

**CITY OF PEWEE VALLEY
MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2009**

McIntyre & Wooldridge, PSC
Certified Public Accountants

3103 Breckenridge Lane, Suite 3
Louisville, Kentucky 40220
502/493-9373 or 493-9374 (fax)

John M. McIntyre, CPA

Paula E. Wooldridge, CPA

October 2,, 2009

The Honorable Mayor and
Council of the City of
Pewee Valley, Kentucky

Mayor and Council:

In planning and performing our audit of the basic financial statements of the City of Pewee Valley, for the year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The information contained in this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 2, 2009 on the basic financial statements and the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards.

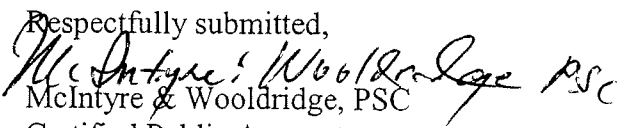
We have already discussed several of these comments and suggestions with various personnel of the City, and we will be pleased to discuss them in further detail at your convenience, to perform an additional study of these matters, or to assist in implementing the recommendations.

The City is required by KRS to submit three copies of the audit report and management letter to the Department of Local Government ten days after presentation. The independent auditor's report, budgetary comparison schedules, and city contact information must be published in the primary local paper or provided to its citizens via first class mail. Affidavits of advertising are required and should be attached to copy of advertisement or copy of mailing and should be retained.

Please note that we found the city personnel to be extremely cooperative in connection with our audit procedures and to be very open to all of our suggestions and comments.

We hope these comments will be of benefit to you. This letter is intended solely for the use of the management of the City of Pewee Valley.

Respectfully submitted,


McIntyre & Wooldridge, PSC
Certified Public Accountants

INTERNAL CONTROL

We noted that there is presently only one authorized signer on the the City's certificate of deposit account.

We recommend that two authorized signers exist on all of the City's bank accounts and that dual signatures (authorization) be required for any certificate of deposit purchases or withdrawals.

We noted instances where unissued checks were not properly voided to preclude the possibility for subsequent unauthorized or fraudulent use.

All unissued checks should have the signature portion torn off, be marked void and be retained in a file with access restricted to authorized personnel.

COMPLIANCE MATTERS

We noted that the revenue and expenditure line items on the City's budget did not add to the total.

We recommend the City ensure that its budget is accurately prepared. Also, the municipal road aid and general funds are two separate and independent funds and each should reflect separate totals.

We noted that actual expenditures exceeded budgeted expenditures for water quality management expense and grant expense.

We recommend that the City amend its budget whenever it is anticipated that actual expenditures will exceed the budget.

We noted that the City's final amended budget for the year reflected a deficit amount. This was because the budget did not reflect the fund balance carryforward from the previous year.

We recommend the City include fund balance carryforward balances in its budget.

We noted the City did not publish all the required components of the prior year audited financial statements, as required by law. Specifically, the publication omitted the auditor's report.

We recommend the City ensure that all required parts of the audited financial statements be published. See page 1 of this management letter for the specific requirements.

OTHER MATTERS

We noted that in some instances that the City Council meeting minutes were not definitive. For example, the minutes discussed readings of the budget and did not describe which year. Since amendments were made to the June 30, 2009 budget throughout the fiscal year, it was difficult to determine which year the amendments pertained to. Also, some of the months' minutes pages were not numbered.

We recommend that the City strive to prepare the Council minutes in a more concise and complete manner.

CITY OF PEWEE VALLEY, KENTUCKY

ANNUAL FINANCIAL REPORT

JUNE 30 2009

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3103 Breckenridge Lane, Suite 3
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John M. McIntyre, CPA

Paula E. Wooldridge, CPA

October 2, 2009

The Honorable Mayor and
Council of the City of
Pewee Valley, Kentucky

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the City of Pewee Valley, Kentucky, as of June 30, 2009, and for the year ended, which comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Pewee Valley, Kentucky's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Pewee Valley, Kentucky, as of June 30, 2009, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2009 on our consideration of the City of Pewee Valley, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison information on pages 3 through 6 and 21 through 22 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

McCarty & Woolbridge PSC

CITY OF PEWEE VALLEY, KENTUCKY
P.O. BOX 769
PEWEE VALLEY, KENTUCKY 40056

Management's Discussion and Analysis

The management of the City of Pewee Valley desires to offer the readers of these financial statements this narrative and analysis of the financial activities of the City of Pewee Valley for the fiscal year ended June 30, 2009.

Financial Highlights

During the fiscal year 2009, the City had general revenues of \$537,998 and \$72,804 in operating grants. Total expenditures for fiscal year 2009 were \$436,084. With revenues exceeding expenditures by \$174,718, the City's Net Assets increased from \$1,331,199 to \$1,505,917.

The ending cash balance for the City was \$522,584. This reflects an increase in cash during the year of \$97,492.

The City entered into a general obligation lease with the Kentucky League of Cities Funding Trust during 2005. Funds from this lease, totaling \$260,000, were to be used to make major improvements to the Cities' roads and drainage. Note 6 discusses the details of the lease transaction. All of these funds had been used prior to the current financial year.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the City of Pewee Valley's basic financial statements. These statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements are designed to provide readers with a broad overview of the City of Pewee Valley's finances, in a manner similar to a private-sector business. The government-wide financial statements consist of a statement of net assets, and a statement of activities.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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.

Government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues. The City of Pewee Valley's activities include administration, law enforcement, public works and waste management. Capital outlays and related debt are also supported by these revenue sources. The government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements are 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. The basic government fund financial statements can be found on pages 9-11 of this report.

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 12-20 of this report.

Government-wide Financial Analysis

	FYE'09	FYE'08	Increase
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>
Current Assets	\$ 849,055	\$ 711,619	137,436
Capital assets and land	819,214	798,274	20,940
Loan Cost	<u>1,668</u>	<u>2,335</u>	(667)
Total Assets	<u>\$1,669,937</u>	<u>\$1,512,228</u>	<u>\$157,709</u>
Payables	\$ 52,003	\$ 26,824	25,179
Lease			
Obligations	<u>112,017</u>	<u>154,205</u>	(42,188)
Total Liabilities	<u>\$ 164,020</u>	<u>\$ 181,029</u>	<u>\$(17,009)</u>
Invested in			
capital assets	707,197	640,567	66,630
Restricted	38,952	20,812	18,140
Unrestricted	<u>759,768</u>	<u>669,820</u>	<u>89,948</u>
Total Net Assets	<u>\$1,505,917</u>	<u>\$1,331,199</u>	<u>\$ 174,718</u>

The statement of Net Assets shows that the City of Pewee Valley has assets of \$1,669,937 with liabilities of \$164,020. Of the \$1,669,937 total assets, \$819,214 is comprised of capital assets, net of depreciation. During fiscal year 2009, the total capital assets, net of depreciation increased by \$20,940 or 3 %. This increase was primarily due to road improvements and sidewalks. The statement also reflects the entries related to the City's general obligation lease agreement with the Kentucky League of Cities Funding Trust. The City entered into this lease obligation to finance road and drainage projects at an estimated cost of \$260,000. As of June 30, 2007, the City had expended all of these funds. The lease is payable over seven years starting with the first payment on January 1, 2005. On June 30, 2009, the city had a lease obligation remaining of \$101,190 of which \$38,958 is due over the next twelve months. During the previous fiscal year, the City entered into a three year lease for the purchase of a police vehicle. On June 30, 2009, the related lease obligation remaining is \$10,827 of which \$5,289 is due over the next twelve months.

Following is a comparative statement of activities. Expenses are shown net of operating grants.

	<u>FYE'09</u> <u>Amount</u>	<u>FYE'08</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>
General Revenue			
Property taxes	\$217,641	\$239,728	\$ (22,087)
Insurance premium taxes	293,265	152,704	140,561
Bank deposit taxes	7,884	8,099	(215)
Interest Income	7394	15,189	(7,795)
Miscellaneous	<u>11,814</u>	<u>15,405</u>	<u>(3,591)</u>
Total General Revenue	\$537,998	\$431,125	\$ 106,873
Net Expenses			
General government	\$ 91,712	\$ 83,714	\$ 7,998
Police	41,160	34,323	6,837
Waste management	70,876	73,217	(2,341)
Public works	<u>159,532</u>	<u>108,717</u>	<u>50,815</u>
Total Net Expenses	<u>\$363,280</u>	<u>\$299,971</u>	<u>\$ 63,309</u>
Increase in Net Assets	<u>\$174,718</u>	<u>\$131,154</u>	<u>\$ 43,564</u>

Almost 44% of all city expenditures in fiscal year 2009 were related to Public Works. This number is net of \$54,102 in grants obtained during the fiscal year. On a grossed up basis, \$213,634 was spent on public works which was 49.0% of total gross expenditures. This is slightly higher than previous years due to FEMA reimbursements related to the wind storm and the ice storm. Expenditures in this category include road maintenance, construction, upkeep and replacement as necessary of trees located along the City's thoroughfares, snow and ice removal and this year, the removal of debris along city streets. These expenditures address the needs as identified by citizens and the city's contract engineer.

Notes to the Financial Statements

The notes include much useful information and data. Note 1 states the significant accounting policies used by the City. As stated in Note 1, the assessed value of property in Pewee Valley as of January 1, 2009 was \$163,266,200. The property tax rate for fiscal year 2009 was .144 per \$100 assessed valuation. In 2008, the assessed value was \$163,590,510 and the tax rate was .144 per \$100 assessed valuation. These numbers reflect that a reassessment was not made by the Property Valuation Administrator during the current period. Note 2 reflects information regarding cash and cash equivalents, and investments.

Supplementary Information

Budgetary comparisons of the General Fund and Special Revenue Fund are shown on pages 21-22. These schedules show the original budget as approved. During the fiscal year, the budget was modified to reflect items not known at the time the original budget was approved. Revenues and expenditures were amended to reflect the FEMA grant and the use of funds for the wind and ice storms in the amount of \$19,875 for grant revenue, \$9,000 for Environmental improvements (storm damage) and \$25,500 for Road and drainage. The statement also shows a comparison of this final budget to "Actual". The actual is a modified accrual basis that reflects items received or paid for after the fiscal year end. The budget is also prepared on a modified accrual basis. Actual expenditures were under budget in every category except for Water quality management and Grants. The Special Revenue Fund was not amended during the fiscal year.

Purchase of Morris real property

In December, 2006, a piece of real property located in the town center was auctioned at the courthouse door. In a special meeting, the town council authorized the mayor to bid up to \$150,000 for this piece of property. It was thought the structure on the property could be rehabilitated with the use of government grants and turned into a museum for the town. The property was acquired for the \$150,000. Afterwards, upon close examination, it was determined that the structure was not worth saving and the decision was made to raze the structure. Currently, the City is evaluating the future use of the property.

Summary

The current financial statement reporting model is mandated by the Governmental Accounting Standards Board (GASB). The City of Pewee Valley implemented these changes in 2004.

Request for Information

This report is designed to provide a general overview of the City's finances and to show the City's accountability to its residents. If you have questions about this report or need additional financial information, please direct your request to the City Treasurer, City of Pewee Valley, P.O. Box 769, Pewee Valley, Kentucky, 40056.

CITY OF PEWEE VALLEY, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS

Current Assets

Cash and cash equivalents	\$ 522,584
Property taxes receivable	3,288
Insurance premium taxes receivable	68,378
Municipal road aid receivable	1,218
Franchise fee and other receivables	8,260
Prepaid expenses	6,762
Short term investments	<u>238,565</u>
Total Current Assets	849,055

Non-Current Assets

Capital assets:

Land	126,500
Depreciable capital assets, net of depreciation of \$373,065	692,714
Loan costs, net of amortization of \$2,334	<u>1,668</u>
Total Non-Current Assets	<u>820,882</u>

TOTAL ASSETS

1,669,937**LIABILITIES**

Current Liabilities

Accounts payable	52,003
Road project lease obligation - current	38,958
Vehicle lease obligation - current	<u>5,289</u>
Total Current Liabilities	96,250

Non-Current Liabilities

Road project lease obligation -non-current	62,232
Vehicle lease obligation - non-current	<u>5,538</u>
Total Non-Current Liabilities	<u>67,770</u>

TOTAL LIABILITIES

164,020**NET ASSETS**

Investment in capital assets, net of related debt	707,197
Restricted for:	
Roads	24,017
Other	14,935
Unrestricted	<u>759,768</u>

TOTAL NET ASSETS

\$ 1,505,917

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

**CITY OF PEWEE VALLEY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u> <u>OPERATING GRANTS</u>	<u>NET (EXPENSES)</u> <u>REVENUES AND</u> <u>CHANGES IN NET ASSETS</u> <u>GOVERNMENTAL ACTIVITIES</u>
Functions/Programs			
Primary Government:			
Governmental Activities:			
General government	\$ (91,712)	\$ -	\$ (91,712)
Police	(56,862)	15,702	(41,160)
Waste management	(70,876)		(70,876)
Public works	(213,634)	54,102	(159,532)
Grants	<u>(3,000)</u>	<u>3,000</u>	<u>-</u>
Total Governmental Activities	<u>\$ (436,084)</u>	<u>\$72,804</u>	<u>(363,280)</u>
General Revenues:			
Taxes:			
Property taxes levied for general purposes			217,641
Insurance premium taxes			293,265
Bank deposit taxes			7,884
Interest income			7,394
Franchise fees			8,143
Miscellaneous income			2,369
Mineral severance			<u>1,302</u>
Total General Revenues			<u>537,998</u>
CHANGE IN NET ASSETS			174,718
NET ASSETS, Beginning of year			<u>1,331,199</u>
NET ASSETS, End of year			<u>\$ 1,505,917</u>

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

CITY OF PEWEE VALLEY, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS AND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 459,350	\$ 63,234	\$ 522,584
Property taxes receivable	522		522
Insurance premium taxes receivable	68,378		68,378
Municipal road aid receivable		1,218	1,218
Franchise fee and other receivables	8,260		8,260
Prepaid expenses	6,762		6,762
Short-term investments	238,565	-	238,565
TOTAL ASSETS	\$ 781,837	\$ 64,452	\$ 846,289
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and payroll liabilities	\$ 26,503	\$ 25,500	\$52,003
FUND BALANCES			
Unreserved for:			
General fund	755,334	-	755,334
Special revenue funds	-	38,952	38,952
Total Fund Balances	755,334	38,952	794,286
TOTAL LIABILITIES AND FUND BALANCES	\$ 781,837	\$ 64,452	\$ 846,289
TOTAL GOVERNMENTAL FUND BALANCES			\$ 794,286
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets and loan costs, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the funds			820,882
Long-term debt, including capital leases are not due and payable in the current period and therefore are not reported in the funds statements			(112,017)
Accounts receivable that do not provide current financial resources are not reported in funds statements			2,766
NET ASSETS			\$ 1,505,917

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

**CITY OF PEWEE VALLEY, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES			
Property taxes, including interest and penalties	\$ 222,831	\$	\$ 222,831
Bank taxes	7,884		7,884
Insurance premium taxes	293,265		293,265
Franchise fees	8,143		8,143
Miscellaneous revenues	2,369		2,369
Interest income	6,987	407	7,394
Municipal road aid revenue		28,366	28,366
Mineral severance tax		1,302	1,302
Grants	<u>44,437</u>	<u>-</u>	<u>44,437</u>
Total Revenues	585,916	30,075	615,991
EXPENDITURES			
General government	\$ 89,010	\$ -	\$ 89,010
Police	56,536		56,536
Waste management	70,876		70,876
Environmental improvements	60,749		60,749
Road improvements	80,159	25,500	105,659
Sidewalk improvements	19,741		19,741
Water quality management	39,618		39,618
Public safety	8,723		8,723
Debt service	42,384		42,384
Contingency	5,750		5,750
Grants	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Expenditures	<u>476,546</u>	<u>25,500</u>	<u>502,046</u>
EXCESS OF REVENUES OVER EXPENDITURES	109,370	4,575	113,945
OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	109,370	4,575	113,945
FUND BALANCES, Beginning of year	<u>645,964</u>	<u>34,377</u>	<u>680,341</u>
FUND BALANCES, End of year	<u>\$ 755,334</u>	<u>\$ 38,952</u>	<u>\$ 794,286</u>

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

**CITY OF PEWEE VALLEY, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

Net change in fund balances-total governmental funds	\$ 113,945
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation and amortization/expense:	
This is the amount by which net capital outlays exceeded depreciation and amortization in the current period	23,775
Governmental funds report long-term debt borrowings as revenues and long-term debt payments as expenditures. However, the results of these transactions are reflected as changes in debt on the statement of net assets and not on the statement of activities.	
This is the amount by which principal payments exceeded borrowings on long-term debt during the current period	42,188
Governmental funds report revenues that provide current financial resources. This is the amount in accounts receivable that does not provide current financial resources	<u>(5,190)</u>
Change in net assets as reflected on statement of activities	<u>\$ 174,718</u>

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

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: streets, sanitation, public improvements, police protection and general administrative services. The City is a 5th Class City as defined by Kentucky statute.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities reflect financial information of the City as a whole. These statements include the primary government and its component units if applicable. Government-wide statements distinguish between governmental and business-type activities. Currently, the City does not engage in any business-type activities.

The statement of activities presents direct expenses which are clearly identifiable with a specific function or segment. Taxes and other revenue items are reported as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure in the funds financial statements.

Long-term debt is reflected on the statement of net assets and principal payments on long-term debt are reported as reductions of long-term debt.

Fund Financial Statements

The City uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions relating to certain government functions or activities. A fund is

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

a separate entity with a self-balancing set of accounts. Funds of the City are classified as governmental, which account for all or most of the City's general activities including the collection of legally restricted monies, administrative expense and the acquisition or construction of capital assets.

The government reports the following funds of the financial reporting entity: The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund. The *special revenue funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The City accounts for Kentucky municipal road aid and local government economic assistance (LGEA) receipts in the special revenues fund group. The municipal aid fund is restricted to road construction, repairs and maintenance and the LGEA fund is restricted to certain non-general government expenditures.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues are recognized in the year for which they are due. This method differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds. Expenses are classified by function.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each governmental program. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when they are "measurable and available". Measurable means the amount can be determined.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Available means collectible within the period or soon enough thereafter to pay current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. A 90 day period is used for revenue recognition for all other governmental fund revenues. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for capital asset acquisitions and general obligation debt and interest which are reported as expenditures in the year due.

Budgetary Accounting

The budget information reflected in the financial statements is the annual budget adopted by the City in accordance with the provisions of Kentucky law. It is presented to the Council in the form of an ordinance and may be amended by subsequent ordinance or by municipal order. The City budgeted for its general fund and its municipal road aid fund, which is part of the special revenue funds group, for the year ended June 30, 2009. The City did not budget any expenditures for the LGEA fund during the year.

Budgetary Comparison Schedules

As required by generally accepted governmental accounting principles, this statement has been prepared in the same form as the legally adopted budget; therefore its form varies somewhat from the Statement of Revenues, Expenditures and Changes in Fund Balances on page 10.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as money-market accounts. For purposes of these financial statements, the City considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased and are readily convertible to cash.

Generally, the City's investing activities are managed under the custody of the City Treasurer. Investing is performed in accordance with investment policies complying with state statutes and the City Charter. City funds may be invested in: (1) obligations of the United States and its agencies and instrumentalities, (2) obligations of any corporation of the United States government, (3) certificates of deposits in institutions insured by the Federal Deposit Insurance Corporation (FDIC), and (4) bonds or certificates of indebtedness of the Commonwealth of Kentucky.

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit, money market saving accounts, repurchase agreements, passbooks and other available bank investment provided that such financial institutions

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

are insured by an agency of the U.S. Government. Investments in excess of the insured amount must be secured with approved securities pledged by the financial institutions.

As of June 30, 2009, \$49,600 was restricted for road construction and related repairs and maintenance.

Short-term Investments

Short-term investments at June 30, 2009 consist of a certificate of deposit amounting to \$238,565 earning interest at 1.25% per annum and maturing in April, 2010.

Property Taxes and Property Tax Receivable

Property taxes are levied as of October 1 on the assessed value listed as of the preceding January 1 for all real and personal property located in the City. The tax assessed for the year ended June 30, 2009 to finance general fund operations was based on \$.144 per \$100 assessed valuation for real and personal property. The total assessed value of the tax roll on January 1, 2008 upon which the levy for 2009 fiscal year was based, was \$163,551,310 resulting in gross taxes of \$235,514. A discount of 10% is allowed on property taxes if paid by October 31; the gross tax (or face value) is due if paid by December 1; and a 7% penalty is assessed if paid after December 1 with 1% per month interest after December 1. A lien may be placed on the property if the balance is not paid within six months.

The statement of net assets reflects property taxes receivable for amounts billed during the year ended June 30, 2009 and prior.

The balance sheet – governmental funds reflects property taxes receivable for accounts collected within 60 days after year end in accordance with the modified accrual basis of accounting.

Insurance Premium Taxes

Insurance premium taxes are assessed at a tax rate of 10%. The City increased the rate from 5% to 10% effective July 1, 2008. Health insurance premiums are tax exempt.

Bank Taxes

Bank taxes are assessed on bank deposits at a tax rate of \$.025 per \$100.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Prepaid Expenses

Prepaid expenses represent payments to vendors that benefit future reporting periods. Prepaids are reported in government-wide and fund financial statements.

Capital Assets

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the government fund statements and capitalized (recorded and accounted for) in the government-wide statements of net assets.

Effective for the year ended June 30, 2004, the City implemented GASB Statement Number 34. One of the requirements of GASB 34 is to capitalize and depreciate infrastructure expenditures and other capital assets. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost.

Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets.

The estimated useful lives of various classes of capital assets are as follows:

Buildings	40 years
Building improvements	10 years
Furniture, machinery and equipment	5-7 years
Road, sidewalk and bridge improvements	15 years

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fund Equity

Net assets is the difference between assets and liabilities. Net assets are restricted when constraints are placed on net asset use either externally imposed by creditors, grantors or contributors or regulations of governments, or imposed by law.

In the fund financial statements, government funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function.

In the fund financial statements, governmental funds are classified by character and function. In the fund financial statements governmental funds report expenditures of financial resources.

Fair Value of Financial Investments

The carrying amount of cash and cash equivalents, receivables, short-term investments and payables approximates their fair market values as of June 30, 2009.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires City's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents and investments are recorded at cost (which approximates market value) and consists of the following:

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
<u>Cash and Cash Equivalents</u>			
General Fund Checking	\$ 169,445	\$ -	\$169,445
General Fund Money Market	289,905		289,905
Municipal Road Aid Money Market		49,600	49,600
LGEAF (Mineral Severance Tax) Money Market	-	13,634	13,634
Total	<u>\$459,350</u>	<u>\$63,234</u>	<u>\$522,584</u>
 <u>Short-term Investments</u>			
Certificate of Deposit			
1.25% annual yield, maturity in April 2010	<u>\$238,565</u>	<u>\$ -</u>	<u>\$238,565</u>

At June 30, 2009 all cash and cash equivalents and short term investments were insured by the FDIC or were collateralized with securities held by its bank in the City's name as required by Kentucky Revised Statutes (KRS).

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2009, consists of the following:

	<u>Balance 6-30-08</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6-30-09</u>
Governmental activities:				
Building	\$ 110,000	\$	\$	\$ 110,000
Firehouse	90,000			90,000
Land	126,500			126,500
Building improvements	40,974			40,974
Furniture and fixtures	11,105			11,105
Motor vehicles and accessories	49,767			49,767
Machinery and equipment	19,286			19,286
Road improvements	577,063	59,548		636,611
Sidewalk improvements	55,643	19,741		75,384
Bridge improvements	32,652	-	-	32,652
	<u>1,112,990</u>	<u>79,289</u>	<u>-</u>	<u>1,192,279</u>
Accumulated depreciation	<u>318,218</u>	<u>54,847</u>	<u>-</u>	<u>373,065</u>
Total Capital Assets, net	<u>\$ 794,772</u>	<u>\$24,442</u>	<u>\$ -</u>	<u>\$ 819,214</u>

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

Depreciation was charged to function on the Statement of Activities as follows:

General government	\$ 2,702
Police	5,376
Public works	<u>46,769</u>
Total	<u>\$54,847</u>

NOTE 4 – RISK MANAGEMENT

The City is subject to normal insurance risks as other cities of its size. The City carries general liability, worker's compensation and errors and omissions coverage. The City has not had any significant reduction in coverage in the past year.

NOTE 5 – ROAD PROJECT AND LEASE OBLIGATION

On December 3, 2004, the City entered into a general obligation lease agreement with Kentucky League of Cities Funding Trust (the Lessor), the proceeds of which are to be used to finance the City's road and drainage projects at an estimated cost of \$260,000. The original principal amount of the lease obligation was \$260,000. The lease agreement requires monthly payments of approximately \$3,350 including interest at a fixed rate of 3.49% and loan fees beginning January 1, 2005 and ending December 31, 2011. These payments are payable to U.S. Bank National Association, Louisville, Kentucky which is the trustee. This lease is pursuant to a program administered by the Funding Trust and funded with the proceeds of \$50,000,000 Kentucky League of Cities Funding Trust Lease Program Revenue Bonds Variable Rate 2004 Series A issued by the City of Morehead, Kentucky (the Issuer) to finance the City's road and drainage projects. The lease was issued pursuant to an ordinance adopted by the Council of the City of Pewee Valley on November 1, 2004.

On December 3, 2004, the Kentucky League of Cities Funding Trust directed U.S. Bank to transfer the principal amount of \$260,000 less bond underwriting and legal fees of \$4,669 or a net of \$255,331 of the bond proceeds account to the City of Pewee Valley acquisition account. This account is being used by the City to request funding draws to pay for project costs. As of June 30, 2009, the City has drawn all the project funds.

The lease agreement requires the City to grant to the Lessor a security interest in any right, title and interest of the city in the portions of the project that constitutes personal property until the lease obligation is paid.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 5 – ROAD PROJECT AND LEASE OBLIGATION (CONTINUED)

The future principal and interest requirements on the capital lease obligation as of June 30, 2009 are as follows:

Year ending <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 38,958	\$2,791	\$ 41,749
2011	40,594	1,439	42,033
2012	<u>21,638</u>	<u>229</u>	<u>21,867</u>
Total	<u>\$101,190</u>	<u>\$4,459</u>	<u>\$105,649</u>

The City paid interest of \$5,246 on the above capital lease obligation during the year ended June 30, 2009.

NOTE 6 – VEHICLE LEASE OBLIGATION

During the year ended June 30, 2008, the City acquired a police cruiser under the terms of a lease-purchase agreement requiring the City to make four annual payments of \$5,800 including interest at 4.72% per annum beginning October, 2007 and ending October 2010. The lease is treated as a capital lease for accounting purposes. Consequently, the vehicle is recorded in capital assets and the related debt is reflected in liabilities.

The future principal payments on the capital lease obligation as of June 30, 2009 are as following:

Year ending <u>June 30:</u>	
2010	\$ 5,289
2011	<u>5,538</u>
Total	<u>\$10,827</u>

NOTE 7 – BUDGET BASIS OF ACCOUNTING

The City of Pewee Valley prepares its annual budget on a modified accrual basis and is consistent with the amounts reflected in the funds financial statements. During the year ended June 30, 2009, the City amended its budget twice.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PEWEE VALLEY, KENTUCKY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES AND RESOURCES				
Property taxes	\$ 234,000	\$ 234,000	\$ 222,831	\$ (11,169)
Insurance premium taxes	225,000	225,000	293,265	68,265
Bank taxes	8,500	8,500	7,884	(616)
Franchise fees	6,934	6,934	8,143	1,209
Grant and miscellaneous revenues	14,600	34,475	46,806	12,331
Interest income	<u>8,652</u>	<u>8,652</u>	<u>6,987</u>	<u>(1,665)</u>
 Total Revenues and Resources	 497,686	 517,561	 585,916	 68,355
 EXPENDITURES				
Administrative	55,000	55,875	47,906	7,969
Communication	10,000	15,000	14,493	507
Contingency	8,500	8,500	-	8,500
Environmental improvement	53,000	61,000	60,749	251
Festivities	9,650	9,650	9,104	546
Insurance	15,000	15,000	12,370	2,630
Road and drainage	77,000	102,500	80,159	22,341
Morris property improvements	10,000	10,000	5,750	4,250
Water quality management		30,000	39,618	(9,618)
Town hall	10,000	10,000	5,137	4,863
Waste Management	68,000	71,000	70,876	124
Police	62,500	62,500	56,536	5,964
Sidewalks	20,000	20,000	19,741	259
Street lights, signs	12,000	12,000	8,723	3,277
KLC loan repayments	43,200	46,200	42,384	3,816
Grants	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>(3,000)</u>
Total Expenditures	<u>453,850</u>	<u>529,225</u>	<u>476,546</u>	<u>52,679</u>
 REVENUES AND RESOURCES OVER (UNDER) EXPENDITURES	 <u>\$ 43,836</u>	 <u>\$ (11,664)</u>	 <u>\$ 109,370</u>	 <u>\$ 121,034</u>

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

CITY OF PEWEE VALLEY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE - MUNICIPAL ROAD AID FUND
 FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES				
Municipal road aid	\$ 25,000	\$ 25,000	\$ 28,366	\$ 3,366
Interest income	500	500	339	(161)
Total Revenues	25,500	25,500	28,705	3,205
EXPENDITURES				
Road and drainage	25,500	25,500	25,500	-
Total Expenditures	25,500	25,500	25,500	-
REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	\$ 3,205	\$ 3,205

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

McIntyre & Wooldridge, PSC
Certified Public Accountants

3103 Breckenridge Lane, Suite 3
Louisville, Kentucky 40220
502/493-9373 or 493-9374 (fax)

John M. McIntyre, CPA

Paula E. Wooldridge, CPA

October 2, 2009

The Honorable Mayor and
Council of the City
Of Pewee Valley, Kentucky

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

We have audited the financial statements of the City of Pewee Valley, Kentucky as of and for the year ended June 30, 2009, and have issued our report thereon dated October 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated October 2, 2009.

This report is intended solely for the information and use of the City's management and Council and is not intended to be and should not be used by anyone other than these specified parties.

McIntyre & Woodbridge, PSC

