

CITY OF ALEXANDRIA, KENTUCKY

June 30, 2014

*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

Barbara Weber

Andrew Schabell

Robert Simon

Joseph Anderson

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
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, 2014, 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, each major fund and the aggregate remaining fund information of the City of Alexandria, Kentucky, as of June 30, 2014, 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, and budgetary comparison information on pages 1 through 7 and 25 through 28, 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 September 11, 2014, 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, 2014
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, 2014. 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 2014 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,116,916 (net position). Of this amount, \$1,517,252 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$31,161.
- As of the close of the current fiscal year, the City's governmental funds reported ending fund balances of \$2,284,665, an increase of \$159,604. \$1,724,928 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 \$1,724,928 (45%) of the total general fund expenditures.
- The City's total debt decreased by \$75,948 (7%), including compensated absences, during the current year.
- The City's cash and cash equivalents increased by \$102,610, from \$1,746,907 at June 30, 2013 to \$1,849,517 at June 30, 2014.

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.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

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 liabilities, 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 24 of this report.

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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 2014 compared to 2013:

**Table 1
Net Position**

	Governmental Activities	
	2014	2013
Assets		
Current and Other Assets	\$ 2,446,214	\$ 2,370,067
Noncurrent Assets, Net	4,851,647	5,045,933
Total Assets	7,297,861	7,416,000
Liabilities		
Current and Other Liabilities	192,264	265,546
Noncurrent Liabilities	988,681	1,064,699
Total Liabilities	1,180,945	1,330,245
Net Position		
Invested in Capital Assets Net of Related Debt	4,197,241	4,310,345
Restricted for		
Municipal Road Aid	260,811	129,986
Charlie Battery	5,015	6,509
Sewer Fund	136,597	147,624
Unrestricted	1,517,252	1,491,291
Total Net Position	\$ 6,116,916	\$ 6,085,755

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$6.1 million as of June 30, 2014.

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, 2014
UNAUDITED
(Continued)**

Total assets decreased by approximately \$118,000. Equity in cash and cash equivalents, prepaid expenses and receivables increased by approximately \$76,000. Capital assets and noncurrent receivables decreased by approximately \$194,000. This activity is partially offset by a decrease in accounts payable and other liabilities of approximately \$73,000, and a decrease in long-term liabilities and compensated absences of approximately \$76,000. This resulted in an increase in net position of approximately \$31,000.

Table 2 reflects the change in net position for fiscal year 2014.

**Table 2
Change in Net Position**

	Governmental Activities Years Ended June 30,	
	<u>2014</u>	<u>2013</u>
Revenues		
General Revenues		
Taxes	\$ 3,213,766	\$ 3,186,984
Licenses and Permits	52,451	45,836
Fines and Forfeitures	48,703	20,884
Earnings on Investments	8,714	10,524
Gain on Sale of Capital Assets	10,299	-
Miscellaneous	<u>35,289</u>	<u>44,814</u>
Total General Revenues	<u>3,369,222</u>	<u>3,309,042</u>
Program Revenues		
Charges for Service	529,175	530,225
Operating Grants and Contributions	61,323	98,553
Capital Grants and Contributions	<u>196,156</u>	<u>232,923</u>
Total Program Revenues	<u>786,654</u>	<u>861,701</u>
Total Revenues	<u>4,155,876</u>	<u>4,170,743</u>
Program Expenses		
General Government	795,520	810,292
Police	1,747,269	1,761,446
Public Works	854,224	457,722
Waste Collection	453,698	443,002
Planning and Inspection	36,881	30,651
Park and Recreation	14,165	12,480
Miscellaneous	2,417	9,655
Interest on Long-Term Debt	5,838	6,850
Depreciation	<u>214,703</u>	<u>203,939</u>
Total Program Expenses	<u>4,124,715</u>	<u>3,736,037</u>
Increase in Net Position	<u>\$ 31,161</u>	<u>\$ 434,706</u>

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
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 \$4.2 million, and expenditures and other financing uses of approximately \$4.0 million. Revenues decreased by 1.4%, while expenses increased by 6.0%. 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 \$4.1 million. Actual revenues and other financing sources were approximately \$4.0 million.

Expenditures and other financing uses were budgeted at approximately \$4.1 million, while actual expenditures and other financing uses were approximately \$3.9 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014, the City had approximately \$4.5 million invested in capital assets (net of depreciation), all in governmental activities.

Table 3 reflects fiscal year 2014 balances compared to fiscal year 2013.

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

	Governmental Activities	
	2014	2013
Land	\$ 1,239,000	\$ 1,239,000
Buildings	442,993	458,806
Improvements	113,415	125,011
Infrastructure	2,452,170	2,528,674
Vehicles	149,908	168,484
Equipment	80,916	119,522
Furniture and Fixtures	1,072	3,041
	<u>\$ 4,479,474</u>	<u>\$ 4,642,538</u>

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

The current year capital asset activity included the following activity:

Addition of Vehicles	\$	51,639
Disposal of Equipment		(10,828)
Disposal of Vehicles		(47,089)
Accumulated Depreciation on Disposal of Equipment		10,828
Accumulated Depreciation on Disposal of Vehicles		47,089
Depreciation		<u>(214,703)</u>
Change	\$	<u>(163,064)</u>

Debt

At June 30, 2014, the City had approximately \$707,000 in outstanding notes payable and capital lease obligations.

The following is a summary of the City's debt transactions during 2014.

		<u>June 30, 2013</u>		<u>Additions</u>		<u>Repayments</u>		<u>June 30, 2014</u>
Notes Payable Obligations	\$	748,141	\$	-	\$	73,087	\$	675,054
Capital Lease Obligations		<u>48,042</u>		-		<u>16,358</u>		<u>31,684</u>
	\$	<u>796,183</u>	\$	-	\$	<u>89,445</u>	\$	<u>706,738</u>

**CITY OF ALEXANDRIA, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
UNAUDITED
(Continued)**

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 see a lot of foreclosures and bankruptcies with tax delinquencies. However, that said, the current delinquencies are less than .02% overall.

From fiscal year 2013-2014, the City's total revenue has remained consistent with last year, with little increase, but is expected to increase along with the anticipated growth.

For the 2014 fiscal year, the property tax rate will remain at .179% per \$100 of valuation. With assessment values remaining relatively flat, the City can expect approximately the same amount of revenue as last year, and must continue to monitor the budget and follow safe planning and management for the 2014-15 fiscal year.

As the City pursues 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 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.

The regular maintenance, upkeep and reconstruction of City streets will continue to be a primary focus of the budget due to the use and age of the streets. In fiscal year 2013-14, \$321,000 was dedicated to street maintenance and repair, and in 2014-15, approximately \$500,000 will be spent.

On a positive note, the City continues to see new small businesses locate in Alexandria. The City is poised for growth and positioned well for the growth that will occur as soon as the economy begins to turn around. The Arcadia Development is well underway, and will be a significant growth element for the City as the 1,000+ homes are constructed.

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, 2014

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 1,849,517
Accounts Receivable	
Property Taxes	20,660
Insurance Taxes	251,922
Payroll and Occupational Taxes	263,604
Other Receivables - Current Portion	56,589
Prepaid Expenses	3,922
Total Current Assets	2,446,214
Noncurrent Assets	
Other Receivables - Current	372,173
Capital Assets	
Land	1,239,000
Depreciable Capital Assets	5,316,810
Less Accumulated Depreciation	(2,076,336)
Total Capital Assets	4,479,474
Total Noncurrent Assets	4,851,647
Total Assets	7,297,861
Liabilities	
Current Liabilities	
Accounts Payable and Accrued Expenses	60,299
Accrued Payroll and Withholdings	42,452
Capital Lease Obligations - Noncurrent Portion	15,589
Notes Payable - Noncurrent Portion	73,924
Total Current Liabilities	192,264
Noncurrent Liabilities	
Compensated Absences	371,456
Capital Lease Obligations	16,095
Notes Payable	601,130
Total Noncurrent Liabilities	988,681
Total Liabilities	1,180,945
Net Position	
Invested in Capital Assets, Net of Related Debt	4,197,241
Restricted for	
Municipal Road Aid	260,811
Charlie Battery	5,015
Sewer Fund	136,597
Unrestricted	1,517,252
Total Net Position	\$ 6,116,916

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

<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	\$ 795,520	\$ 19,718	\$ 7,406	\$ -	\$ (768,396)
Police	1,747,269	5,160	53,917	-	(1,688,192)
Public Works	854,224	-	-	196,156	(658,068)
Waste Collection	453,698	464,236	-	-	10,538
Planning and Inspection	36,881	38,361	-	-	1,480
Park and Recreation	14,165	1,700	-	-	(12,465)
Miscellaneous	2,417	-	-	-	(2,417)
Interest on Long-Term Debt	5,838	-	-	-	(5,838)
Depreciation	214,703	-	-	-	(214,703)
Total Primary Government	\$ 4,124,715	\$ 529,175	\$ 61,323	\$ 196,156	(3,338,061)
General Revenues					
					3,213,766
Taxes					52,451
Licenses and Permits					48,703
Fines and Forfeitures					8,714
Earnings on Investments					10,299
Gain on Sale of Capital Assets					35,289
Miscellaneous					<u>3,369,222</u>
Total General Revenues					31,161
Change in Net Position					<u>6,085,755</u>
Net Position July 1, 2013					<u>6,116,916</u>
Net Position June 30, 2014					<u>\$ 6,116,916</u>

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Municipal Road Aid Fund	Charlie Battery Fund	Sewer Fund	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 1,507,193	\$ 174,816	\$ 5,015	\$ 162,493	\$ 1,849,517
Due (To) From Other Funds	(56,389)	68,386	-	(11,997)	-
Accounts Receivable					
Property Taxes	20,660	-	-	-	20,660
Insurance Taxes	251,922	-	-	-	251,922
Payroll and Occupational Taxes	263,604	-	-	-	263,604
Other Receivables	22	17,609	-	411,131	428,762
Prepaid Expenses	3,922	-	-	-	3,922
	\$ 1,990,934	\$ 260,811	\$ 5,015	\$ 561,627	\$ 2,818,387
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 59,774	\$ -	\$ -	\$ 525	\$ 60,299
Deferred Revenues	19,839	-	-	411,132	430,971
Other Accrued Expenses	42,452	-	-	-	42,452
	122,065	-	-	411,657	533,722
Fund Balances					
Nonspendable					
Prepaid Expenses	3,922	-	-	-	3,922
Restricted for					
Municipal Road Aid					
Fund Balance	-	260,811	-	-	260,811
Sewer Fund Balance	-	-	-	149,970	149,970
Police Forfeiture Cash	19,681	-	-	-	19,681
Committed for					
Charley Battery Fund Balance	-	-	5,015	-	5,015
Planning and Zoning Cash	20,103	-	-	-	20,103
Assigned					
Insurance Fund Cash	100,235	-	-	-	100,235
Unassigned	1,724,928	-	-	-	1,724,928
	1,868,869	260,811	5,015	149,970	2,284,665
Total Liabilities and Fund Balances	\$ 1,990,934	\$ 260,811	\$ 5,015	\$ 561,627	\$ 2,818,387

See accompanying notes.

**CITY OF ALEXANDRIA, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balance - Governmental Funds \$ 2,284,665

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	\$ 6,555,810	
Accumulated Depreciation	<u>(2,076,336)</u>	
		4,479,474

Other assets are not available to pay for current period expenditures, and therefore, are deferred in the governmental funds. 430,971

Compensated absences are not due and payable in the current period, and therefore, are not reported in the governmental funds. (371,456)

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

Capital Lease Obligations		(31,684)
Notes Payable		<u>(675,054)</u>

Net Assets of Governmental Activities in the Statement of Net Position		\$ <u>6,116,916</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, 2014

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Charlie Battery Fund</u>	<u>Sewer Fund</u>	<u>Total Funds</u>
Revenues					
Taxes	\$ 3,219,952	\$ -	\$ -	\$ -	\$ 3,219,952
Licenses and Permits	52,451	-	-	-	52,451
Fines and Forfeitures	48,703	-	-	-	48,703
Other Revenue	45,538	-	50	-	45,588
Earnings on Investments	2,610	-	-	6,104	8,714
Intergovernmental Revenue	61,323	196,156	-	-	257,479
Charges for Services	<u>522,324</u>	<u>-</u>	<u>-</u>	<u>41,992</u>	<u>564,316</u>
Total Revenues	<u>3,952,901</u>	<u>196,156</u>	<u>50</u>	<u>48,096</u>	<u>4,197,203</u>
Expenditures					
Current:					
General Government	788,061	-	-	-	788,061
Police	1,746,509	-	-	-	1,746,509
Public Works	716,384	133,717	-	-	850,101
Waste Collection	453,698	-	-	-	453,698
Planning and Inspection	35,726	-	-	-	35,726
Park and Recreation	14,165	-	-	-	14,165
Miscellaneous	-	-	1,544	873	2,417
Debt Service					
Principal	49,960	-	-	39,485	89,445
Interest	446	-	-	5,392	5,838
Capital Outlay	<u>51,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,639</u>
Total Expenditures	<u>3,856,588</u>	<u>133,717</u>	<u>1,544</u>	<u>45,750</u>	<u>4,037,599</u>
Excess (Deficit) of Revenues Over Expenditures	96,313	62,439	(1,494)	2,346	159,604
Fund Balance July 1, 2013	<u>1,772,556</u>	<u>198,372</u>	<u>6,509</u>	<u>147,624</u>	<u>2,125,061</u>
Fund Balance June 30, 2014	<u>\$ 1,868,869</u>	<u>\$ 260,811</u>	<u>\$ 5,015</u>	<u>\$ 149,970</u>	<u>\$ 2,284,665</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, 2014**

Change in Fund Balances - Total Governmental Funds \$ 159,604

Amounts reported for governmental activities in the statement of activities 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	\$	(214,703)	
Capital Outlays		<u>51,639</u>	(163,064)

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.	89,445
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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.	(13,497)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>(41,327)</u>
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Change in Net Position - Governmental Activities	\$	<u><u>31,161</u></u>
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See accompanying notes.

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

NOTE 1 - ACCOUNTING POLICIES

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 Reporting Entity

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Basis of Presentation (Continued)**

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.

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 2 - 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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 2 - 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.

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. Actual results could differ from those estimates.

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.

Accounting Pronouncements

Effective for fiscal years beginning after June 15, 2014, accounting pronouncements will require governmental entities to revise recognition, measurement and disclosure requirements for employer pension plans. The City will be responsible for reporting on the balance sheet its proportionate share of the pension system's unfunded liability and will also be required to include in its financial statements an increase in disclosure and required supplementary information related to the pension plan.

NOTE 3 - 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 three supplementary appropriation ordinances. All appropriations lapse at fiscal year end.

NOTE 4 - 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.

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, 2014, \$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 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
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	-	-	234,695
Infrastructure	3,060,144	-	-	3,060,144
Vehicles	617,461	51,639	(47,089)	622,011
Equipment	737,230	-	(10,828)	726,402
Furniture and Fixtures	41,028	-	-	41,028
Total Depreciable Capital Assets	<u>5,323,088</u>	<u>51,639</u>	<u>(57,917)</u>	<u>5,316,810</u>
Total Capital Assets at Historical Cost	<u>6,562,088</u>	<u>51,639</u>	<u>(57,917)</u>	<u>6,555,810</u>
Less Accumulated Depreciation				
Buildings	173,724	15,813	-	189,537
Improvements	109,684	11,596	-	121,280
Infrastructure	531,470	76,504	-	607,974
Vehicles	448,977	70,215	(47,089)	472,103
Equipment	617,708	38,606	(10,828)	645,486
Furniture and Fixtures	37,987	1,969	-	39,956
Total Accumulated Depreciation	<u>1,919,550</u>	<u>214,703</u>	<u>(57,917)</u>	<u>2,076,336</u>
Depreciable Capital Assets, Net	<u>3,403,538</u>	<u>(163,064)</u>	<u>-</u>	<u>3,240,474</u>
Governmental Activities Capital Assets - Net	<u>\$ 4,642,538</u>	<u>\$ (163,064)</u>	<u>\$ -</u>	<u>\$ 4,479,474</u>

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

NOTE 6 - 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 \$18,256 and \$2,402 for 2014 and 2013, respectively. The following is a summary of property held under capital lease obligations at cost less accumulated depreciation:

	June 30,	
	2014	2013
Vehicles	\$ 48,042	\$ 48,042
Less Accumulated Depreciation	<u>20,658</u>	<u>2,402</u>
	<u>\$ 27,384</u>	<u>\$ 45,640</u>

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

Years Ending June 30,	
2015	\$ 16,619
2016	<u>16,619</u>
	33,238
Less Amounts Representing Interest	<u>1,554</u>
Net Capital Lease Obligations	31,684
Current Capital Lease Obligations	<u>15,589</u>
Long-Term Capital Lease Obligations	<u>\$ 16,095</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
2015	\$ 34,445	\$ 4,697	\$ 3,911	\$ 43,053
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 - 2021	<u>69,481</u>	<u>1,296</u>	<u>1,276</u>	<u>72,053</u>
Total	<u>\$ 250,549</u>	<u>\$ 17,639</u>	<u>\$ 15,082</u>	<u>\$ 283,270</u>

NOTE 6 - 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>
2015	\$ 20,854	\$ 2,711	\$ 542	\$ 24,107
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 - 2024	111,830	6,000	1,200	119,030
2025 - 2026	<u>58,041</u>	<u>874</u>	<u>175</u>	<u>59,090</u>
Total	<u>\$ 276,260</u>	<u>\$ 18,316</u>	<u>\$ 3,662</u>	<u>\$ 298,238</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>
2015	\$ 8,925	\$ 1,363	\$ 273	\$ 10,561
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 - 2024	47,857	3,584	717	52,158
2025 - 2028	<u>45,160</u>	<u>1,137</u>	<u>227</u>	<u>46,524</u>
Total	<u>\$ 138,545</u>	<u>\$ 10,633</u>	<u>\$ 2,127</u>	<u>\$ 151,305</u>

NOTE 6 - LONG-TERM DEBT (Continued)**Enzweiler Road Note Payable**

In December, 1994, the City entered into an agreement with a bank for the improvement of the sewer lines on Enzweiler Road. The full amount of allowable funds is \$200,000 at an interest rate of 6.95%, maturing in December, 2014. As of December 31, 2010, all funds had been received. This note will be repaid over a period of 20 years, with principal payments due on the fifth of December each year. Interest is paid quarterly on the fifth of March, June, September and December of each year. The note will be repaid with funds collected from residents of Enzweiler Road and remitted to the City each year on the property tax bills.

The Enzweiler Road Note Payable is scheduled to mature as follows:

Year	Principal Amount	Interest Amount	Total Debt Service
2015	\$ 9,700	\$ 348	\$ 10,048

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

Years	Principal Amount	Interest Amount	Fees Amount	Total Debt Service
2015	\$ 73,924	\$ 9,119	\$ 4,726	\$ 87,769
2016	65,386	7,784	4,108	77,278
2017	66,572	6,753	3,471	76,796
2018	67,783	5,723	2,819	76,325
2019	69,020	4,666	2,152	75,838
2020 - 2024	229,168	10,880	3,193	243,241
2025 - 2028	103,201	2,011	402	105,614
Total	\$ 675,054	\$ 46,936	\$ 20,871	\$ 742,861

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2014.

Governmental Activities	Debt Outstanding June 30, 2013	Additions of New Debt	Retirements and Repayments	Debt Outstanding June 30, 2014	Amounts Due Within 1 Year
Compensated Absences	\$ 357,959	\$ 13,497	\$ -	\$ 371,456	\$ -
Notes Payable	748,141	-	73,087	675,054	73,924
Capital Lease Obligations	48,042	-	16,358	31,684	15,589
	\$ 1,154,142	\$ 13,497	\$ 89,445	\$ 1,078,194	\$ 89,513

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, 2014, the outstanding principal on the Industrial Building Revenue Bond is \$3,000,000.

NOTE 7 - EMPLOYEE'S RETIREMENT SYSTEM

County Employees Retirement System (CERS)

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

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

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

Non-Hazardous Contributions - For the year ended June 30, 2014, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89% of each employee's creditable compensation. Administrative costs of Kentucky Retirement System (KRS) are financed through employer contributions and investment earnings.

Hazardous Contributions - For the year ended June 30, 2014, plan members were required to contribute 8% of their annual creditable compensation. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2014, participating employers contributed 35.70% of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

<u>Years</u>	<u>Contribution Rate</u>	<u>Contributed</u>
2014	\$ 380,438	100%
2013	\$ 396,729	100%
2012	\$ 393,517	100%

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 8 - OPERATING LEASES

The City leases equipment under operating leases expiring at various times through January, 2019. Expenditures for equipment under operating leases totaled \$17,747 for the year ended June 30, 2014. Future minimum rental payments under these leases are as follows:

Years Ending June 30,	
2015	\$ 15,995
2016	10,503
2017	1,026
2018	1,026
2019	<u>599</u>
Total	<u>\$ 29,149</u>

NOTE 9 - 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, 2014 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 10 - 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 11 - 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.

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,193,843	\$ 3,193,843	\$ 3,219,952	\$ 26,109
Licenses and Permits	46,400	46,400	52,451	6,051
Fines and Forfeitures	18,000	18,000	48,703	30,703
Other Revenues	50,000	50,000	45,538	(4,462)
Earnings on Investments	2,000	2,000	2,610	610
Intergovernmental Revenue	254,000	254,000	61,323	(192,677)
Charges for Services	512,650	512,650	522,324	9,674
	<u>4,076,893</u>	<u>4,076,893</u>	<u>3,952,901</u>	<u>(123,992)</u>
Total Revenues				
Expenditures				
General Government	821,124	821,124	788,061	33,063
Police	1,875,182	1,875,182	1,746,509	128,673
Public Works	792,280	792,280	716,384	75,896
Waste Collection	445,000	445,000	453,698	(8,698)
Planning and Inspection	52,907	52,907	35,726	17,181
Park and Recreation	14,000	14,000	14,165	(165)
Debt Service				
Principal	32,400	32,400	49,960	(17,560)
Interest	500	500	446	54
Capital Outlay	43,500	43,500	51,639	(8,139)
	<u>4,076,893</u>	<u>4,076,893</u>	<u>3,856,588</u>	<u>220,305</u>
Total Expenditures				
Excess of Revenues Over Expenditures	-	-	96,313	96,313
Fund Balance July 1, 2013	<u>1,772,556</u>	<u>1,772,556</u>	<u>1,772,556</u>	-
Fund Balance June 30, 2014	<u>\$ 1,772,556</u>	<u>\$ 1,772,556</u>	<u>\$ 1,868,869</u>	<u>\$ 96,313</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, 2014

	<u>Budgeted Items</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental Revenue	\$ 170,000	\$ 170,000	\$ 196,156	\$ 26,156
Expenditures				
Public Works	<u>170,000</u>	<u>170,000</u>	<u>133,717</u>	<u>36,283</u>
Excess of Revenues Over Expenditures	-	-	62,439	62,439
Fund Balance July 1, 2013	<u>198,372</u>	<u>198,372</u>	<u>198,372</u>	-
Fund Balance June 30, 2014	<u><u>\$ 198,372</u></u>	<u><u>\$ 198,372</u></u>	<u><u>\$ 260,811</u></u>	<u><u>\$ 62,439</u></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, 2014

	<u>Budgeted Items</u>		<u>Actual</u>	Variance with Final Budget (Unfavorable) Favorable
	<u>Original</u>	<u>Final</u>		<u>Favorable</u>
Revenues				
Other Revenue	\$ 90	\$ 90	\$ 50	\$ (40)
Expenditures				
Postage	100	100	-	100
Miscellaneous	500	500	1,544	(1,044)
Total Expenditures	600	600	1,544	(944)
Deficit of Revenues Over Expenditures	(510)	(510)	(1,494)	(984)
Fund Balance July 1, 2013	7,372	7,372	6,509	(863)
Fund Balance June 30, 2014	<u>\$ 6,862</u>	<u>\$ 6,862</u>	<u>\$ 5,015</u>	<u>\$ (1,847)</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, 2014

	<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	\$ 6,100	\$ 6,100	\$ 6,104	\$ 4
Assessment Revenue	42,000	42,000	41,992	(8)
Total Revenues	<u>48,100</u>	<u>48,100</u>	<u>48,096</u>	<u>(4)</u>
Expenditures				
Miscellaneous	850	850	873	(23)
Debt Service				
Principal	40,000	40,000	39,485	515
Interest	7,250	7,250	5,392	1,858
Total Expenditures	<u>48,100</u>	<u>48,100</u>	<u>45,750</u>	<u>2,350</u>
Excess of Revenues Over Expenditures	-	-	2,346	2,346
Fund Balance July 1, 2013	<u>147,624</u>	<u>147,624</u>	<u>147,624</u>	<u>-</u>
Fund Balance June 30, 2014	<u>\$ 147,624</u>	<u>\$ 147,624</u>	<u>\$ 149,970</u>	<u>\$ 2,346</u>

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, 2014, 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 September 11, 2014.

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.

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

Fort Mitchell, Kentucky
September 11, 2014