance committee, management, other 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

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

**Ft. Wright, Kentucky
December 8, 2011**

