

CITY OF EDGEWOOD, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2015

CITY OF EDGEWOOD, KENTUCKY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For the Year Ended June 30, 2015

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CITY OF EDGEWOOD, KENTUCKY

LIST OF CITY OFFICIALS

For the Year Ended June 30, 2015

Mayor

John D. Link

Council Members

Nancy Atkinson	Ben Barlage
Dale Henson	Chris J. Link
Joseph A. Messmer	Jeff Schreiber
Anthony C. Ward	

Department Heads

City Administrator	Brian Dehner
Police Chief	Anthony H. Kramer
City Attorney	Frank Wichmann
City Clerk	Jeanette Kemper
Fire/EMS Chief	Chris Amon
General Services Director	Robert Begnoche

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the Council
City of Edgewood, 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 Edgewood, Kentucky, 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.

-Auditor's 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 auditor's 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 auditor considers 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 financial position of the governmental activities and each major fund of the City of Edgewood, Kentucky as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance 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* on pages 4-8, the budgetary comparison schedules on pages 32-33, and the pension disclosure on page 34 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.

-Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The budgetary comparison schedule of the non-major governmental fund on page 35 is supplementary information and is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015 on our consideration of the City of Edgewood, 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 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 Edgewood, Kentucky's internal control over financial reporting and compliance.



Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
December 3, 2015

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

Our discussion and analysis of the City of Edgewood, Kentucky's 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 9.

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 9 and 10) 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 11. 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 ending cash balance for the City was \$6,193,362.
- The ending investment balance for the City was \$1,532,945.
- The City completed road projects during the fiscal year of \$3,598,513.

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 liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the 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 the 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.

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

The government-wide financial statements can be found on pages 9 and 10 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 of the funds of the City can be divided into two categories: governmental and fiduciary funds. All activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 14 of this report.

Notes to the Financial Statements

The notes 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 17 through 28 of this report.

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 of Governmental Activities

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 8,809,523	\$ 6,963,690
Capital assets, net	<u>25,183,703</u>	<u>22,255,935</u>
Total Assets	<u>33,993,226</u>	<u>29,219,625</u>
Deferred Outflow of Resources	<u>1,089,553</u>	<u>475,370</u>
Liabilities		
Current and other liabilities	3,271,557	946,161
Noncurrent liabilities	<u>7,673,912</u>	<u>3,955,000</u>
Total Liabilities	<u>10,945,469</u>	<u>4,901,161</u>
Deferred Inflow of Resources	<u>408,182</u>	<u>10,176</u>
Net Position		
Invested in capital assets net of related debt	19,102,729	18,376,129
Restricted for debt service	55,906	55,906
Unrestricted	<u>4,570,493</u>	<u>6,351,623</u>
	<u>\$ 23,729,128</u>	<u>\$ 24,783,658</u>

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

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 exceeded liabilities and deferred inflows by \$23.7 million as of June 30, 2015.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and infrastructure); 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.

Total assets increased \$4,773,601. Equity in cash and cash equivalents and investments increased \$1,773,878. Table 2 reflects the change in net position.

Table 2 - Change in Net Position

General Revenues	2015	2014
Taxes	\$ 5,879,148	\$ 5,799,777
Licenses and permits	81,364	87,695
Fines and forfeitures	19,351	22,400
Earnings on investments	34,458	87,467
Miscellaneous	11,687	6,452
Total General Revenues	6,026,008	6,003,791
Program Revenues		
Charges for services	1,176,968	970,061
Operating grants and contributions	98,164	93,944
Capital grants and contributions	2,261,391	226,617
Total Program Revenues	3,536,523	1,290,622
Expenses, net of program revenues		
General government	1,625,200	1,513,370
Police	1,482,016	1,537,390
Fire & EMS	1,164,915	1,104,662
Public works	780,752	899,855
Parks	33,842	26,208
Recreation	178,049	154,655
Interest expense	186,280	119,699
Depreciation	1,282,172	1,207,763
Total Expenditures, net	6,733,226	6,563,602
Increase in Net Position	\$ 2,829,305	\$ 730,811

**CITY OF EDGEWOOD, 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 \$11.5 million and expenditures and other financing uses of \$11.7 million. Revenues increased 47.4% while expenses increased by 56%. The increase in expenses is due to the significant increase in capital outlay for road construction.

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 beginning the fiscal year was \$5.4 million.

For the General Fund, budgeted revenues and other financing sources, in the amount of \$9.6 million, exceeded actual revenues and other financing sources in the amount of \$1.9 million. The major differences come from intergovernmental revenues other grants.

Expenditures and other financing uses were budgeted at \$9.8 million while actual expenditures and other financing uses were \$11.7 million. The major difference comes from related to capital outlay.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the City had \$25.18 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)**

	Capital Assets	
	2015	2014
Land	\$ 1,471,935	\$ 1,471,935
Construction in progress	745,455	240,955
Streets	15,041,871	12,245,555
Buildings and improvements	6,490,428	6,664,345
Vehicles and equipment	1,000,424	1,136,100
Park improvements	433,590	497,045
Total Assets, net	<u>\$ 25,183,703</u>	<u>\$ 22,255,935</u>

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

The net change in capital assets of \$2,927,768 in the current year consisted of the following capital asset activity:

Addition of new streets	\$ 3,598,513
Disposal of old streets	(152,152)
Addition of new vehicles and equipment	198,669
Disposal of old vehicles and equipment	(117,300)
Addition of construction in progress	504,500
Depreciation expense	(1,282,172)
Removal of accumulated depreciation	177,710
Change in Capital Assets	<u>\$ 2,927,768</u>

Debt

At June 30, 2015, the City had \$3.955 million in outstanding bonds. The following is a summary of the City's debt transactions during the year ended June 30, 2015:

	June 30, 2014	Additions	Deletions	June 30, 2015
Bonds outstanding	<u>\$ 4,345,000</u>	<u>\$ -</u>	<u>\$ 390,000</u>	<u>\$ 3,955,000</u>

GASB 68 PENSION LIABILITY REGOGNITION

As of June 30, 2015, the City is required, by Governmental Accounting Standards Board Statement No. 68, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the City is a participant. Due to this requirement, the 2014 Statement of Net Position above was restated by (\$3,883,834) to include the beginning balance of the net pension liability at June 30, 2014. The net pension liability, \$3,993,912, the deferred outflow of resources, \$650,890, and the deferred inflow of resources, \$403,094, on the Statement of Net Position at June 30, 2015 are a function of this required reporting. Detailed information on this pension recognition can be found in Note H in the Notes to the Financial Statements.

Economic Factors in Next Year's Budget

The City remains in solid financial ground, and has weathered the financial issues that have been strong concerns for the recent prior years. The inflationary rate increase in utilities, healthcare, construction and construction costs continues to be the dominant concern for budgeting forecasts. The City continues to see a minimal increase in revenues.

Contacting the City's Financial Management

This financial report is designed to provide our 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 the City Administrator's office, City of Edgewood, 385 Dudley Road, Edgewood, Kentucky 41017.

CITY OF EDGEWOOD, KENTUCKY Statement of Net Position June 30, 2015

ASSETS	<u>Governmental Activities</u>
Current Assets	
Cash and cash equivalents	\$ 6,193,362
Investments - current	1,532,945
Receivables	
Property taxes	11,099
Payroll taxes	983,071
Waste fees	6,044
Other receivables	53,528
Prepaid expenses	29,474
Total Current Assets	<u>8,809,523</u>
Capital Assets	
Land and construction in progress	2,217,390
Infrastructure	22,896,107
Buildings and improvements	8,894,347
Vehicles and equipment	4,751,691
Park improvements	1,917,532
Less: accumulated depreciation	<u>(15,493,364)</u>
Net Capital Assets	<u>25,183,703</u>
TOTAL ASSETS	<u>33,993,226</u>
DEFERRED OUTFLOW OF RESOURCES	
Discount on bonds, net	54,003
Bond refunding costs, net	384,660
Pension contribution for fiscal year 2015	650,890
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>1,089,553</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>35,082,779</u>
LIABILITIES	
Current Liabilities	
Accounts payable	143,170
Accrued liabilities	293,838
Current portion of notes payable	275,000
Line of credit balance	2,559,549
Total Current Liabilities	<u>3,271,557</u>
Long-term Liabilities	
Bonds payable	3,680,000
Net pension liability	3,993,912
Total Long-Term Liabilities	<u>7,673,912</u>
TOTAL LIABILITIES	<u>10,945,469</u>
DEFERRED INFLOW OF RESOURCES	
Premium on bonds, net	5,088
Deferred inflow of resources related to pensions	403,094
TOTAL DEFERRED INFLOW OF RESOURCES	<u>408,182</u>
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	<u>11,353,651</u>
NET POSITION	
Invested in capital assets, net of related debt	19,102,729
Restricted for debt service	55,906
Unrestricted	4,570,493
TOTAL NET POSITION	<u><u>\$ 23,729,128</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY

Statement of Activities

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Primary Government Governmental Activities					
General government	\$ 1,625,201	\$ 717,242	\$ -	\$ -	\$ (907,959)
Police	1,482,016	13,184	89,914	12,769	(1,366,149)
Fire and EMS	1,164,915	398,730	8,250	-	(757,935)
Public works	780,752	-	-	2,248,622	1,467,870
Parks	33,842	-	-	-	(33,842)
Recreation	178,049	47,812	-	-	(130,237)
Interest on debt service	186,280	-	-	-	(186,280)
Depreciation, unallocated	1,282,172	-	-	-	(1,282,172)
Total Governmental Activities	\$ 6,733,227	\$ 1,176,968	\$ 98,164	\$ 2,261,391	(3,196,704)

General Revenues

Taxes	5,879,148
Licenses and permits	81,364
Investment income	19,351
Miscellaneous	34,458
Fines and forfeitures	11,687
Total general revenues	6,026,008
Change in net position	2,829,304
Net position, beginning	24,783,658
Prior period adjustment	(3,883,834)
Net position, ending	\$ 23,729,128

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY Balance Sheet - Governmental Funds June 30, 2015
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	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 6,137,456	\$ 55,906	\$ 6,193,362
Investments	1,532,945	-	1,532,945
Receivables			
Property taxes	11,099	-	11,099
Payroll taxes	983,071	-	983,071
Waste fees	6,044	-	6,044
Other receivables	53,528	-	53,528
Prepaid expenses	29,474	-	29,474
TOTAL ASSETS	<u>\$ 8,753,617</u>	<u>\$ 55,906</u>	<u>\$ 8,809,523</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 143,170	\$ -	\$ 143,170
Accrued salaries	168,610	-	168,610
Accrued liabilities	125,228	-	125,228
Deferred revenue	19,115	-	19,115
TOTAL LIABILITIES	<u>456,123</u>	<u>-</u>	<u>456,123</u>
FUND BALANCES			
Unspendable	29,474	-	29,474
Restricted for Debt Service	-	55,906	55,906
Committed for capital improvement	-	-	-
Unassigned	8,268,020	-	8,268,020
TOTAL FUND BALANCES	<u>8,297,494</u>	<u>55,906</u>	<u>8,353,400</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,753,617</u>	<u>\$ 55,906</u>	<u>\$ 8,809,523</u>

The accompanying notes are an integral part of the financial statements.

<p>CITY OF EDGEWOOD, KENTUCKY Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position June 30, 2015</p>
--

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

Total fund balance per balance sheet		\$ 8,353,400
Capital assets of \$40,677,067, less accumulated depreciation of (\$15,493,364), used in governmental activities are not financial resources and, therefore, are not reported in the funds.		25,183,703
Deferred charges represent funds received for future projects that will not require current funds and therefore are reported as deferred revenues in the governmental funds.		19,115
Costs of issuance of debt, premiums and discounts expensed for governmental funds are carried as deferred charges in the statement of net position.		
Bond premium	\$ (30,532)	
Less: accumulated amortization	<u>25,444</u>	(5,088)
Bond discount	63,968	
Less: accumulated amortization	<u>(9,965)</u>	54,003
Deferred refunding costs	518,637	
Less: accumulated amortization	<u>(133,977)</u>	384,660
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, not reportable in the funds:		
Deferred outflow of resources		650,890
Deferred inflow of resources		(403,094)
Long-term liabilities, including bonds payable, and net pension liability are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds.		
Net pension liability		(3,993,912)
Line of credit payable		(2,559,549)
Bonds payable		<u>(3,955,000)</u>
Net position of governmental activities		<u>\$ 23,729,128</u>

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 5,882,831	\$ -	\$ 5,882,831
Licenses and permits	81,364	-	81,364
Fines and forfeitures	11,687	-	11,687
Other revenues	34,458	-	34,458
Investment income	19,351	-	19,351
Intergovernmental revenue	2,359,555	-	2,359,555
Charges for services	1,176,968	-	1,176,968
Total Revenues	<u>9,566,214</u>	<u>-</u>	<u>9,566,214</u>
Expenditures			
General government	1,634,598	-	1,634,598
Police	1,548,082	-	1,548,082
Fire and EMS	1,211,516	-	1,211,516
Public works	702,966	-	702,966
Parks	33,842	-	33,842
Recreation	179,747	-	179,747
Capital outlay	4,301,682	-	4,301,682
Debt service	1,172,766	499,681	1,672,447
Total Expenditures	<u>10,785,199</u>	<u>499,681</u>	<u>11,284,880</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(1,218,985)</u>	<u>(499,681)</u>	<u>(1,718,666)</u>
Other Financing Sources (Uses)			
Line of credit draw	3,687,335	-	3,687,335
Operating transfers in	-	499,681	499,681
Operating transfers out	(499,681)	-	(499,681)
Total Other Financing Sources (Uses)	<u>3,187,654</u>	<u>499,681</u>	<u>3,687,335</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	1,968,669	-	1,968,669
Fund Balance, beginning	<u>6,328,825</u>	<u>55,906</u>	<u>6,384,731</u>
Fund Balance, ending	<u>\$ 8,297,494</u>	<u>\$ 55,906</u>	<u>\$ 8,353,400</u>

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds
to the Statement of Activities****For the Year Ended June 30, 2015**

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

Net change in fund balance - total governmental funds **\$ 1,968,669**

Governmental funds report capital outlays 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 exceeds capital outlays in the period.

Capital outlays	\$4,301,682	
Loss on disposal of assets	(91,742)	
Depreciation expense	<u>(1,282,172)</u>	
		2,927,768

Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:

Pension contributions	650,890
Costs of benefits earned	(513,172)

Deferred refunding costs are reported for governmental activities as a deferred outflow and amortized over the life of the bond and it is a component of interest expense, but it is not reported in the governmental funds. This is the amortized interest expense. (33,926)

The bond premium/discount is reported for governmental activities as a deferred inflow/outflow and amortized over the life of the bond and it is a component of interest expense, but is not reported in the governmental funds. This is the amortized interest expense. 2,307

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (3,683)

Other financing sources, such as a draw on a line of credit, are considered revenues in the funds, however, they are recorded as long term debt on the Statement of Net Position. (3,687,335)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Bond	390,000
Line of Credit	<u>1,127,786</u>

Change in net position of governmental activities **\$ 2,829,304**

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY
Statement of Fiduciary Net Position
June 30, 2015

	Total Retirement Plans
ASSETS	
Investments - mutual funds	<u>\$ 95,972</u>
TOTAL ASSETS	<u>95,972</u>
NET POSITION	
Held in trust for pension benefits	<u>95,972</u>
TOTAL NET POSITION	<u><u>\$ 95,972</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2015

	Total Retirement Plans
Additions	
Employee contributions	\$ 19,210
Investment gains	1,063
Total Additions	<u>20,273</u>
Deductions	
Benefits distributed	45,694
Fees	40
Total Deductions	<u>45,734</u>
Change in Net Position	(25,461)
Net Position - July 1, 2014	121,433
Net Position - June 30, 2015	<u><u>\$ 95,972</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of the City of Edgewood, Kentucky (the “City”) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General Fund and the Debt Service 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 Edgewood, Kentucky.

The City of Edgewood, Kentucky is a Charter City, in which citizens elect the mayor at large and seven 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 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 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.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

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 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.

Fiduciary Funds

- (A) Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support city programs. The reporting focus is on net position and changes in net position.

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.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

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.

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 one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value 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 and Improvements	30–40 Years
Land Improvements	20 Years
Streets	25 Years
Vehicles	5 –20 Years
General Equipment and Furniture	5 – 7 Years
Public Works Equipment	5 –10 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.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

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.

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

Net position represents the difference between assets and deferred outflows less liabilities and deferred inflows. 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. 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.

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 Employee Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis of 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 benefit terms. Investments are reported at fair value.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

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 statements of net position except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances. The City has no interfund balances.

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 comment.
- c) By July 1, the budget is legally enacted through passage of an ordinance.
- d) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Council explaining any variance from the approved budget.
- e) Appropriations continue in effect until a new budget is adopted.
- f) The Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Council. 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.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

- 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 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 Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2015, \$250,000 of the City’s deposits are covered by FDIC depository insurance. The remaining \$5,965,435 is collateralized by securities held by the financial institution’s trust department or agent, but not in the City’s name. The carrying amount of the City’s deposits with financial institutions at June 30, 2015 was:

Cash and cash equivalents	2015
Cash and cash equivalents in financial institutions	\$ 6,137,305
Petty cash	151
Investments	
Investments in annuity and certificate of deposit	1,532,945
Total cash, cash equivalents, and investments	<u>\$ 7,670,401</u>

Investments

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2015.

Credit risk – investments. The City’s investments are subject to minimal credit risk because they are invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government. At June 30, 2015, the City’s investment balances were as follows:

Investment Type	Fair Value	Maturity	Investment Level
Certificate of Deposit	\$ 532,945	Less than 5 years	Level 1
Annuity	1,000,000	5 years	Level 3
Total Investments	<u>\$ 1,532,945</u>		

Annuity Contract – The City’s investment in an annuity contract is carried at the fair value determined by an insurance company, a level 3 measurement. The annuity carries a guaranteed effective annual yield of 2.20% through November 16, 2019.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

NOTE 5 - CAPITAL ASSETS

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

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 1,471,935	\$ -	\$ -	\$ 1,471,935
Construction in progress	240,955	3,687,335	(3,182,835)	745,455
Total Capital Assets Not Being Depreciated	1,712,890	3,687,335	(3,182,835)	2,217,390
Depreciable Capital Assets				
Infrastructure	19,449,746	3,598,513	(152,152)	22,896,107
Buildings & improvements	8,839,383	54,964	-	8,894,347
Vehicles & equipment	4,725,286	143,705	(117,300)	4,751,691
Park improvements	1,917,532	-	-	1,917,532
Total Depreciable Capital Assets	34,931,947	3,797,182	(269,452)	38,459,677
Total Capital Assets at Historical Cost	36,644,837	7,484,517	(3,452,287)	40,677,067
Less Accumulated Depreciation				
Infrastructure	7,204,191	710,455	(60,410)	7,854,236
Buildings & improvements	2,175,038	228,881	-	2,403,919
Vehicles & equipment	3,589,186	279,381	(117,300)	3,751,267
Park improvements	1,420,487	63,455	-	1,483,942
Total Accumulated Depreciation	14,388,902	1,282,172	(177,710)	15,493,364
Depreciable Capital Assets, Net	20,543,045	2,515,010	(91,742)	22,966,313
Total Capital Assets, Net	\$ 22,255,935	\$ 6,202,345	\$ (3,274,577)	\$ 25,183,703

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

NOTE 6 – LONG TERM DEBT

City Building Bond, Series 2004

This \$4,250,000 bond was obtained to finance construction of the City building. Interest payments are due June 1 and December 1. The principal payments are paid on December 1. The interest rate varies between 4.25% and 5% and the final payment is due on December 1, 2034.

On December 29, 2011, the City issued \$3,865,000 in General Obligation Refunding Bonds, Series 2011 with an average interest rate of 2.8% to advance refund \$3,295,000 of outstanding City Building Bonds, Series 2004, with scheduled maturity dates on or after December 1, 2016, with an average

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

interest rate of 4.9%. The net proceeds of \$3,746,055 (after payment of \$52,690 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the Series 2004 bonds. As a result, the Series 2004 bonds with maturity dates on or after December 1, 2016 are considered to be defeased. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2015, \$3,295,000 of bonds outstanding are considered defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$518,637. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2035 using the effective interest method. The City completed the advance refunding to reduce its total debt service payments over the next 23 years by \$429,065 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$218,279.

The outstanding balance of the un-refunded portion of the Series 2004 bonds at June 30, 2015 is \$105,000. The un-refunded bonds are scheduled to mature as follows:

Years Ending June 30,	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	4.50%	\$ 105,000	\$ 2,363	\$ 107,363
		<u>\$ 105,000</u>	<u>\$ 2,363</u>	<u>\$ 107,363</u>

General Obligation Refunding Bond, Series 2010

This \$1,305,000 bond was obtained to refund the general revenue bond, series 1997. Interest payments are due June 1 and December 1. The principal payments are paid on December 1. The interest rate is 2.00% and the final payment is due on December 1, 2015.

The General Obligation Refunding Bond (General Revenue) is scheduled to mature as follows:

Years Ending June 30,	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	2.00%	\$ 120,000	\$ 1,200	\$ 121,200
		<u>\$ 120,000</u>	<u>\$ 1,200</u>	<u>\$ 121,200</u>

General Obligation Refunding Bond, Series 2011

This \$3,865,000 bond was obtained to refund part of the City Building Bonds, Series 2004. Interest payments on the Series 2011 bond are due June 1 and December 1. The principal payments are paid on December 1. The interest rate is 2.0% until 2022 and between 2.375% and 3.25% until the final payment which is due on December 1, 2034.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

The General Obligation Refunding Bond (City Building) is scheduled to mature as follows:

Years Ending June 30,	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2016	2.0%	\$ 50,000	\$ 96,906	\$ 146,906
2017	2.0%	155,000	94,856	249,856
2018	2.0%	160,000	91,706	251,706
2019	2.0%	165,000	88,456	253,456
2020	2.0%	165,000	85,156	250,156
2021-2025	2.0-2.3%	875,000	373,031	1,248,031
2026-2030	2.3-3.0%	1,000,000	257,312	1,257,312
2031-2035	3.0-3.3%	1,160,000	94,947	1,254,947
		<u>\$ 3,730,000</u>	<u>\$ 1,182,370</u>	<u>\$ 4,912,370</u>

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

Tye of Debt	Debt Outstanding June 30, 2014	Additions of New Debt	Repayments	Debt Outstanding June 30, 2015	Amounts Due Within 1 Year
General Obligation City Building Bonds Series 2004	\$ 205,000	\$ -	\$ 100,000	\$ 105,000	\$ 105,000
General Obligation Refunding Bonds Series 2010	365,000	-	245,000	120,000	120,000
General Obligation Refunding Bonds Series 2011	3,775,000	-	45,000	3,730,000	50,000
	<u>\$ 4,345,000</u>	<u>\$ -</u>	<u>\$ 390,000</u>	<u>\$ 3,955,000</u>	<u>\$ 275,000</u>

Conduit Debt Obligations

The City has issued Industrial Building Revenue Bonds to provide financial assistance to private-sector entities for the purchase or addition of property including land and a building. The bonds are secured by the properties financed and are payable solely from the private-sector entities. Neither the City nor any political subdivision thereof, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements. As of June 30, 2015, there were two Industrial Building Revenue Bonds outstanding with principal amounts payable totaling \$9,430,914.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

NOTE 7 – LINE OF CREDIT

The City has a non-revolving line of credit with Branch Banking & Trust Company for \$4,100,000. At June 30, 2015, the amount outstanding on the line of credit was \$2,559,549, payable at prime rate of 3.15% at June 30, 2015.

NOTE 8 – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the City.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The Plan provides for retirement, disability and death benefits.

Participating non-hazardous employees contribute 5% (8% for hazardous duty employees) of their creditable compensation. Hazardous duty employees who entered the plan after August 31, 2008 must also contribute an additional 1% of their annual creditable compensation for health insurance. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium.

Contributions

The City contributed 17.67% (34.31% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2015.

The City of Edgewood made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2015 in the amount of \$650,890.

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

At June 30, 2015, the City reported a liability of \$3,993,912 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 a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's employer allocation proportion was 0.023916% of the total CERS non-hazardous duty employees and 0.267758% of the total CERS hazardous duty employees. For the year ended June 30, 2015, the City recognized pension expense of \$650,890.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

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 Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on plan investments	-	403,094
Changes of assumptions	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	<u>650,890</u>	<u>-</u>
Total	<u>\$ 650,890</u>	<u>\$ 403,094</u>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

The \$650,890 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Net Deferral</u>
2016	\$ 80,619
2017	80,619
2018	80,619
2019	80,619
2020	<u>80,618</u>
	<u>\$ 403,094</u>

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial 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	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan expense, including inflation

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

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

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

<u>Asset Class</u>	<u>CERS Hazardous & Non-Hazardous Target Allocation</u>	<u>Long Term Expected Nominal Return</u>
Domestic equity	30%	8.5%
International equity	22%	8.9%
Emerging market equity	5%	10.5%
Private equity	7%	11.3%
Real estate	5%	7.0%
Core US fixed income	10%	5.3%
HY US fixed income	5%	7.3%
Non US fixed income	5%	5.5%
Commodities	5%	7.8%
TIPS	5%	5.0%
Cash	1%	3.3%
Total	<u>100%</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 of benefit payments to determine the total pension liability.

Sensitivity of the District'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 calculated using the discount rate of 7.75 percent, 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 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% decrease	6.75%	\$ 5,230,703
Current discount rate	7.75%	3,993,912
1% increase	8.75%	2,935,331

Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

City Pension Plan

Non-hazardous duty employees are eligible to contribute an additional 2% to the City's previous defined contribution pension plan. The City contributes up to 4.5%. The City made no contributions for the City's pension obligations for the fiscal year ended June 30, 2015.

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 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, 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 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 – RELATED PARTY TRANSACTIONS

During the fiscal year ending June 30, 2015, the City of Edgewood had \$6,164 in related party transactions with Summit Fire Apparatus. Summit Fire Apparatus is owned by a council member.

NOTE 12 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 67 – *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25* – This statement is not currently applicable to the City of Edgewood.

Statement No. 68 – *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27* – Requires the City to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on the City's Statement of Net Position. This statement is effect for the fiscal period June 30, 2015. This statement adds a liability of \$4,471,635 as the City's share of the CERS unfunded liability to the City's Statement of Net Position.

CITY OF EDGEWOOD, KENTUCKY Notes to Financial Statements June 30, 2015

in net pension liability and an offsetting \$587,801 in deferred outflow of resources) as the City's share of the CERS unfunded liability to the City's Statement of Net Position.

Statement No. 69 – *Government Combinations and Disposals of Government Operations* – This statement is not currently applicable to the City of Edgewood.

Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – This statement is not currently applicable to the City of Edgewood.

NOTE 13 – FUTURE ACCOUNTING STANDARDS

Statement No. 77 – *Tax Abatement Disclosures*

Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 74 – **Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**

Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

Statement No. 72 – *Fair Value Measurement and Application*

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

The City has recorded an adjustment to the Beginning Net Position of (\$3,883,834) at June 30, 2014. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated events through December 3, 2015, the date on which the financial statements were available for issue. The City has no subsequent events to June 30, 2015 through December 3, 2015 to disclose.

CITY OF EDGEWOOD, KENTUCKY
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - General Fund
For the Year Ended June 30, 2015

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 6,758,681	\$ -	\$ 6,758,681	\$ 6,328,825	\$ (429,856)
Resources (inflows):					
Taxes					
Real estate tax	1,700,000	-	1,700,000	1,746,039	46,039
Payroll tax	3,500,000	-	3,500,000	3,668,766	168,766
Net profits tax	150,000	-	150,000	248,884	98,884
Bank deposit tax	60,000	-	60,000	58,992	(1,008)
Franchise tax	35,000	-	35,000	78,143	43,143
Cable return	65,000	-	65,000	82,007	17,007
Licenses and permits					
Occupational licenses	67,500	-	67,500	71,404	3,904
ABC licenses	7,800	-	7,800	9,505	1,705
Garage permits	500	-	500	455	(45)
Building and zoning	100	-	100	-	(100)
Fines and forfeitures					
Real estate penalties and interest	2,500	-	2,500	11,028	8,528
Police	1,000	-	1,000	659	(341)
Other revenues					
Sale of property	1,000	-	1,000	10,998	9,998
Memorials	100	-	100	-	(100)
Concessions	1,000	-	1,000	1,626	626
Newsletter advertisements	1,500	-	1,500	1,750	250
Miscellaneous	15,000	-	15,000	20,084	5,084
Investment income	11,000	-	11,000	19,351	8,351
Intergovernmental					
KLEFPF	60,000	-	60,000	89,914	29,914
LGEAF	300	-	300	-	(300)
Base court revenue	17,000	-	17,000	12,769	(4,231)
Fire department state aid	10,900	-	10,900	8,250	(2,650)
Other grants	2,240,000	-	2,240,000	2,248,622	8,622
Charges for services					
Waste	680,000	-	680,000	647,821	(32,179)
EMS response fee	140,000	-	140,000	334,145	194,145
Contract fire department	65,000	-	65,000	64,585	(415)
Police special duty	-	-	-	13,184	13,184
Board of adjustments	500	-	500	-	(500)
SRO fee	28,000	-	28,000	35,946	7,946
Senior center rental	25,000	-	25,000	33,475	8,475
Recreation programs	40,000	-	40,000	47,812	7,812
Total resources (inflows)	8,925,700	-	8,925,700	9,566,214	640,514
Amounts available for appropriation	15,684,381	-	15,684,381	15,895,039	210,658

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - General Fund - (Continued)
For the Year Ended June 30, 2015

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Charges to appropriations (outflows):					
General government					
Personnel	\$ 418,238	\$ -	\$ 418,238	\$ 405,265	\$ 12,973
Contractual	998,800	-	998,800	1,001,004	(2,204)
Operations & maintenance	193,600	-	193,600	301,671	(108,071)
Police					
Personnel	1,468,331	-	1,468,331	1,419,209	49,122
Contractual	15,200	-	15,200	13,576	1,624
Operations & maintenance	325,700	-	325,700	169,576	156,124
Fire and EMS					
Personnel	1,070,232	-	1,070,232	1,063,702	6,530
Contractual	8,000	-	8,000	8,000	-
Operations & maintenance	164,300	-	164,300	178,654	(14,354)
Public works					
Personnel	605,523	-	605,523	624,327	(18,804)
Contractual	3,700,000	-	3,700,000	3,458,394	241,606
Operations & maintenance	228,800	-	228,800	244,663	(15,863)
Parks					
Operations & maintenance	34,000	-	34,000	33,842	158
Recreation					
Personnel	61,555	-	61,555	67,349	(5,794)
Operations & maintenance	102,700	-	102,700	112,398	(9,698)
Debt Service	-	-	-	1,172,766	(1,172,766)
Capital outlay	477,200	-	477,200	510,803	(33,603)
Total charges to appropriations	9,872,179	-	9,872,179	10,785,199	(913,020)
Line of credit draw	-	-	-	3,687,335	(3,687,335)
Interfund transfers	-	-	-	(499,681)	(499,681)
Budgetary fund balance, June 30	<u>\$ 5,812,202</u>	<u>\$ -</u>	<u>\$ 5,812,202</u>	<u>\$ 8,297,494</u>	<u>\$ 2,485,292</u>

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY**Required Supplementary Information - Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure
For the Year Ended June 30, 2015****Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement Plan (CERS)**

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of net pension liability	0.089828%									
Proportionate share of the net pension liability (asset)	\$ 3,993,912									
Covered employee payroll in year of measurement	1,839,757									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	217.09%									
Plan fiduciary net position as a percentage of total pension liability	65.96%									

**Schedule of the City's Contributions
County Employees' Retirement Plan (CERS)**

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 650,890	\$ 587,801								
Actual contribution	650,890	587,801								
Contribution deficiency (excess)	-	-								
Covered employee payroll	2,222,053	1,839,757								
Contributions as a percentage of covered employee payroll	29.29%	31.95%								

**Notes to Required Supplementary Information
for the Year Ended June 30, 2015
Changes of Assumptions**

The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization.

CITY OF EDGEWOOD, KENTUCKY

**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - Debt Service Fund**

For the Year Ended June 30, 2015

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,906</u>	<u>\$ 55,906</u>
Resources (inflows):					
Investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total resources (inflows)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts available for appropriation	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,906</u>	<u>55,906</u>
Charges to appropriations (outflows):					
Debt service expenditures	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>499,681</u>	<u>319</u>
Total charges to appropriations	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>499,681</u>	<u>319</u>
Operating transfers in	<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>499,681</u>	<u>(319)</u>
Budgetary fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,906</u>	<u>\$ 55,906</u>

The accompanying notes are an integral part of the financial statements.

CITY OF EDGEWOOD, KENTUCKY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2015

Federal Agency	Federal Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
DOT	<i>Pass-Through Commonwealth of Kentucky Transportation Cabinet</i>			
	Highway Planning and Construction Cluster	20.205	P02-625-09000-22396	<u>\$ 1,134,302</u>
	Subtotal Highway Planning and Construction Cluster			<u>1,134,302</u>
Total Federal Expenditures:				<u><u>\$ 1,134,302</u></u>

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Edgewood and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

CITY OF EDGEWOOD, KENTUCKY SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2015
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I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? Yes X None reported

Noncompliance material to financial statements noted Yes X No

Federal Awards

Internal Control Over Major Programs:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: Yes X No

Identification of major programs:

Federal Program or Cluster	CFDA No.
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

II. FINDINGS - FINANCIAL STATEMENTS AUDIT

None reported.

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None reported.

CITY OF EDGEWOOD, KENTUCKY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2015

Not Applicable / An A-133 Audit was not required in the prior year.

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

**To the Honorable Mayor and
Members of Council of
City of Edgewood, 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 Edgewood, Kentucky as of June 30, 2015 and the related notes to the financial statements which collectively comprise the City of Edgewood, Kentucky's financial statements, and have issued our report thereon dated December 3, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered City of Edgewood, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Edgewood, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Edgewood, Kentucky'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 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 and therefore material weaknesses or significant deficiencies may exist that were not identified. 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 of Edgewood, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
December 3, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**To the Honorable Mayor and
Members of the Council
City of Edgewood, Kentucky**

Compliance

We have audited the compliance of the City of Edgewood, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2015. The City of Edgewood, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Edgewood, Kentucky's management. Our responsibility is to express an opinion on the City of Edgewood, Kentucky's compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular 133* require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Edgewood, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination on the City of Edgewood, Kentucky's compliance with those requirements.

In our opinion, the City of Edgewood, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2015.

Internal Control Over Compliance

The management of the City of Edgewood, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered the City of Edgewood, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Edgewood, Kentucky's internal control over compliance.



A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
December 3, 2015