

City of Fort Wright, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2016

	General Fund	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 4,409,736	\$ 819,971	\$ 886,114	\$ 6,115,821
Receivables:				
Taxes	570,182			570,182
Intergovernmental	4,095	13,043		17,138
Accounts			9,246	9,246
Total assets	<u>\$ 4,984,013</u>	<u>\$ 833,014</u>	<u>\$ 895,360</u>	<u>\$ 6,712,387</u>
Liabilities:				
Accounts payable	\$ 42,721	\$ 6,231	\$ 2,252	\$ 51,204
Payroll liabilities	74,201			74,201
Escrow		17,150		17,150
Total liabilities	<u>116,922</u>	<u>23,381</u>	<u>2,252</u>	<u>142,555</u>
Fund balances:				
Restricted		809,633		809,633
Committed			526,069	526,069
Assigned			367,039	367,039
Unassigned	4,867,091			4,867,091
Total fund balances	<u>4,867,091</u>	<u>809,633</u>	<u>893,108</u>	<u>6,569,832</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,984,013</u>	<u>\$ 833,014</u>	<u>\$ 895,360</u>	<u>\$ 6,712,387</u>

City of Fort Wright, Kentucky
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2016

Total governmental fund balances	\$ 6,569,832
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.	7,298,905
Some assets are not currently available and are therefore not reported in the funds	812,784
Deferred inflows related to pension	(97,673)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(71,412)
Net pension liability	<u>(3,745,670)</u>
Net position of governmental activities	<u><u>\$ 10,766,766</u></u>

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Subject to Change

City of Fort Wright, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,727,424	\$	\$	\$ 1,727,424
Licenses and permits	2,430,005			2,430,005
Intergovernmental	137,450	124,886		262,336
Charges for services	22,379		163,201	185,580
Waste fees	321,930			321,930
Fines and forfeitures	14,582			14,582
Interest income	14,399	2,459	2,902	19,760
Other revenue	67,111		27	67,138
Total revenues	4,735,280	127,345	166,130	5,028,755
Expenditures				
Current				
General government	407,560		24	407,584
Public safety - police	1,141,123		2,185	1,143,308
Public safety - fire	907,540		10,833	918,373
Public works	346,694	156,902		503,596
Waste fees	311,938			311,938
Parks and recreation	102,438		42,395	144,833
Capital outlay	106,290	359,368		465,658
Total expenditures	3,323,583	516,270	55,437	3,895,290
Excess (deficiency) of revenues over expenditures	1,411,697	(388,925)	110,693	1,133,465
Other financing sources (uses):				
Transfers in	60,000	500,000	47,500	607,500
Transfers out	(547,500)		(60,000)	(607,500)
Total other financing sources (uses)	(487,500)	500,000	(12,500)	0
Net change in fund balances	924,197	111,075	98,193	1,133,465
Fund balances - beginning	3,942,894	698,558	794,895	5,436,347
Fund balances - ending	\$ 4,867,091	\$ 809,633	\$ 893,088	\$ 6,569,812

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, 2016

Net change in fund balances - total governmental funds \$ 1,133,465

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

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated
over their estimated useful lives and reported as depreciation expense.

Capital outlay	563,295
Depreciation expense	(744,236)

Expenses reported in the statement of activities that do not require
current financial resources are not reported as expenses in the funds

Compensated absences	1,022
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Governmental funds report pension contribution as expenditures.
However, in the statement of activities, the cost of pension
benefits earned is reported as pension expense

(259,576)

Change in net position of governmental activities

\$ 693,970

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Subject to Change

NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of the City of Fort Wright, Kentucky (City) designate the purpose, function and restrictions of the various funds.

A. The Reporting Entity

The City operates under a City Council government comprised of the Mayor and six council members. The financial statements of the City include all of the funds for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government.

The statement of net position presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows, liabilities, and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky.

Municipal Road Aid Fund – The municipal road aid fund accounts for the allocation of funds from the Commonwealth of Kentucky as provided in KRS 174 for design, right-of-way acquisitions, utilities, construction, and other municipal road aid expenditures.

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government – wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, and grants. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, for which the City must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the City on a reimbursement basis.

On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: state-levied locally shared taxes.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future operating period.

Taxes and assessments not received within the available period are recorded as deferred inflows in the governmental fund financial statements.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

F. Budgetary Data

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

- 1) In accordance with City code, prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- 4) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.

6) The City 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 City Council.

G. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date of ninety days or less.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. The City’s infrastructure consists of sidewalks, streets, and traffic signals. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset’s life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City’s historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful:

Description	Estimated Lives
Buildings	40 Years
Infrastructure	25 Years
General equipment	5 – 10 Years

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

J. Interfund Balances

On the fund financial statements, unpaid amounts for interfund services are reported as “due from/to other funds”. These amounts are eliminated in the statement of net position.

K. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then

unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

M. Use of Estimates

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

N. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

P. Subsequent Events

The City evaluated subsequent events for potential recognition and disclosure through November 3, 2016, the date the financial statements were available to be issued

NOTE 2 – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the City’s total cash and cash equivalents was \$6,148,029 which was covered by Federal Deposit Insurance Corporation (FDIC) and by collateral agreements and collateral held by the pledging bank’s trust department in the City’s name.

Cash and cash equivalents at June 30, 2016 consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
General Fund	\$ 4,409,736	\$ 4,427,627
Municipal Road Aid Fund	819,971	829,471
Parks And Recreation Fund	38,429	40,006
Madison Pike TIF Fund	526,069	526,069
Fire and EMS Fund	319,634	320,713
Asset Forfeiture Fund	1,982	4,143
	<u>\$ 6,115,821</u>	<u>\$ 6,148,029</u>

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 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, 2016, all the City’s deposits are insured by the FDIC or covered by security pledges.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 is summarized below:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
Governmental Activities				
Land	\$ 1,523,000	\$ 0	\$ 0	\$ 1,523,000
Buildings	1,485,754	0	0	1,485,754
Infrastructure/Improvements	22,747,984	456,895	0	23,204,879
Vehicles	1,310,384	86,290	0	1,396,674
Equipment	1,169,229	20,000	0	1,189,229
Total capital assets	<u>28,236,351</u>	<u>563,185</u>	<u>0</u>	<u>28,799,536</u>
Less accumulated depreciation				
Buildings	928,384	43,500	0	971,884
Infrastructure/Improvements	17,823,469	543,285	0	18,366,754
Vehicles	1,142,172	58,670	0	1,200,842
Equipment	876,565	84,586	0	961,151
Total accumulated depreciation	<u>20,770,590</u>	<u>730,041</u>	<u>0</u>	<u>21,500,631</u>
Net governmental capital assets	<u>\$ 7,465,761</u>	<u>\$ (166,856)</u>	<u>\$ 0</u>	<u>\$ 7,298,905</u>

NOTE 4 - COMPENSATED ABSENCES

City employees earn vacation time based on length of service. Employees cannot opt for cash in lieu of time off. Employees also accrue sick days based on length of service. Sick days are not paid out at retirement or termination. At June 30, 2016, accrued compensated absences is \$71,412.

NOTE 5 – CONTINGENCIES

The City is party to various legal proceedings which normally occur in governmental operations. It is neither possible to determine the outcome of these proceedings nor possible to estimate the effects adverse decisions may have on the future expenditures or revenue sources of the City. In the opinion of City management, these legal proceedings are not likely to have a material adverse impact on the accompanying financial statements. Therefore, no provision for any liability that may result upon adjudication of this and similar cases has been made in the accompanying financial statements

NOTE 6 – 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. 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.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2016, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE 7 – THE COUNTY EMPLOYEES' RETIREMENT SYSTEM

Plan description – The City contributes to the Commonwealth of Kentucky's County Employees' Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. CERS is a cost-sharing multi-employer public employee retirement system which covers substantially all regular full-time employees of each county and school board and any additional eligible local agencies electing to participate in the System. CERS provides for retirement, disability and death benefits.

Contributions – Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The Government's contribution rate for nonhazardous employees was 17.67 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The Government's contribution rate for hazardous employees was 34.31 percent.

Benefits provided—Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of

87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 2, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

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

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability that was associated with the City were as follows:

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

City's proportionate share of the CERS net pension liability	\$	3,745,760
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The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the City's proportion was .003329% percent.

For the year ended June 30, 2016, the City recognized pension expense of \$713,046 related to CERS. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 73,461	\$ 0
Changes of assumptions	332,176	0
Net difference between projected and actual earnings on pension plan investments	25,102	0
Changes in proportion and differences between City contributions and proportionate share of contributions	0	97,763
City contributions subsequent to the measurement date	382,045	0
	<u>\$ 812,784</u>	<u>\$ 97,763</u>

\$382,045 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense over time.

Actuarial assumptions—The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>
Inflation	3.25%
Projected salary increases	
Investment returns, net of investment expense & inflation	4.00% 7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to

change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (I calculated the amounts in this schedule:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
City's proportionate share of net pension liability	\$ 3,246,247	\$ 3,745,670	\$ 4,245,093

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

City of Fort Wright, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance
Fund balance - beginning	\$ 3,491,751	\$ 3,942,894	\$ 3,942,894	\$ -
Revenues				
Taxes	1,523,000	1,523,000	1,727,424	204,424
Licenses and permits	2,087,000	2,087,000	2,430,005	343,005
Fines and forfeitures	9,100	9,100	14,582	5,482
Intergovernmental	82,150	82,150	137,450	55,300
Charges for services	374,142	374,142	344,309	
Other revenue	30,150	30,150	81,510	51,360
Transfers in	60,000	60,000	60,000	-
Total revenues	<u>4,165,542</u>	<u>4,165,542</u>	<u>4,795,280</u>	<u>659,571</u>
Total resources	<u>7,657,293</u>	<u>8,108,436</u>	<u>8,738,174</u>	<u>659,571</u>
Expenditures				
General government	391,175	425,000	407,560	17,440
Police	1,520,250	1,520,250	1,141,123	379,127
Fire	1,015,800	1,015,800	907,540	108,260
Public works	725,065	725,065	658,632	66,433
Plant/community projects	133,800	133,800	102,438	31,362
Capital outlay	147,500	147,500	106,290	41,210
Transfers out	547,500	547,500	547,500	-
Total expenditures	<u>4,481,090</u>	<u>4,514,915</u>	<u>3,871,083</u>	<u>643,832</u>
Fund balance - ending	<u>\$ 3,176,203</u>	<u>\$ 3,593,521</u>	<u>\$ 4,867,091</u>	

The budgetary basis is the same as GAAP.

City of Fort Wright, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Municipal Road Aid Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance
Fund balance - beginning	\$ 452,693	\$ 698,558	\$ 698,558	\$
Revenues				
Intergovernmental revenues	90,000	90,000	124,886	34,886
Interest	2,000	2,000	2,459	459
Transfers in	500,000	500,000	500,000	-
Total revenues	<u>592,000</u>	<u>592,000</u>	<u>627,345</u>	<u>35,345</u>
Total resources	<u>1,044,693</u>	<u>1,290,558</u>	<u>1,325,903</u>	35,345
Expenditures				
Administration	180	180		180
Public works	628,460	628,460	156,902	471,558
Capital outlay			359,368	(359,368)
Total expenditures	<u>628,640</u>	<u>628,640</u>	<u>516,270</u>	<u>112,370</u>
Fund balance - ending	<u>\$ 416,053</u>	<u>\$ 661,918</u>	<u>\$ 809,633</u>	

The budgetary basis is the same as GAAP.

City of Fort Wright, Kentucky
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2016

	Parks and Recreation Fund	Madison Pike TIF Fund	Fire and EMS Fund	Asset Forfeiture Fund	Total Nonmajor Governmental Funds
Assets:					
Cash and cash equivalents	\$ 38,429	526,069	319,634	1,982	\$ 886,114
Receivables:					
Accounts			9,246		9,246
Total assets	\$ 38,429	\$ 526,069	\$ 328,880	\$ 1,982	\$ 895,360
Liabilities:					
Accounts payable	\$ 1,832		\$ 420		\$ 2,252
Total liabilities	1,832	-	420	-	2,252
Fund balances:					
Restricted					-
Committed		526,069			526,069
Assigned	36,597		328,460	1,982	367,039
Unassigned					-
Total fund balances	36,597	526,069	328,460	1,982	893,108
Total liabilities and fund balances	\$ 38,429	\$ 526,069	\$ 328,880	\$ 1,982	\$ 895,360

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City of Fort Wright, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016

	Parks and Recreation Fund	Madison Pike TIF Fund	Fire and EMS Fund	Asset Forfeiture Fund	Total Nonmajor Governmental Funds
Revenues					
Charges for services	\$ 29,396		\$ 133,805		\$ 163,201
Interest income	144	1,748	996	14	2,902
Other revenue				27	27
Total revenues	29,540	1,748	134,801	41	166,130
Expenditures					
Current					
General government		24			24
Public safety - police				2,185	2,185
Public safety - fire			10,833		10,833
Parks and recreation	42,395				42,395
Total expenditures	42,395	24	10,833	2,185	55,437
Excess (deficiency) of revenues over expenditures	(12,855)	1,724	123,968	(2,144)	110,693
Other financing sources (uses):					
Transfers in		47,500	0		47,500
Transfers out		0	(60,000)		(60,000)
Total other financing sources (uses)		47,500	(60,000)		(12,500)
Net change in fund balances	(12,855)	49,224	63,968	(2,144)	98,193
Fund balances - beginning	49,432	476,845	264,492	4,126	794,895
Fund balances - ending	\$ 36,577	\$ 526,069	\$ 328,460	\$ 1,982	\$ 893,088

City of Fort Wright, Kentucky
 Schedule of City's Proportionate Share of the Net Pension Liability
 County Employees Retirement System
 Year Ended June 30, 2016

	<u>June 30</u> <u>2014</u>	<u>June 30</u> <u>2015</u>
Non-hazardous:		
City's proportion of the net pension liability	0.014%	0.038%
City's proportionate share of the net pension liability	\$ 452,000	\$ 588,586
City's covered employee payroll	\$ 319,456	\$ 347,193
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.49%	169.53%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%
Hazardous:		
City's proportion of the net pension liability	0.214%	0.205%
City's proportionate share of the net pension liability	\$ 2,577,000	\$ 3,157,084
City's covered employee payroll	\$ 1,086,996	\$ 1,117,628
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	237.08%	282.48%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	57.52%

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City of Fort Wright, Kentucky
 Schedule of City Contributions
 County Employees Retirement System
 Year Ended June 30, 2016

	<u>2015</u>	<u>2016</u>
Non-hazardous:		
Contractually required contribution	\$ 61,349	\$ 46,105
Contributions in relation to the contractually required contribution	<u>61,349</u>	<u>46,105</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 347,193	\$ 270,252
Contributions as a percentage of covered-employee payroll	17.67%	17.06%
Hazardous		
Contractually required contribution	\$ 438,978	\$ 335,940
Contributions in relation to the contractually required contribution	<u>438,978</u>	<u>335,940</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,117,628	\$ 1,081,584
Contributions as a percentage of covered-employee payroll	39.28%	31.06%

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City of Fort Wright, Kentucky
Notes to Required Supplementary Information
County Employees Retirement System
Year Ended June 30, 2016

Changes of benefit terms - There have been no changes in benefit terms during the period covered by the required supplementary information (2015).

Changes of assumptions - There have been no changes of assumptions during the period covered by the required supplementary information (2015).

Period covered by the required supplementary information - GASB Statement No. 68, Accounting and Financial Reporting for Pension, an Amendment of GASB Statement No. 27 requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The City has only been provided this information for two fiscal years and will expand this supplementary information in future financial statements to cover additional periods as they become available.

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

Honorable Mayor
Members of the City Council
City of Fort Wright, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Fort Wright, Kentucky (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maddox & Associates CPAs Inc.

December 12, 2016

Fort Thomas, Kentucky

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