

CITY OF PEWEE VALLEY, KENTUCKY
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

CITY OF PEWEE VALLEY, KENTUCKY

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate fund information of the City of Pewee Valley, Kentucky as of and for the year ended June 30, 2013, 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 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 opinions 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 risk 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 and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and aggregate fund information of the City of Pewee Valley, Kentucky at June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

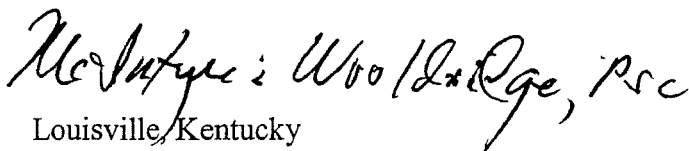
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and budgetary comparison information on pages 26 and 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

The Combining Balance Sheet – Non-Major Governmental Funds and the Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Funds on pages 28 and 29 are presented for additional analysis and are not required parts of the basic financial statements. These combining financial statements have been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 30, 2013 on our consideration of the City of Pewee Valley, Kentucky's internal control over financial reporting and on our test 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 result of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.


Louisville, Kentucky

December 30, 2013

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, 2013.

Financial Highlights

During the fiscal year 2013, the City had general revenues of \$579,338, an increase over 2012 of \$83,174, and \$58,422 in operating grants. Total expenditures for fiscal year 2013 were \$535,311, representing an increase of \$25,401. With revenues exceeding expenditures by \$128,288, the City's Net Assets increased from \$2,147,791 to \$2,276,079.

The financial position of the City remains strong. Tax revenues remain consistent as well as operating expenses. The main variance overall in revenues and expenses is related to grants received and the related expenses of those grants, mainly expense related to railroad crossing gates. The general fund balance at June 30, 2013 was \$896,325, an increase of \$324,947. Non-major governmental funds balance was \$87,196, an increase of \$32,016. Total fund balances increased \$357,073 or 57.0%. The non-major governmental fund balance is restricted for roads and storm water. The general fund balance is not restricted and is available for future use.

The ending cash balance for the City was \$684,087. This reflects an increase in cash during the year of \$329,808.

On March 29, 2012 the City entered into a general obligation lease with the Kentucky Bond Corporation (the Lessor). Funds from this lease, totaling \$255,000, were used to fund a portion of the City's railroad crossing gate project. Note 5 (Railroad Crossing Gate Project) discusses the details of the lease transaction.

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

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

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 8-9 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 10-12 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 13-25 of this report.

Government-wide Financial Analysis

	FYE'13	FYE'12	Increase
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>
Current and other assets	\$ 1,113,739	\$ 916,431	\$197,308
Capital assets and land	<u>1,400,465</u>	<u>1,542,966</u>	<u>(142,501)</u>
Total Assets	\$2,514,204	\$2,459,397	\$54,807
Payables	\$ 32,709	\$ 64,384	(31,675)
Lease			
Obligations	<u>205,416</u>	<u>247,222</u>	<u>(41,806)</u>
Total Liabilities	<u>238,125</u>	<u>311,606</u>	<u>\$(73,481)</u>

**Government-wide
Financial Analysis**
(continued)

Invested in capital assets	1,195,049	1,287,934	(92,885)
Restricted	88,345	54,260	34,085
Unrestricted	<u>992,685</u>	<u>805,597</u>	<u>187,088</u>
Total Net Position	<u>\$2,276,079</u>	<u>\$2,147,791</u>	<u>\$ 128,288</u>

The statement of Net Position shows that the City of Pewee Valley has assets of \$2,514,204 with liabilities of \$238,125. Of the \$2,514,204 total assets, \$1,400,465 is comprised of capital assets, net of depreciation. During fiscal year 2013, the total capital assets, net of depreciation decreased by \$142,501 or 9.2 %. This decrease was primarily due to the depreciation of \$88,603 along with a refund related to the crossing gates project.. The statement also reflects the entries related to the City's general obligation lease agreement with the Kentucky Bond Corporation. The City entered into this lease obligation to finance part of the crossing gate project estimated cost of \$555,000. The original principal amount of the lease obligation was \$255,000. As of June 30, 2013, the City had expended all of these funds. The lease is payable over eighty (80) months starting with the first payment on May 1, 2012. On June 30, 2013 the city had a lease obligation remaining of \$205,416, of which \$35,000 is due over the next twelve months.

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

	<u>FYE'13</u> <u>Amount</u>	<u>FYE'12</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>
General Revenue			
Property taxes	\$221,396	\$207,163	\$ 14,233
Insurance premium taxes	332,354	272,176	60,178
Interest Income	611	915	(304)
Storm water fees	25,839	22,949	2,890
Miscellaneous	<u>24,977</u>	<u>15,910</u>	<u>9,067</u>
Total General Revenue	\$605,177	\$519,113	\$ 86,064
Net Expenses			
General government	\$114,240	\$100,147	\$ 14,093
Police	85,625	78,787	6,838
Waste management	76,863	76,863	-
Public works	<u>200,161</u>	<u>(38,767)</u>	<u>238,928</u>
Total Net Expenses	<u>\$476,889</u>	<u>\$217,030</u>	<u>\$ 259,859</u>
Increase in Net Position	<u>\$ 128,288</u>	<u>\$302,083</u>	<u>\$(173,795)</u>

A storm water fee was enacted during 2010 to meet Federal mandates. The fee is \$36 per residence annually. Interest income continued to decrease as interest rates sunk to historically low levels. Public works expenditures in fiscal year 2013 net to \$200,161. On a grossed up basis, \$247,760 was spent on public works which was 48.6% of total gross expenditures. 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 improvements to the town park on a recurring basis. 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, 2013 was \$167,023,800. The property tax rate for fiscal year 2013 was .1439 per \$100 assessed valuation. In 2012, the assessed value was \$169,401,516 and the tax rate was .1439 per \$100 assessed valuation. These numbers reflect that a reassessment was made by the Property Valuation Administrator during the current period. Note 2 provides information regarding cash and cash equivalents, and investments.

Supplementary Information

Budgetary comparisons of the General Fund and Special Revenue Fund are shown on pages 26-27. 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 were amended to reflect additional grants received. Expenses were amended to reflect increased spending on environmental improvements (\$6,000), Central Park improvements (\$10,000), police (\$27,000), reserves (\$-41,100) and crossing gates (\$227,100). 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. The Municipal Road Aid Fund and the Storm Water Fund were not amended during the fiscal year.

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 POSITION
JUNE 30, 2013

ASSETS

Current Assets

Cash and cash equivalents	\$ 596,621
Property taxes receivable	1,053
Insurance premium taxes receivable	74,554
Grant and other receivables	91,798
Prepaid expenses	6,999
Short term investments	<u>244,563</u>
Total Current Assets	1,015,588

Non-Current Assets

Cash and cash equivalents, restricted	87,466
Property taxes receivable	7,419
Municipal road aid receivable, restricted	3,266
Capital assets:	
Land	192,286
Capital assets, net of depreciation of \$666,871	<u>1,208,179</u>
Total Non-Current Assets	<u>1,498,616</u>

TOTAL ASSETS 2,514,204

LIABILITIES

Current Liabilities

Accounts payable and payroll liabilities	32,709
Capital lease obligation	<u>35,000</u>
Total Current Liabilities	67,709

Non-Current Liabilities

Capital lease obligation	<u>170,416</u>
Total Non-Current Liabilities	<u>170,416</u>

TOTAL LIABILITIES 238,125

NET POSITION

Investment in capital assets, net of related debt	1,195,049
Restricted for:	
Roads	88,345
Unrestricted	<u>992,685</u>

TOTAL NET POSITION \$ 2,276,079

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, 2013**

		<u>PROGRAM REVENUES</u>			<u>NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION</u>
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS</u>	<u>CAPITAL GRANTS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Functions/Programs					
Primary Government:					
Governmental Activities:					
General government	\$ (114,240)	\$ -	\$ -	\$ -	\$ (114,240)
Police	(96,448)		10,823		(85,625)
Waste management	(76,863)				(76,863)
Public works	<u>(247,760)</u>	<u>25,839</u>	<u>47,599</u>	<u>-</u>	<u>(174,322)</u>
Total Governmental Activities	<u>\$ (535,311)</u>	<u>\$ 25,839</u>	<u>\$ 58,422</u>	<u>\$ -</u>	<u>(451,050)</u>
General Revenues:					
Taxes:					
Property taxes levied for general purposes					221,396
Insurance premium taxes					332,354
Interest income					611
Franchise fees					14,801
Miscellaneous income					<u>10,176</u>
Total General Revenues					<u>579,338</u>
CHANGE IN NET POSITION					128,288
NET POSITION, Beginning of year					<u>2,147,791</u>
NET POSITION, End of year					<u>\$ 2,276,079</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 POSITION
JUNE 30, 2013

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	GENERAL	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 596,621	\$ 87,466	\$ 684,087
Property taxes receivable	1,053		1,053
Insurance premium taxes receivable	74,554		74,554
Municipal road aid receivable	-	3,266	3,266
Grant and other receivables	1,798		1,798
Prepaid expenses	6,999		6,999
Short-term investments	244,563		244,563
Due from Special Revenue Fund	<u>3,446</u>	<u>-</u>	<u>3,446</u>
TOTAL ASSETS	<u>\$ 929,034</u>	<u>\$ 90,732</u>	<u>\$ 1,019,766</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and payroll liabilities	\$ 32,709	\$ -	\$ 32,709
Due to General Fund	<u>-</u>	<u>3,446</u>	<u>3,446</u>
Total Liabilities	32,709	3,446	36,155
FUND BALANCES			
Fund Balances:			
Unassigned	889,326	-	889,326
Nonspendable	6,999		6,999
Restricted	<u>-</u>	<u>87,286</u>	<u>87,286</u>
Total Fund Balances	<u>896,325</u>	<u>87,286</u>	<u>983,611</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 929,034</u>	<u>\$ 90,732</u>	<u>\$ 1,019,766</u>
TOTAL GOVERNMENTAL FUND BALANCES			\$ 983,611
Amounts reported for governmental activities in the statement of net position 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			1,400,465
Long-term debt, including capital leases that are not due and payable in the current period and therefore are not reported in the funds statements			(205,416)
Accounts receivable that do not provide current financial resources are not reported in funds statements:			
Property taxes receivable		7,419	
Railroad Crossing Project receivable		<u>90,000</u>	<u>97,419</u>
NET POSITION			<u>\$ 2,276,079</u>

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, 2013

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	<u>GENERAL</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES			
Property taxes, including interest and penalties	\$ 220,486	\$	\$ 220,486
Insurance premium taxes	332,354		332,354
Franchise fees	14,801		14,801
Storm water fees		25,839	25,839
Interest income	611		611
Municipal road aid revenue		35,108	35,108
Mineral severance tax		463	463
Grants and miscellaneous income	<u>252,027</u>	<u>-</u>	<u>252,027</u>
Total Revenues	820,279	61,410	881,689
EXPENDITURES			
General government	111,450	-	111,450
Police	95,022		95,022
Waste management	76,863		76,863
Public works	162,037	23,391	185,428
Water quality management		5,893	5,893
Debt service	<u>49,960</u>	<u>-</u>	<u>49,960</u>
Total Expenditures	<u>495,332</u>	<u>29,284</u>	<u>524,616</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	324,947	32,126	357,073
OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	324,947	32,126	357,073
FUND BALANCES, Beginning of year	<u>571,378</u>	<u>55,160</u>	<u>626,538</u>
FUND BALANCES, End of year	<u>\$ 896,325</u>	<u>\$ 87,286</u>	<u>\$ 983,611</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, 2013**

Net change in fund balances-total governmental funds	\$ 357,073
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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 were exceeded by depreciation in the current period	(52,501)
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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	41,806
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Governmental funds report revenues that provide current financial resources. This is the amount in receivables that do not provide current financial resources:

Property taxes	910		
Railroad crossing gate grant	<u>(219,000)</u>	<u>(218,090)</u>	

Change in net position as reflected on statement of activities	<u>\$ 128,288</u>
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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, 2013**

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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.

The Friends of Pewee Valley, Inc. (Organization) is a non-profit corporation which is governed by a board which is comprised of the City's mayor and council members. The Organization's mission is to beautify the City for the enjoyment of resident citizens and businesses by planting trees flowers and shrubs, etc. The Organization is still in the start-up stage with nominal activities to date. The City's financial statements for the year ended June 30, 2013 do not reflect any of the Organization's transactions.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position 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 nor have any reportable component units.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

These financial statements follow the provisions of GASB Statement "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments."

Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Currently the city does not engage in any business-type activities.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

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

Invested in capital assets, net of related debt- This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there a significant unspent proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. That portion of the debt is included in the same net position component as unspent proceeds.

Restricted- This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position- This component of net position consists of net positions that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

The City’s policy is to use restricted assets first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

The Statement of Net Assets and Statement of Net Activities reflect 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, inter-governmental revenues, and other non-exchange revenues type activities.

The statement of activities presents direct expenses, which are clearly identifiable with a specific function or segment. Program revenues include 1) grants from the State of Kentucky for public safety/police protection 2) Kentucky Municipal Aid grants for public safety/road improvements, repairs and maintenance. Taxes and other revenue items are reported as general revenues.

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, 2013**

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**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, and is considered the City's only major governmental 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, the local government economic assistance (LGEA) receipts and stormwater receipts in the special revenues funds group. The municipal road aid fund is restricted to road construction, repairs and maintenance, and the stormwater fund is restricted for stormwater quality management.

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. The City's program revenues for the year included stormwater fee charges for services and operating grants including police grants and municipal aid road grants. 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, 2013**

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**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 sixty days after year-end. A ninety-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.

Budgetary Comparison Schedules

As required by generally accepted governmental accounting principles, the budget comparison schedules have 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 11. The City prepares its annual budget on the modified accrual basis of accounting which is consistent with the amounts reflected in the funds financial statements. During the year, the City amended its general fund budget twice.

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.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

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 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, 2013, \$87,466 was restricted for road construction and related repairs and maintenance.

Short-term Investments

Short-term investments at June 30, 2013 consist of a certificate of deposit amounting to \$244,563 earning interest at .25% per annum (at June 30, 2013) and maturing in April, 2014.

Property Taxes and Property Tax Receivable

Property taxes are levied as of October 1 on the assessed value listed as of the proceeding January 1 for all real and personal property located in the City. The tax assessed for the year ended June 30, 2013 to finance general fund operations was based on \$.1439 per \$100 assessed valuation for real and personal property. The total assessed value of the tax roll on January 1, 2012 upon which the levy for 2013 fiscal year was based, was \$167,023,800 resulting in gross taxes of \$240,347. 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. Property tax discounts allowed during the year totaled \$22,833.

The statement of net position reflects property taxes receivable for amounts billed during the year ended June 30, 2013 and prior, for which tax liens have been placed on the properties.

The balance sheet – governmental funds reflects property taxes receivable for accounts collected within sixty days after year end in accordance with the modified accrual basis of accounting. None of the delinquent tax bills at June 30, 2013 have been collected during the ensuing sixty-day period.

Insurance Premium Taxes

Insurance premium taxes are assessed at a tax rate of 10%. The tax is assessed on first year life insurance premiums and on non-life premiums except for health insurance policies issued to individuals and state employees.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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**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.

Due from General Fund

Certain net revenues are temporarily deposited into from the General Fund bank account on behalf of the Municipal Road Aid Fund and the Storm Water Fund and are expected to be reimbursed within the following fiscal period.

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 expenses; renewals and betterments are capitalized. The City's policy is to record as capital assets those expenditures amounting to \$750 and over and with useful lives of three years or more.

In accordance with GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the City's management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were identified or recognized for the year ended June 30, 2013.

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 position.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

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	12-15 years

Net Position and Fund Balance

Net position on the statement of net position is the difference between assets and liabilities. Net position is 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.

The City's policy is to use restricted assets according to budgeted amounts.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes for governmental fund financial statements.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

1. *Nonspendable*, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
2. *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,
3. *Committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council,
4. *Assigned* fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

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.

The City's policy for spending restricted resources is to allocate disbursements to restricted funds to the extent such disbursements were budgeted to be paid from restricted funds.

Compensated Absences

The City provides vacation benefits to its police officer. The financial statements include a liability for unused benefits amounting to \$1,817.

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, 2013.

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, 2013

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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	\$ 596,621	\$ -	\$ 596,621
Municipal Road Aid Money Market		73,789	73,789
LGEAF (Mineral Severance Tax) Money Market	-	13,677	13,677
Total	<u>\$596,621</u>	<u>\$87,466</u>	<u>\$684,087</u>

Short-term Investments

Certificate of Deposit			
.25% annual yield, maturity in April 2014	<u>\$244,563</u>	<u>\$ -</u>	<u>\$244,563</u>

At June 30, 2013, the City's deposit balances in excess of the FDIC coverage limitations were collateralized with securities pledged by the bank in the City's name, as required by Kentucky law and City policy.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2013, consists of the following:

	<u>Balance</u> <u>6-30-12</u>	<u>Additions</u>	<u>Disposals/</u> <u>Adjustments</u>	<u>Balance</u> <u>6-30-13</u>
Governmental activities:				
Building	\$ 110,000			\$110,000
Firehouse	90,000			90,000
Land and land improvements	192,286			192,286
Building improvements	40,974			40,974
Furniture and fixtures	12,786			12,786
Motor vehicles and accessories	49,767			49,767
Machinery and equipment	19,286			19,286
Road improvements	833,307	22,576		855,883
Sidewalk improvements	167,570	11,168		178,738
Park gazebo and columns	35,815			35,815
Railroad crossing gates	536,791		87,642	449,149
Bridge improvements	32,652	-	-	32,652
	2,121,234	33,744	87,642	2,067,336
Accumulated depreciation	<u>578,268</u>	<u>88,603</u>	<u>-</u>	<u>666,871</u>
Total Capital Assets, net	<u>\$ 1,542,966</u>	<u>\$ (54,859)</u>	<u>\$87,642</u>	<u>\$1,400,465</u>

CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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NOTE 3 – CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

The cost and accumulated depreciation for each capital asset category at June 30, 2013 is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Governmental activities:			
Building	\$110,000	\$110,000	\$ -
Firehouse	90,000	28,688	61,312
Land	192,286	-	192,286
Building improvements	40,974	40,974	-
Furniture and fixtures	12,786	9,788	2,998
Motor vehicles and accessories	49,767	49,767	-
Machinery and equipment	19,286	18,935	351
Road improvements	855,883	327,669	528,214
Sidewalk improvements	178,738	48,190	130,548
Park gazebo and columns	35,815	2,407	33,408
Railroad crossing gates	449,149	11,945	437,204
Bridge improvements	<u>32,652</u>	<u>18,508</u>	<u>14,144</u>
 Total	 <u>\$2,067,336</u>	 <u>\$666,871</u>	 <u>\$1,400,465</u>

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

General government	\$ 2,790
Police	1,426
Public works	<u>84,387</u>
 Total	 <u>\$88,603</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.

CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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NOTE 5 – CAPITAL LEASE OBLIGATION

Railroad Crossing Gate Project

On March 29, 2012 the City entered into a general obligation lease agreement with Kentucky Bond Corporation (the Lessor), the proceeds of which are to be used to finance a portion of the City's railroad crossing gate project with a total original estimated cost of \$555,000. The original principal amount of the lease obligation was \$255,000. The lease agreement requires monthly payments of approximately \$3,600 over an 80 month period including interest at a fixed rate of 2.80% and loan fees beginning May 1, 2012 and ending January 1, 2019. These payments are payable to the Bank of New York Mellon Trust Company N.A. which is the trustee. 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. This lease is pursuant to a program administered by the Fund Trust and funded with the proceeds of the Kentucky Bond Corporation Financing Program Revenue Bonds 2012 Series A and 2012 Series B issued by the Kentucky Bond Corporation. This lease was issued pursuant to an ordinance adopted by The Council of the City of Pewee Valley on February 1, 2012.

Capital lease obligation activity on the aforementioned lease obligation for the year ended June 30, 2013 is as follows:

	<u>Balance</u> <u>6-30-12</u>	<u>Borrowings</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>6-30-13</u>
Railroad crossing gate project	247,222	-	41,806	205,416

The required future minimum payments of lease obligations at June 30, 2013 are as follows:

	<u>Principal</u>	<u>Interest and fees</u>	<u>Total</u>
Year-ending June 30:			
2014	35,000	6,849	41,849
2015	35,000	5,886	40,886
2016	35,000	4,851	39,851
2017	37,083	3,714	40,797
2018	40,000	2,508	42,508
2019	<u>23,333</u>	<u>1,020</u>	<u>24,353</u>
	<u>\$205,416</u>	<u>\$24,828</u>	<u>\$230,244</u>

The City paid interest and fees of \$8,154 on the above capital lease obligation during the year ended June 30, 2013. The interest and fees were allocated by function in the Statement of Activities as follows:

Public works	<u>\$8,154</u>
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**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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NOTE 6 – RAILROAD CROSSING EXPENSES AND GRANT

On June 10, 2012, the Kentucky Transportation Cabinet Department of Highways awarded the City a \$219,000 grant to be used to install railroad crossing gates at two City locations (Central Avenue and Muirs Lane). The funds were received by the City in late October, 2012.

As described in Note 1 to the financial statements, the modified accrual basis of accounting recognizes revenues when they are available if the receivable is collected within 90 days after year end. Since the grant funds were not received within that time period, the grant receivable and revenues amounting to \$219,000 were not reflected on the fund basis financials at June 30, 2012 and for the year then ended. The grant revenues amounting to \$219,000 were recognized on the fund basis financials for the year ended June 30, 2013. Consequently the \$219,000 grant revenues are reflected on the 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, 2013.

The City has contracted with CSX Corporation (CSX) for engineering and installation of railroad crossing gates at three City intersections with a total estimated project cost of \$768,475. These estimated project costs are advanced to CSX when work is begun and the City is due reimbursable costs at completion of the projects when actual cost is measurable. At June 30, 2013, the City has spent the following net of reimbursed costs:

	Completed		In Progress	
	Central Avenue	Muirs Lane	Wooldridge Avenue	Total
Costs advanced to CSX	\$ 319,637	\$ 217,154	\$ 231,698	\$ 768,489
Costs reimbursed by CSX to City	(133,871)	(95,469)		(229,340)
Estimated cost to be reimbursed by CSX to City	<u>-</u>	<u>-</u>	<u>(90,000)</u>	<u>(90,000)</u>
Net Costs	<u>\$ 185,766</u>	<u>\$ 121,685</u>	<u>\$ 141,698</u>	<u>\$ 449,149</u>

The Wooldridge Avenue gate project was completed in August 2013; however, City management does not anticipate receiving the remaining cost reimbursement for several months. The City estimates this amount to be \$90,000, which is reflected in accounts receivable in the statement of net position at June 30, 2013.

NOTE 7 – COMMITMENTS

The City has the following contractual commitments at June 30, 2013:

- An extended one-year renewal contract with its waste management contractor for the period July 2013 to June 2014 requiring monthly payments of \$6,148.
- A contract with CSX described in Note 6.

The City has other contractual commitments for police protection, etc. at June 30, 2013.

**CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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NOTE 8 – SUBSEQUENT EVENTS

City management has evaluated subsequent events through December 30, 2013, which is the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PEWEE VALLEY, KENTUCKY
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
FUND BALANCES, BEGINNING	\$ 490,000	\$ 490,000	\$ 571,378	\$ 81,378
REVENUES				
Property taxes	\$ 212,000	\$ 212,000	\$ 220,486	\$ 8,486
Insurance premium taxes	280,000	280,000	332,354	52,354
Franchise fees	500	500	14,801	14,301
Grant and miscellaneous revenues	31,900	260,900	252,027	(8,873)
Interest income	<u>500</u>	<u>500</u>	<u>611</u>	<u>111</u>
Total Revenues	<u>524,900</u>	<u>753,900</u>	<u>820,279</u>	<u>66,379</u>
Total Revenues and Resources	1,014,900	1,243,900	1,391,657	147,757
EXPENDITURES				
Administrative	64,000	64,000	57,197	6,803
Communications	13,000	13,000	12,260	740
Environmental improvements	48,000	60,000	53,043	6,957
Festivities	12,000	12,000	11,654	346
Insurance	18,300	18,300	13,798	4,502
Road and drainage	100,000	100,000	61,498	38,502
Central Park improvements	20,000	30,000	28,195	1,805
Town hall	17,000	17,000	16,542	458
Waste Management	80,000	80,000	76,863	3,137
Police	70,000	124,000	95,022	28,978
Sidewalks	20,000	20,000	5,183	14,817
Public safety	12,000	12,000	11,759	241
Crossing gates	-	227,100	2,358	224,742
KLC loan repayments	<u>49,960</u>	<u>49,960</u>	<u>49,960</u>	<u>-</u>
Total Expenditures	<u>524,260</u>	<u>827,360</u>	<u>495,332</u>	<u>\$ 332,028</u>
FUND BALANCES, ENDING	<u>\$ 490,640</u>	<u>\$ 416,540</u>	<u>\$ 896,325</u>	<u>\$ 479,785</u>

CITY OF PEWEE VALLEY, KENTUCKY
BUDGETARY COMPARISON SCHEDULES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

MUNICIPAL ROAD AID FUND

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES			
Municipal road aid	\$ 25,000	\$ 35,571	\$ 10,571
Interest income	<u>250</u>	<u>-</u>	<u>(250)</u>
Total Revenues	25,250	35,571	10,321
EXPENDITURES			
Road and drainage	<u>25,250</u>	<u>23,391</u>	<u>1,859</u>
Total Expenditures	<u>25,250</u>	<u>23,391</u>	<u>1,859</u>
REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 12,180</u>	<u>\$ 12,180</u>

STORM WATER FUND

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
REVENUES			
Storm water fees	<u>\$ 23,000</u>	<u>\$ 25,839</u>	<u>\$ 2,839</u>
Total Revenues	23,000	25,839	2,839
EXPENDITURES			
Water quality management	<u>23,000</u>	<u>5,893</u>	<u>17,107</u>
Total Expenditures	<u>23,000</u>	<u>5,893</u>	<u>17,107</u>
REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 19,946</u>	<u>\$ 19,946</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF PEWEE VALLEY, KENTUCKY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>MUNICIPAL ROAD AID</u>	<u>STORM WATER FUND</u>	<u>TOTAL NON- MAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash and cash equivalents	\$ 87,466	\$ -	\$ 87,466
Municipal road aid receivable	3,266	-	3,266
Due from General Fund	<u>-</u>	<u>17,726</u>	<u>17,726</u>
 TOTAL ASSETS	 <u>\$ 90,732</u>	 <u>\$ 17,726</u>	 <u>\$ 108,458</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to General Fund	\$ 21,172	\$ -	\$ 21,172
TOTAL LIABILITIES	21,172	-	21,172
 FUND BALANCES			
Restricted	<u>69,560</u>	<u>17,726</u>	<u>87,286</u>
Total Fund Balances	<u>69,560</u>	<u>17,726</u>	<u>87,286</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 90,732</u>	 <u>\$ 17,726</u>	 <u>\$ 108,458</u>

CITY OF PEWEE VALLEY, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

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	<u>MUNICIPAL ROAD AID</u>	<u>STORM WATER FUND</u>	<u>TOTAL NON- MAJOR GOVERNMENTAL FUNDS</u>
REVENUES			
Municipal road aid revenue	\$ 35,108	\$	\$ 35,108
Stormwater fees		25,839	25,839
Miscellaneous revenues			-
Mineral severance tax	463		463
Interest income	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	35,571	25,839	61,410
EXPENDITURES			
Road and drainage	23,391	-	23,391
Water quality management	<u>-</u>	<u>5,893</u>	<u>5,893</u>
Total Expenditures	<u>23,391</u>	<u>5,893</u>	<u>29,284</u>
EXCESS OF REVENUES OVER EXPENDITURES	12,180	19,946	32,126
FUND BALANCES, Beginning of year	<u>57,380</u>	<u>(2,220)</u>	<u>55,160</u>
FUND BALANCES, End of year	<u>\$ 69,560</u>	<u>\$ 17,726</u>	<u>\$ 87,286</u>

McIntyre & Wooldridge, PSC
Certified Public Accountants

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Louisville, Kentucky 40220
502/493-9373 or 493-9374 (fax)

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

**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***

We have audited the financial statements of the governmental activities and major funds as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the City of Pewee Valley (the City) basic financial statements and have issued our report thereon dated December 30, 2013. 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 of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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, significant deficiencies, or material weaknesses. 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.

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies.

Compliance and Other Matters

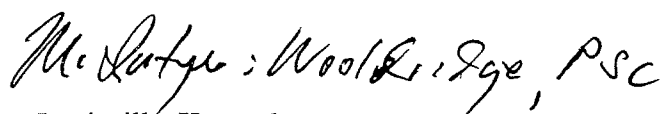
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City of Pewee Valley, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the City in a separate letter dated December 30, 2013.

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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Louisville, Kentucky
December 30, 2013

SCHEDULE OF INTERNAL CONTROL FINDINGS

SIGNIFICANT DEFICIENCIES

FINDING 2013-1

The City currently does not have a complete segregation of accounting duties as the City's treasurer perform most of the accounting functions and some of the treasurer functions. In conjunction with prior year audits, we recommended that the City designate a Council member with a financial background to perform the oversight procedures noted below and document performance of such on an oversight procedures checklist which would be completed, signed and dated. During the year ended June 30, 2013, we noted no evidence that this oversight function was performed.

RECOMMENDATIONS – FINDING 2013-1

Under the circumstances, the aforementioned oversight function is a crucial mitigating control in reducing the City's risk for potential misappropriation of assets and/or misstatement of financial statements. In an effort to enhance this oversight procedure we recommend that the City perform and document the oversight procedures as the following procedures on a procedures checklist:

- Agree the cash/ investment balances per the bank/broker statements to the bank balance reflected on the bank reconciliation
- Agree the City book balance on the financial statements and general ledger to the book balance reflected on the bank reconciliation
- Review the bank reconciling items (outstanding checks and deposits in transit) for propriety
- Investigate significant fluctuations in cash accounts during the month and document findings and explanations/resolutions
- Review bank transfers and unusual cash disbursements for propriety
- Judgmentally review non-property tax revenue receipts to determine that revenues were deposited to the bank account on a timely basis and that the revenues were properly recorded in the City's accounting records. This is especially recommended for insurance premium tax receipts as there is not accounts receivable control and the fact that these receipts make up 46% of the City's total revenues and are voluminous in nature. (This procedure could be performed by the City treasurer.)
- Judgmentally review check copies for dual signatures.

Each of the checklist procedures should be initialed /dated by oversight reviewer and be retained and attached to the related bank statement and bank reconciliation. The oversight should be performed within 30 days of the City's receipt of the bank statement.

CITY MANAGEMENT'S RESPONSE

The treasurer will provide the council member performing the oversight function with bank statements, bank reconciliations and general ledger to enable the Council member to perform the review before the next Council meeting. Also, the City will require the performance and documentation of the aforementioned oversight procedures on a timely basis.