

CITY OF ALEXANDRIA, KENTUCKY

June 30, 2015

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*



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**CITY OF ALEXANDRIA, KENTUCKY
CITY OFFICIALS**

MAYOR

William T. Rachford, Jr.

COUNCIL MEMBERS

Stacey Graus

Scott Fleckinger

Sandy Decker

Andrew Schabell

Robert Simon

Sue Neltner

DEPARTMENT HEADS

City Clerk/Treasurer

Karen Barto

City Attorney

Michael A. Duncan

Zoning Administrator

Carol Hofstetter

Public Works Superintendent

Sam Trapp

Chief of Police

J. Michael Ward II

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of City Council
City of Alexandria, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Alexandria, Kentucky (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Alexandria, Kentucky, as of June 30, 2015, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 1 through 7 and 30 through 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 15, 2015, on our consideration of the City of Alexandria, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Alexandria, Kentucky's internal control over financial reporting and compliance.

VonLehman & Company Inc.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

Our discussion and analysis of the City of Alexandria, Kentucky's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's basic financial statements that begin on page 8.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 8 and 9) provide information about the activities of the City as a whole, and present a fair view of the City's finances. Fund financial statements start on page 10. For government activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2015 are as follows:

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,408,256 (net position).
- The City's total net position decreased by \$301,110.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$2,193,824, a decrease of \$90,841. \$1,675,475 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,675,475 (40%) of the total general fund expenditures.
- The City's total debt decreased by \$86,268 (8%), including compensated absences, during the current year.
- The City's cash and cash equivalents decreased by \$105,086, from \$1,849,517 at June 30, 2014 to \$1,744,431 at June 30, 2015.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police, fire, public works, parks and recreation. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 29 of this report.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Government-Wide Financial Analysis

The perspective of the statement of net position is of the City as a whole. Table 1 provides a summary of the City's net position for 2015 compared to 2014:

**Table 1
Net Position**

	Governmental Activities	
	2015	2014 (As Restated)
Assets		
Current and Other Assets	\$ 2,405,037	\$ 2,446,214
Noncurrent Assets, Net	4,795,952	4,851,647
Total Assets	<u>7,200,989</u>	<u>7,297,861</u>
Deferred Outflows of Resources	<u>365,683</u>	<u>380,438</u>
Liabilities		
Current and Other Liabilities	247,072	192,264
Noncurrent Liabilities	3,633,720	3,776,669
Total Liabilities	<u>3,880,792</u>	<u>3,968,933</u>
Deferred Inflows of Resources	<u>277,624</u>	<u>-</u>
Net Position		
Invested in Capital Assets Net of Related Debt	4,226,759	4,197,241
Restricted for		
Municipal Road Aid	245,863	260,811
Charlie Battery	4,203	5,015
Sewer Fund	138,036	136,597
Unrestricted	<u>(1,206,605)</u>	<u>(890,298)</u>
Total Net Position	<u>\$ 3,408,256</u>	<u>\$ 3,709,366</u>

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$3.4 million as of June 30, 2015.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, vehicles, equipment, and furniture and fixtures); less any related debt used to acquire those assets that are still outstanding. These assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Total assets decreased by approximately \$97,000. Equity in cash and cash equivalents, prepaid expenses, and receivables decreased by approximately \$41,000. Capital assets and noncurrent receivables decreased by approximately \$56,000. Deferred outflows of resources decreased by approximately \$15,000. This activity is partially offset by an increase in accounts payable and other liabilities of approximately \$55,000, and a decrease in long-term liabilities and compensated absences of approximately \$143,000. Additionally, deferred inflows of resources increased by approximately \$278,000. This resulted in a decrease in net position of approximately \$301,000.

Table 2 reflects the change in net position for fiscal year 2015. Pension expense has not been reallocated for the comparison below.

**Table 2
Change in Net Position**

	Governmental Activities	
	Years Ended June 30,	
	2015	2014
		(As Restated)
Revenues		
General Revenues		
Taxes	\$ 3,308,655	\$ 3,213,766
Licenses and Permits	121,439	52,451
Fines and Forfeitures	20,194	48,703
Earnings on Investments	4,923	8,714
Gain on Sale of Capital Assets	16,208	10,299
Miscellaneous	56,625	35,289
Total General Revenues	<u>3,528,044</u>	<u>3,369,222</u>
Program Revenues		
Charges for Service	538,627	529,175
Operating Grants and Contributions	84,179	61,323
Capital Grants and Contributions	194,865	196,156
Total Program Revenues	<u>817,671</u>	<u>786,654</u>
Total Revenues	<u>4,345,715</u>	<u>4,155,876</u>
Program Expenses		
General Government	764,288	757,536
Police	1,501,850	1,444,458
Public Works	1,007,462	814,581
Waste Collection	521,874	453,698
Planning and Inspection	33,878	36,881
Park and Recreation	17,643	14,165
Miscellaneous	1,687	2,417
Interest on Long-Term Debt	5,564	5,838
Pension Expense	593,349	-
Depreciation	199,230	214,703
Total Program Expenses	<u>4,646,825</u>	<u>3,744,277</u>
(Decrease) Increase in Net Position	\$ <u>(301,110)</u>	\$ <u>411,599</u>

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of approximately \$4.4 million, and expenditures and other financing uses of approximately \$4.5 million. Revenues increased by 4.7%, while expenses increased by 11.1%. The increase in expenses is largely due to public works.

General Fund Budgeting Highlights

The City's budget is prepared according to City Charter and is based on accounting for certain transactions on the modified accrual basis of accounting. The beginning fund balance for the fiscal year was approximately \$1.8 million.

For the general fund, budgeted revenues and other financing sources were budgeted at \$4.0 million. Actual revenues and other financing sources were approximately \$4.2 million.

Expenditures and other financing uses were budgeted at approximately \$4.4 million, while actual expenditures and other financing uses were approximately \$4.2 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the City had approximately \$4.5 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2015 balances compared to fiscal year 2014.

**Table 3
Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2015	2014
Land	\$ 1,239,000	\$ 1,239,000
Buildings	427,180	442,993
Improvements	125,199	113,415
Infrastructure	2,375,666	2,452,170
Vehicles	188,855	149,908
Equipment	102,441	80,916
Furniture and Fixtures	618	1,072
	<u>\$ 4,458,959</u>	<u>\$ 4,479,474</u>

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The current year capital asset activity included the following activity:

Addition of Improvements	\$	22,559
Addition of Equipment		53,745
Addition of Vehicles		102,411
Disposal of Equipment		(7,660)
Disposal of Vehicles		(66,718)
Accumulated Depreciation on Disposal of Equipment		7,660
Accumulated Depreciation on Disposal of Vehicles		66,718
Depreciation		<u>(199,230)</u>
Change	\$	<u><u>(20,515)</u></u>

Debt

At June 30, 2015, the City had approximately \$617,000 in outstanding notes payable and capital lease obligations.

The following is a summary of the City's debt transactions during 2015.

	June 30, 2014	Additions	Repayments	June 30, 2015
Notes Payable Obligations	\$ 675,054	\$ -	\$ 73,924	\$ 601,130
Capital Lease Obligations	<u>31,684</u>	<u>-</u>	<u>15,589</u>	<u>16,095</u>
	<u>\$ 706,738</u>	<u>\$ -</u>	<u>\$ 89,513</u>	<u>\$ 617,225</u>

Economic Factors in Next Year's Budget

The City remains in a solid financial position and is beginning to see a positive turn in the economic conditions for Alexandria.

The economic conditions these last few years have taken its toll on Alexandria properties, as the City has seen a number of foreclosures and bankruptcies. However, that said, the current delinquencies are less than 0.02% overall.

From fiscal year 2014-2015, the City's total revenue continues to suffer slightly due to economic conditions, but is still consistent with last year, and is expected to increase with anticipated growth.

For the 2015 fiscal year, the property tax rate will decrease slightly to 0.175% per \$100 of valuation. With little change in assessment, the City can expect approximately the same revenue as last year. The City will continue to monitor the budget and follow safe planning and management for the 2015-2016 fiscal year.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

As the City manages the budget for the upcoming year, there is the realization that some items will increase in cost. The City has only two available options: either increase revenues to keep up with normal cost increases; or reduce expenditures in other areas to the degree sufficient to cover mandatory expenditures. Due to the significant efforts to reduce expenses over the past several years, it appears highly unlikely the City will be able to continue to find areas to offset mandatory expenditure increases. Therefore, the City will have to revisit revenue policies, consider reduction of some of the City services or expectations for growth in the reserves. As the City grows in population, the City will need to constantly keep expenses controlled while looking for revenue sources that make sense in order to be responsible to the citizens' needs and wants.

As in previous years, the regular maintenance, upkeep and reconstruction of the City's streets will continue to be a major focus of the City's budget. In fiscal year 2015-2016, the City will spend approximately \$800,000 (using municipal road aid funds and budgeted funds) to totally reconstruct Shaw and Sheridan Drives (including sidewalks). This is combining two years of major street work into one fiscal year. This will save the City overall on these two streets due to their proximity to each other. To accommodate potential cash flow shortages, the City executed a \$500,000 bank lease. The City also changed its policy so the City will be responsible for sidewalk maintenance and repair, rather than the property owner.

The City continues to see new businesses locate in Alexandria. The City is poised for growth and positioned well for the growth that will occur as soon as the economy continues to turn around. The Arcadia Development is well underway, and will be a significant growth element for the City as the 1,000 plus homes are constructed. Additionally, the Breathitt Ridge development on Poplar Ridge has begun and the former Thriftway building will be soon occupied by The Bridge (church). The Baptist Life Community is planning a groundbreaking and will begin construction before year end. The City has initiated a Main Street Revitalization effort that is beginning to take shape with participation from state, county, and city governments along with the property owners.

The City created a new, full-time position of Recreation Director to increase the City's programs for citizens, youth, and seniors. The City continues to support "VIPS in Schools" program and are one of the first Northern Kentucky cities to purchase body worn cameras for police officers.

Contacting the City's Financial Management

This financial report is designed to provide the City's citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Karen Barto at the City of Alexandria, 8236 West Main Street, Alexandria, Kentucky 41001.

**CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 1,744,431
Accounts Receivable	
Property Taxes	15,765
Insurance Taxes	277,842
Payroll and Occupational Taxes	294,181
Other Receivables - Current Portion	52,899
Prepaid Expenses	19,919
Total Current Assets	2,405,037
Noncurrent Assets	
Other Receivables	336,993
Capital Assets	
Land	1,239,000
Depreciable Capital Assets	5,421,147
Less Accumulated Depreciation	(2,201,188)
Total Capital Assets	4,458,959
Total Noncurrent Assets	4,795,952
Total Assets	7,200,989
Deferred Outflows of Resources	
Contributions After Measurement Date	365,683
Total Assets and Deferred Outflows of Resources	7,566,672
Liabilities	
Current Liabilities	
Accounts Payable and Accrued Expenses	83,654
Accrued Payroll and Withholdings	81,937
Capital Lease Obligations	16,095
Notes Payable	65,386
Total Current Liabilities	247,072
Noncurrent Liabilities (Less Current Portion)	
Compensated Absences	374,701
Notes Payable	535,744
Net Pension Liability	2,723,275
Total Noncurrent Liabilities	3,633,720
Total Liabilities	3,880,792
Deferred Inflows of Resources	
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	277,624
Net Position	
Invested in Capital Assets, Net of Related Debt	4,226,759
Restricted for	
Municipal Road Aid	245,863
Charlie Battery	4,203
Sewer Fund	138,036
Unrestricted	(1,206,605)
Total Net Position	\$ 3,408,256

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Total Governmental Activities</u>
Primary Government Governmental Activities					
General Government	\$ 764,288	\$ 26,954	\$ 29,582	\$ -	\$ (707,752)
Police	1,501,850	2,455	54,597	-	(1,444,798)
Public Works	1,007,462	-	-	194,865	(812,597)
Waste Collection	521,874	468,360	-	-	(53,514)
Planning and Inspection	33,878	38,928	-	-	5,050
Park and Recreation	17,643	1,930	-	-	(15,713)
Miscellaneous	1,687	-	-	-	(1,687)
Interest on Long-Term Debt	5,564	-	-	-	(5,564)
Pension Expense	593,349	-	-	-	(593,349)
Depreciation	199,230	-	-	-	(199,230)
Total Primary Government	\$ 4,646,825	\$ 538,627	\$ 84,179	\$ 194,865	(3,829,154)
General Revenues					
					3,308,655
					121,439
					20,194
					4,923
					16,208
					56,625
					<u>3,528,044</u>
					(301,110)
					<u>3,709,366</u>
					<u>\$ 3,408,256</u>

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General Fund	Municipal Road Aid Fund	Charlie Battery Fund	Sewer Fund	Total Govern- mental Funds
Assets					
Cash and Cash Equivalents	\$ 1,440,915	\$ 155,949	\$ 4,203	\$ 143,364	\$ 1,744,431
Due (To) From Other Funds	(68,386)	68,386	-	-	-
Accounts Receivable					
Property Taxes	15,765	-	-	-	15,765
Insurance Taxes	277,842	-	-	-	277,842
Payroll and Occupational Taxes	294,181	-	-	-	294,181
Other Receivables	441	22,602	-	366,849	389,892
Prepaid Expenses	19,919	-	-	-	19,919
Total Assets	\$ 1,980,677	\$ 246,937	\$ 4,203	\$ 510,213	\$ 2,742,030
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 82,055	\$ 1,074	\$ -	\$ 525	\$ 83,654
Deferred Revenues	15,765	-	-	366,850	382,615
Other Accrued Expenses	81,937	-	-	-	81,937
Total Liabilities	179,757	1,074	-	367,375	548,206
Fund Balances					
Nonspendable					
Prepaid Expenses	19,919	-	-	-	19,919
Restricted for					
Municipal Road Aid					
Fund Balance	-	245,863	-	-	245,863
Sewer Fund Balance	-	-	-	142,838	142,838
Police Forfeiture Cash	3,621	-	-	-	3,621
Committed for					
Charley Battery Fund Balance					
Planning and Zoning Cash	-	-	4,203	-	4,203
Planning and Zoning Cash	21,474	-	-	-	21,474
Assigned					
Insurance Fund Cash	80,431	-	-	-	80,431
Unassigned	1,675,475	-	-	-	1,675,475
Total Fund Balances	1,800,920	245,863	4,203	142,838	2,193,824
Total Liabilities and Fund Balances	\$ 1,980,677	\$ 246,937	\$ 4,203	\$ 510,213	\$ 2,742,030

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balance - Governmental Funds \$ 2,193,824

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$	6,660,147	
Accumulated Depreciation		<u>(2,201,188)</u>	
			4,458,959

Other assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds.			382,615
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Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds.			(374,701)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Contributions After Measurement Date			365,683
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments			(277,624)

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

Net Pension Liability			(2,723,275)
Capital Lease Obligations			(16,095)
Notes Payable			<u>(601,130)</u>

Net Assets of Governmental Activities in the Statement of Net Position			\$ <u>3,408,256</u>
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See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Charlie Battery Fund</u>	<u>Sewer Fund</u>	<u>Total Govern- mental Funds</u>
Revenues					
Taxes	\$ 3,312,729	\$ -	\$ -	\$ -	\$ 3,312,729
Licenses and Permits	121,439	-	-	-	121,439
Fines and Forfeitures	20,194	-	-	-	20,194
Other Revenue	72,773	-	60	-	72,833
Earnings on Investments	2,067	-	-	5,153	7,220
Intergovernmental Revenue	84,179	194,865	-	-	279,044
Charges for Services	537,313	-	-	43,299	580,612
Total Revenues	<u>4,150,694</u>	<u>194,865</u>	<u>60</u>	<u>48,452</u>	<u>4,394,071</u>
Expenditures					
Current					
General Government	804,522	-	-	-	804,522
Police	1,795,898	-	-	-	1,795,898
Public Works	824,395	209,813	-	-	1,034,208
Waste Collection	521,874	-	-	-	521,874
Planning and Inspection	35,288	-	-	-	35,288
Park and Recreation	17,643	-	-	-	17,643
Miscellaneous	-	-	872	815	1,687
Debt Service					
Principal	50,033	-	-	39,480	89,513
Interest	1,153	-	-	4,411	5,564
Capital Outlay	178,715	-	-	-	178,715
Total Expenditures	<u>4,229,521</u>	<u>209,813</u>	<u>872</u>	<u>44,706</u>	<u>4,484,912</u>
(Deficit) Excess of Revenues Over Expenditures	<u>(78,827)</u>	<u>(14,948)</u>	<u>(812)</u>	<u>3,746</u>	<u>(90,841)</u>
Other Financing Sources (Uses)					
Transfers to Other Funds	-	-	-	(10,878)	(10,878)
Transfers from Other Funds	10,878	-	-	-	10,878
Total Other Financing Sources (Uses)	<u>10,878</u>	<u>-</u>	<u>-</u>	<u>(10,878)</u>	<u>-</u>
Net Change in Fund Balances	<u>(67,949)</u>	<u>(14,948)</u>	<u>(812)</u>	<u>(7,132)</u>	<u>(90,841)</u>
Fund Balance July 1, 2014	<u>1,868,869</u>	<u>260,811</u>	<u>5,015</u>	<u>149,970</u>	<u>2,284,665</u>
Fund Balance June 30, 2015	<u>\$ 1,800,920</u>	<u>\$ 245,863</u>	<u>\$ 4,203</u>	<u>\$ 142,838</u>	<u>\$ 2,193,824</u>

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Change in Fund Balances - Total Governmental Funds \$ (90,841)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceed capital outlays in the period.

Depreciation Expense	\$	(199,230)	
Capital Outlays		<u>178,715</u>	(20,515)

Repayment of note payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			89,513
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Compensated absences not expected to be paid within the next fiscal year are not reported as liabilities in the fund, but are reported as liabilities in the statement of net position. This is the net change in compensated absences for the year.			(3,245)
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Governmental funds report City pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

City Pension Contributions - June 30, 2015			365,683
City Pension Contributions - June 30, 2014			(380,438)
Cost of Benefits Earned Net of Employee Contributions			(212,911)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.			<u>(48,356)</u>
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Change in Net Position - Governmental Activities	\$		<u><u>(301,110)</u></u>
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See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

Kentucky Revised Statutes and Ordinances of the City Council of the City of Alexandria, Kentucky (the City) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General Fund, the Municipal Road Aid Fund, the Charlie Battery Fund, and the Sewer Fund.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Alexandria, Kentucky.

The City of Alexandria, Kentucky is a charter city, in which citizens elect the mayor at large and six council members. The accompanying financial statements present the City's primary government. Component units are those over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City has no component units.

Basis of Presentation

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 statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no business-type activities.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements; therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

The government-wide 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 - Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds, rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the changes in net total position. Fiduciary funds are reported using the economic resources measurement focus.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Basis of Presentation (Continued)**

The City has the following funds:

Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the City.
- (B) The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. These are major funds of the City. The City has two special revenue funds; Municipal Road Aid Fund and Charlie Battery Fund.
- (C) The Debt Service Fund is used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt. This is a major fund of the City. The City has one debt service fund; Sewer Fund.

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.

Revenues - Exchange and Non-Exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and 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 sixty days of the fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations 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, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

General capital assets are assets that 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

Description	Governmental Activities Estimated Lives
Buildings	40 Years
Building Improvements	20 Years
Public Domain Infrastructure	25 Years
Vehicles	7 Years
Machinery and Equipment	5 Years
Furniture and Fixtures	5 Years

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements, only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Governmental Fund Balances

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

- Non-Spendable – Amounts that cannot be spent, either because they are in a non-spendable form, or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance, or resolution.
- Assigned – Amounts that are designated by the Mayor for a particular purpose, but are not spendable until a budget ordinance is passed, or there is a majority vote approval (for capital projects or debt service) by City Council.
- Unassigned – All amounts not included in other spendable classifications.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Governmental Fund Balances (Continued)**

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

The net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is a liability for unpaid accumulated sick and vacation leave since the City does have a policy to pay specified amounts when employees separate from service with the City. All sick and 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes include amounts levied on real property. Property values were assessed on January 1st and property taxes were due on October 31st.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

- a) In accordance with City ordinance, by May 31, the Mayor submits to the City 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 comments.
- 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. The Council adopted two supplementary appropriation ordinances. All appropriations lapse at fiscal year end.

NOTE 3 - DEPOSITS AND INVESTMENTS

It is the policy of the City to invest public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City, and conforming to all state statutes and City regulations governing the investments of public funds.

The City is authorized to invest in:

- a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, or a United States government agency.
- c) Obligations of any corporation of the United States government.
- d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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 FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2015, \$250,000 of the City's deposits were covered by FDIC insurance and the remaining balance was collateralized with securities held by the financial institutions on the City's behalf.

NOTE 4 - CAPITAL ASSETS

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

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,239,000	\$ -	\$ -	\$ 1,239,000
Depreciable Capital Assets				
Buildings	632,530	-	-	632,530
Improvements	234,695	22,559	-	257,254
Infrastructure	3,060,144	-	-	3,060,144
Vehicles	622,011	102,411	(66,718)	657,704
Equipment	726,402	53,745	(7,660)	772,487
Furniture and Fixtures	41,028	-	-	41,028
Total Depreciable Capital Assets	<u>5,316,810</u>	<u>178,715</u>	<u>(74,378)</u>	<u>5,421,147</u>
Total Capital Assets at Historical Cost	<u>6,555,810</u>	<u>178,715</u>	<u>(74,378)</u>	<u>6,660,147</u>
Less Accumulated Depreciation				
Buildings	189,537	15,813	-	205,350
Improvements	121,280	10,775	-	132,055
Infrastructure	607,974	76,504	-	684,478
Vehicles	472,103	63,464	(66,718)	468,849
Equipment	645,486	32,220	(7,660)	670,046
Furniture and Fixtures	39,956	454	-	40,410
Total Accumulated Depreciation	<u>2,076,336</u>	<u>199,230</u>	<u>(74,378)</u>	<u>2,201,188</u>
Depreciable Capital Assets, Net	<u>3,240,474</u>	<u>(20,515)</u>	<u>-</u>	<u>3,219,959</u>
Governmental Activities Capital Assets - Net	<u>\$ 4,479,474</u>	<u>\$ (20,515)</u>	<u>\$ -</u>	<u>\$ 4,458,959</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 - LONG-TERM DEBT

Capital Lease Obligations

The City has capital lease obligations for vehicles with maturities through July, 2015 at interest rates of 3.2%. Depreciation expense for vehicles under capital lease obligations was \$10,954 and \$18,256 for 2015 and 2014, respectively. The following is a summary of property held under capital lease obligations at cost less accumulated depreciation:

	June 30,	
	2015	2014
Vehicles	\$ 48,042	\$ 48,042
Less Accumulated Depreciation	<u>31,612</u>	<u>20,658</u>
	<u>\$ 16,430</u>	<u>\$ 27,384</u>

Future minimum payments under the capital lease obligations for the remainder of the leases are as follows:

Years Ending June 30,	
2016	\$ 16,618
Less Amounts Representing Interest	<u>523</u>
Net Capital Lease Obligations	16,095
Current Capital Lease Obligations	<u>16,095</u>
Long-Term Capital Lease Obligations	<u>\$ -</u>

Notes Payable

Kentucky League of Cities Note Payable

In July of 2004, the City entered into a note with the Kentucky League of Cities for the purchase of the city building for \$700,000 at an interest rate of 3.0%, maturing in April, 2021.

The Kentucky League of Cities note is scheduled to mature as follows:

Years	Principal Amount	Interest Amount	Fees Amount	Total Debt Service
2016	\$ 35,307	\$ 4,008	\$ 3,353	\$ 42,668
2017	36,191	3,280	2,776	42,247
2018	37,098	2,554	2,186	41,838
2019	38,027	1,804	1,580	41,411
2020	38,980	1,036	960	40,976
2021	<u>30,502</u>	<u>260</u>	<u>316</u>	<u>31,078</u>
Total	<u>\$ 216,105</u>	<u>\$ 12,942</u>	<u>\$ 11,171</u>	<u>\$ 240,218</u>

NOTE 5 - LONG-TERM DEBT (Continued)

Kentucky Infrastructure Authority Loan F05-03

In June, 2007, the City entered into an agreement with the Kentucky Infrastructure Authority (KIA) for the improvement of the sewer lines on Viewpoint Drive. The full amount of allowable funds is \$426,220 at an interest rate of 1.0%, maturing in December, 2026. As of December 31, 2010, all funds had been received. This note will be repaid over a period of 20 years, with payments due on the first of both December and June of each year. The note will be repaid with funds collected from residents of Viewpoint Drive. These funds will be collected by the Sanitation District Number 1 of Northern Kentucky as an additional surcharge on owners' quarterly sewer sanitation bills, and remitted to the City quarterly.

The Kentucky Infrastructure Authority Loan F05-03 is scheduled to mature as follows:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Fees Amount</u>	<u>Total Debt Service</u>
2016	\$ 21,065	\$ 2,502	\$ 500	\$ 24,067
2017	21,276	2,290	458	24,024
2018	21,489	2,077	415	23,981
2019	21,705	1,862	372	23,939
2020	21,922	1,644	329	23,895
2021 - 2025	112,951	4,879	976	118,806
2026 - 2027	<u>34,997</u>	<u>351</u>	<u>70</u>	<u>35,418</u>
Total	<u>\$ 255,405</u>	<u>\$ 15,605</u>	<u>\$ 3,120</u>	<u>\$ 274,130</u>

Kentucky Infrastructure Authority Loan F07-05

In June, 2009, the City entered into an agreement with the Kentucky Infrastructure Authority (KIA) for the improvement of the sewer lines on Douglas James Drive. The full amount of allowable funds is \$186,073 at an interest rate of 1.0%, maturing in December, 2028. As of December 31, 2010, all funds had been received. This note will be repaid over a period of 20 years, with payments due on the first of both December and June of each year. The note will be repaid with funds collected from residents of Douglas James Drive. These funds will be collected by the Sanitation District Number 1 of Northern Kentucky as an additional surcharge on owners' quarterly sewer sanitation bills, and remitted to the City quarterly.

The Kentucky Infrastructure Authority Loan F07-05 is scheduled to mature as follows:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Fees Amount</u>	<u>Total Debt Service</u>
2016	\$ 9,014	\$ 1,274	\$ 255	\$ 10,543
2017	9,105	1,183	237	10,525
2018	9,196	1,092	218	10,506
2019	9,288	1,000	200	10,488
2020	9,381	907	181	10,469
2021 - 2025	48,337	3,104	621	52,062
2026 - 2029	<u>35,299</u>	<u>710</u>	<u>142</u>	<u>36,151</u>
Total	<u>\$ 129,620</u>	<u>\$ 9,270</u>	<u>\$ 1,854</u>	<u>\$ 140,744</u>

NOTE 5 - LONG-TERM DEBT (Continued)

The total of the City's notes payable is scheduled to mature as follows:

<u>Years</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Fees Amount</u>	<u>Total Debt Service</u>
2015	\$ 65,386	\$ 7,784	\$ 4,108	\$ 77,278
2016	66,572	6,753	3,471	76,796
2017	67,783	5,723	2,819	76,325
2018	69,020	4,666	2,152	75,838
2019	70,283	3,587	1,470	75,340
2021 - 2025	191,790	8,243	1,913	201,946
2026 - 2029	<u>70,296</u>	<u>1,061</u>	<u>212</u>	<u>71,569</u>
Total	\$ <u>601,130</u>	\$ <u>37,817</u>	\$ <u>16,145</u>	\$ <u>655,092</u>

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2015.

<u>Governmental Activities</u>	<u>Debt Outstanding June 30, 2014</u>	<u>Additions of New Debt</u>	<u>Retirements and Repayments</u>	<u>Debt Outstanding June 30, 2015</u>	<u>Amounts Due Within 1 Year</u>
Compensated Absences	\$ 371,456	\$ 3,245	\$ -	\$ 374,701	\$ -
Notes Payable	675,054	-	73,924	601,130	65,386
Capital Lease Obligations	<u>31,684</u>	<u>-</u>	<u>15,589</u>	<u>16,095</u>	<u>16,095</u>
	\$ <u>1,078,194</u>	\$ <u>3,245</u>	\$ <u>89,513</u>	\$ <u>991,926</u>	\$ <u>81,481</u>

Lease Line of Credit

The City has entered into a lease line of credit agreement with a financial institution for a construction line of credit not to exceed \$500,000. The draw period beginning in June, 2015 will be for one year with a conversion to a term loan of the outstanding principal amount for a period of six years with a final maturity date in June, 2022. Monthly interest payments at an interest rate of 3.0% will begin upon utilization of the credit and upon conversion to the term loan. Monthly interest and principal payments of \$4,890 will begin and the remaining is due upon maturity. As of June 30, 2015 nothing has been drawn on the line of credit.

Conduit Debt Obligations

The City has issued an Industrial Building Revenue Bond to provide financial assistance to a private-sector entity for the purchase or addition of property including land and a building. The bond is secured by the property financed and is payable solely from the private-sector entity. Neither the City nor any political subdivision thereof, is obligated in any manner for repayment of the bond. Accordingly, the bond is not reported as a liability in the accompanying financial statements. As of June 30, 2015, the outstanding principal on the Industrial Building Revenue Bond is \$2,712,066.

NOTE 6 - PENSION PLAN

General Information about the Pension Plan

Plan description: County Employees Retirement System (CERS) consists of two plans, Nonhazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in nonhazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS.

Benefits provided: These systems provide for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for the next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for the next five years before age 65 or 27 years of service.

Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008

<u>Age</u>	<u>Years of Service</u>	<u>Allowance Reduction</u>
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for the next five years before age 65 or Rule of 87 (age plus years of service).

Benefit Formula

<u>Final Compensation</u>	<u>X</u>	<u>Benefit Factor</u>	<u>X</u>	<u>Years of Service</u>
Average of the five highest if participation began before September 1, 2008.		2.20% if:	Member begins participating prior to August 1, 2004.	Includes earned service, purchased service, prior service, and sick leave (if the member's employer participates in an approved sick leave program).
		2.00% if:	Member begins participating on or after 08/01/2004 and before September 1, 2008.	
Average of the last complete five if participation began on or after September 1, 2008.		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after September 1, 2008.	

* **Service (and Benefit Factor): 10 years or less (1.10%); 10 - 20 years (1.30%); 20 - 26 years (1.50%); 26 - 30 years (1.75%)**

NOTE 6 – PENSION PLAN (Continued)

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed at the highest of 20% of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the largest of 20% of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

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. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1st of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

Each system's assets are used only for the payment of benefits to the members of that system, and a pro rata share of administrative costs in accordance with the provisions of Kentucky Revised Statute Section 78.630.

Contributions: For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 5% nonhazardous and 8% hazardous of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section CERS 78.545, normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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 fiscal year ended June 30, 2015, participating employers contributed 17.67% for the nonhazardous system and 34.31% for the hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years were a percentage of each employee's creditable compensation. Contributions to the pension plan from the City were \$365,683 for the year ended June 30, 2015.

NOTE 6 – PENSION PLAN (Continued)

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

At June 30, 2015, the City reported a liability of \$2,723,275 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015, the City's proportion for the nonhazardous system was 0.02% and for the hazardous system was 0.17%.

For the year ended June 30, 2015, the City recognized pension expense of \$593,349. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 277,624
City contributions subsequent to the measurement date	<u>365,683</u>	<u>-</u>
Total	<u>\$ 365,683</u>	<u>\$ 277,624</u>

The \$365,683 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30,</u>	
2016	\$ 55,525
2017	55,525
2018	55,525
2019	55,525
2020	<u>55,525</u>
Total	<u>\$ 277,625</u>

NOTE 6 – PENSION PLAN (Continued)

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

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year Smoothed market
Inflation	3.50%
Salary Increase	4.5%, Average, including inflation
Investment Rate of Return	7.75% Net of pension plan investment expense, including inflation

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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, at 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.

NOTE 6 – PENSION PLAN (Continued)

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

Asset Class	Target Allocation	Long Term Expected Nominal Return
Domestic Equity	30.00 %	8.45 %
International Equity	22.00	8.85
Emerging Market Equity	5.00	10.50
Private Equity	7.00	11.25
Real Estate	5.00	7.00
Core U.S. Fixed Income	10.00	5.25
High Yield U.S. Fixed Income	5.00	7.25
Non U.S. Fixed Income	5.00	5.50
Commodities	5.00	7.75
TIPS	5.00	5.00
Cash	1.00	3.25
Total	<u>100.00 %</u>	

Discount rate: 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 members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Nonhazardous	\$ 970,943	\$ 737,836	\$ 531,881
Hazardous	\$ 2,597,269	\$ 1,985,439	\$ 1,465,945

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

401(k) Plan and 457 Plan

The City also permits employees to participate in a 401(k) or 457 plan sponsored by the Commonwealth of Kentucky.

NOTE 7 - OPERATING LEASES

The City leases equipment under operating leases expiring at various times through January, 2019. Expenditures for equipment under operating leases totaled \$19,207 for the year ended June 30, 2015. Future minimum rental payments under these leases are as follows:

Years Ending June 30,	
2016	\$ 20,784
2017	11,304
2018	10,024
2019	<u>4,080</u>
Total	<u>\$ 46,192</u>

NOTE 8 - 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, 2015 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 9 - CLAIMS AND JUDGEMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, 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 10 - CONTINGENT LIABILITIES

The City is, from time to time, a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, for the County Employee’s Retirement System and Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to period of employee service. These Statements also require enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

The implementation of GASB Statements No. 68 and 71 had the following effect:

Net Position, June 30, 2014	\$ 6,116,916
Recognition of Contributions after Measurement Date	380,438
Recognition of Net Pension Liability	<u>(2,787,988)</u>
Restated Net Position, June 30, 2014	<u>\$ 3,709,366</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,198,225	\$ 3,213,225	\$ 3,312,729	\$ 99,504
Licenses and Permits	50,500	56,500	121,439	64,939
Fines and Forfeitures	18,500	18,500	20,194	1,694
Other Revenues	20,000	20,000	72,773	52,773
Earnings on Investments	2,200	2,200	2,067	(133)
Intergovernmental Revenue	139,300	139,300	84,179	(55,121)
Charges for Services	517,550	517,550	537,313	19,763
Total Revenues	<u>3,946,275</u>	<u>3,967,275</u>	<u>4,150,694</u>	<u>183,419</u>
Expenditures				
General Government	872,440	872,440	804,522	67,918
Police	1,903,900	1,903,900	1,795,898	108,002
Public Works	905,280	905,280	824,395	80,885
Waste Collection	450,000	450,000	521,874	(71,874)
Planning and Inspection	42,200	42,200	35,288	6,912
Park and Recreation	14,100	14,100	17,643	(3,543)
Debt Service				
Principal	35,000	35,000	50,033	(15,033)
Interest	300	300	1,153	(853)
Capital Outlay	147,900	164,519	178,715	(14,196)
Total Expenditures	<u>4,371,120</u>	<u>4,387,739</u>	<u>4,229,521</u>	<u>158,218</u>
(Deficit) Excess of Revenues and Other Financing Sources Over Expenditures	(424,845)	(420,464)	(78,827)	(341,637)
Other Financing Sources				
Transfers In	-	-	10,878	(10,878)
Net Change in Fund Balance	(424,845)	(420,464)	(67,949)	(352,515)
Fund Balance July 1, 2014	<u>1,868,869</u>	<u>1,868,869</u>	<u>1,868,869</u>	<u>-</u>
Fund Balance June 30, 2015	<u>\$ 1,444,024</u>	<u>\$ 1,448,405</u>	<u>\$ 1,800,920</u>	<u>\$ (352,515)</u>

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
MUNICIPAL ROAD AID FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental Revenue	\$ 150,000	\$ 150,000	\$ 194,865	\$ 44,865
Expenditures				
Public Works	<u>200,000</u>	<u>200,000</u>	<u>209,813</u>	<u>(9,813)</u>
(Deficit) Excess of Revenues Over Expenditures	(50,000)	(50,000)	(14,948)	35,052
Fund Balance July 1, 2014	<u>260,811</u>	<u>260,811</u>	<u>260,811</u>	<u>-</u>
Fund Balance June 30, 2015	<u>\$ 210,811</u>	<u>\$ 210,811</u>	<u>\$ 245,863</u>	<u>\$ 35,052</u>

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CHARLIE BATTERY FUND
YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other Revenue	\$ 50	\$ 50	\$ 60	\$ 10
Expenditures				
Postage	500	500	-	500
Miscellaneous	<u>1,500</u>	<u>1,500</u>	<u>872</u>	<u>628</u>
Total Expenditures	<u>2,000</u>	<u>2,000</u>	<u>872</u>	<u>1,128</u>
(Deficit) Excess of Revenues Over Expenditures	(1,950)	(1,950)	(812)	1,138
Fund Balance July 1, 2014	<u>5,015</u>	<u>5,015</u>	<u>5,015</u>	<u>-</u>
Fund Balance June 30, 2015	<u>\$ 3,065</u>	<u>\$ 3,065</u>	<u>\$ 4,203</u>	<u>\$ 1,138</u>

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
SEWER FUND
YEAR ENDED JUNE 30, 2015

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Earnings on Investments	\$ 4,400	\$ 4,400	\$ 5,153	\$ 753
Assessment Revenue	28,250	28,250	43,299	15,049
Total Revenues	<u>32,650</u>	<u>32,650</u>	<u>48,452</u>	<u>15,802</u>
Expenditures				
Miscellaneous	1,000	1,000	815	185
Debt Service				
Principal	30,000	30,000	39,480	(9,480)
Interest	4,500	4,500	4,411	89
Total Expenditures	<u>35,500</u>	<u>35,500</u>	<u>44,706</u>	<u>(9,206)</u>
(Deficit) Excess of Revenues Over Expenditures and Other Financing Uses	(2,850)	(2,850)	3,746	6,596
Other Financing Uses				
Transfers Out	-	-	(10,878)	(10,878)
Net Change in Fund Balance	(2,850)	(2,850)	(7,132)	(4,282)
Fund Balance July 1, 2014	<u>149,970</u>	<u>149,970</u>	<u>149,970</u>	<u>-</u>
Fund Balance June 30, 2015	<u>\$ 147,120</u>	<u>\$ 147,120</u>	<u>\$ 142,838</u>	<u>\$ (4,282)</u>

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2015

County Employees Retirement System

City's Proportion of the Net Pension Liability (Asset) - Non Hazardous	0.02%
City's Proportion of the Net Pension Liability (Asset) - Hazardous	0.17%
City's Proportionate Share of the Net Pension Liability (Asset) - Non Hazardous	\$ 737,836
City's Proportionate Share of the Net Pension Liability (Asset) - Hazardous	<u>1,985,439</u>
Total City's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 2,723,275</u>
City's Covered - Employee Payroll	\$ 1,325,102
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	205.51%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	193.76%

See accompanying notes.

CITY OF ALEXANDRIA, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS
June 30, 2015

County Employees Retirement System
Last 2 Fiscal Years

Nonhazardous	2015	2014
Contractually Required Contribution	\$ 95,691	\$ 99,617
Contributions in Relation to the Contractually Required Contribution	(95,691)	(99,617)
Contribution Deficiency (Excess)	\$ -	\$ -
City's Covered-Employee Payroll	\$ 541,546	\$ 527,356
Contributions as a Percentage of Covered-Employee Payroll	17.67%	18.89%
Hazardous		
Hazardous	2015	2014
Contractually Required Contribution	\$ 270,150	\$ 281,837
Contributions in Relation to the Contractually Required Contribution	(270,150)	(281,837)
Contribution Deficiency (Excess)	\$ -	\$ -
City's Covered-Employee Payroll	\$ 787,380	\$ 789,460
Contributions as a Percentage of Covered-Employee Payroll	34.31%	35.70%

See accompanying notes.

OTHER SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' 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 City Council
City of Alexandria, 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 Alexandria, Kentucky (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Alexandria, Kentucky's basic financial statements, and have issued our report thereon dated October 15, 2015.

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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VonLehman & Company Inc.