

CITY OF PEWEE VALLEY, KENTUCKY

REPORT OF AUDIT

YEAR ENDED JUNE 30, 2015

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the governmental activities, and aggregate fund information of the City of Pewee Valley, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Pewee Valley, Kentucky's basic financial statement listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statement are free from material misstatement.

An audit involves performing procedure to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure selected depends on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentations 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the evidence I obtained is sufficient and appropriate to provide basis for my audit opinion.

## **Opinions**

In my 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 as of June 30, 2015; and the respective changes in financial position for the year ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 3-7 and 24, 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board; who considers it to be an essential part of financial statements in an appropriate operational, economic, or historical context. I 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 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide 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 26 and 27 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 procedure applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by Governmental Auditing Standards**

In accordance with Governmental Auditing Standards, I have also issued my report dated September 25, 2015, on my consideration of City of Pewee Valley's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering City of Pewee Valley's internal control over financial reporting and compliance.

*Richard F. Paulmann*

Richard F. Paulmann CPA, LLC

Crestwood, KY  
October 5, 2015



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, 2015.

**Financial Highlights**

During the fiscal year 2015, the City had general revenues of \$535,163, a decrease from 2014 of \$37,176, and \$59,126 in operating grants. Total expenditures for fiscal year 2015 were \$589,504, representing an increase of \$5,544. With revenues exceeding expenditures by \$29,697, the City's Net Assets increased from \$2,351,957 to \$2,381,654. 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. The general fund balance at June 30, 2015 was \$1,084,449, an increase of \$50,955. Non-major governmental funds balance was \$99,286, an increase of \$19,839. Total fund balances increased \$70,793 or 6.4%. 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 \$931,889. This reflects an increase in cash during the year of \$115,105.

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 position, 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 13-24 of this report.

#### **Government-wide Financial Analysis**

	<b>FYE'14</b>	<b>FYE'15</b>	<b>Increase</b>
	<u><b>Amount</b></u>	<u><b>Amount</b></u>	<u><b>(Decrease)</b></u>
Current and other assets	\$ 1,153,268	\$1, 272,877	\$ 119,609
Capital assets and land	<u>1,402,819</u>	<u>1,325,865</u>	<u>( 76,954)</u>
Total Assets	\$2,556,087	\$2,598,742	\$ 42,655
Payables	\$ 33,713	\$ 81,671	47,958
Lease			
Obligations	<u>170,417</u>	<u>135,417</u>	<u>( 35,000)</u>
Total Liabilities	<u>204,130</u>	<u>217,088</u>	<u>\$ 12,958</u>



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

Invested in			
capital assets	1,232,402	1,190,448	( 41,954)
Restricted	79,477	99,286	19,809
Unrestricted	<u>1,040,078</u>	<u>1,091,920</u>	<u>51,842</u>
Total Net Assets	<u>\$2,351,957</u>	<u>\$2,381,654</u>	<u>\$ 29,697</u>

The statement of Net Position shows that the City of Pewee Valley has assets of \$2,598,742 with liabilities of \$217,088. Of the \$2,598,742 total assets, \$1,325,865 is comprised of capital assets, net of depreciation. During fiscal year 2015, the total capital assets, net of depreciation decreased by \$76,954 or 5.5 %. This decrease was due to only \$31,807 spent on roads and sidewalks while the depreciation charge was \$108,761. 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, 2015 the city had a lease obligation remaining of \$135,417, 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.

	<b><u>FYE'14</u></b> <b><u>Amount</u></b>	<b><u>FYE'15</u></b> <b><u>Amount</u></b>	<b><u>Increase</u></b> <b><u>(Decrease)</u></b>
General Revenue			
Property taxes	\$228,523	\$230,570	\$ 2,047
Insurance premium taxes	308,654	290,749	( 17,905)
Interest Income	1,681	2,319	638
Storm water fees	25,919	24,912	( 1,007)
Miscellaneous	<u>33,481</u>	<u>11,525</u>	<u>( 21,956)</u>
Total General Revenue	\$598,258	\$560,075	\$( 38,183)
Net Expenses			
General government	\$165,884	\$132,497	\$( 33,387)
Police	79,723	75,704	( 4,019)
Waste management	73,778	74,906	1,128
Public works	<u>202,995</u>	<u>247,271</u>	<u>44,276</u>
Total Net Expenses	<u>\$522,380</u>	<u>\$530,378</u>	<u>\$ 7,998</u>
Increase in Net Position	<u>\$ 75,878</u>	<u>\$ 29,697</u>	<u>\$( 46,181)</u>

A storm water fee was enacted during 2010 to meet Federal mandates. The fee is \$36 per residence annually. Interest income increase as interest rates went up. Public works expenditures in fiscal year 2015 net to \$247,271. On a grossed up basis, \$297,542 was spent on public works which was 50.5% 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, 2015 was \$168,865,200. The property tax rate for fiscal year 2015 was .1439 per \$100 assessed valuation. In 2014, the assessed value was \$166,685,198 and the tax rate was .1439 per \$100 assessed valuation. 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 25-26. 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 Festivities (\$3,000) and Town Hall (\$13,000). 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 a small amount in Road and Drainage. 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, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$ 784,830
Property taxes receivable	-0-
Insurance premium taxes receivable	71,387
Grant and other receivables	1,369
Prepaid expenses	11,370
Short term investments	<u>246,220</u>

Total Current Assets 1,115,176

Non-Current Assets

Cash and cash equivalents restricted	147,060
Property taxes receivable	7,471
Municipal road aid receivable restricted	3,170
Capital assets:	
Land	192,286
Capital assets, net of depreciation of 873,730	<u>1,133,579</u> <span style="float: right;">1,325,865</span>

Total Non-Current Assets 1,483,566

TOTAL ASSETS 2,598,742

LIABILITIES

Current liabilities

Accounts payable and payroll liabilities	81,671
Capital lease obligation	<u>35,000</u>

Total Current Liabilities 116,671

Non-Current Liabilities

Capital lease obligation	<u>100,417</u>
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Total Non-Current liabilities 100,417

TOTAL LIABILITIES 217,088

NET POSITION

Investment in capital assets, net of related debt	1,190,448
Restricted for:	
Roads and Water Quality	99,285
Unrestricted	<u>1,091,921</u>

TOTAL NET POSITION \$ 2,381,654

See accompanying notes to the financial statements

CITY OF PEWEE VALLEY, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS	CAPITAL GRANTS	GOVERNMENTAL ACTIVITIES
Functions/Programs					
Primary Government:					
Governmental Activities:					
General government	(\$132,497)				(\$132,497)
Police	(84,559)		8,855		(75,704)
Waste management	(74,906)				(74,906)
Public works	(297,542)	24,912	50,271		(222,359)
Total Governmental Activities	<u>(\$589,504)</u>	<u>\$24,912</u>	<u>\$59,126</u>	<u>\$0</u>	<u>(\$505,466)</u>
General Revenues					
Taxes					
Property taxes levied for general purposes					230,570
Insurance premium taxes					290,749
Interest income					2,319
Franchise fees					2,223
Reimbursed expenses					1,947
Miscellaneous income					7,355
Total General Revenue					<u>535,163</u>
CHANGE IN NET POSITION					29,697
NET POSITION, beginning of year					<u>2,351,957</u>
NET POSITION, end of year					<u>\$2,381,654</u>

See accompanying notes to the financial statements



CITY OF PEWEE VALLEY, KENTUCKY  
BALANCE SHEET --GOVERNMENTAL FUNDS AND  
RECONCILIATION OF THE GOVERNMENT FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITON

	GENERAL	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash and cash equivalents	\$784,830	147,060	\$931,890
Insurance premium taxes receivable	71,387		71,387
Municipal road receivable		3,170	3,170
Grant and other receivables	1,369		1,369
Prepaid expenses	11,370		11,370
Short-term investments	246,220		246,220
Due from Special Revenue Fund	50,944		50,944
Total Assets	<u>\$1,166,120</u>	<u>150,230</u>	<u>\$1,316,350</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable and payroll liabilities	\$81,671		\$81,671
Due to General Fund		50,944	50,944
Total Liabilities	81,671	50,944	132,615
<b>FUND BALANCES</b>			
Unassigned	1,073,079		1,073,079
Nonspendable	11,370		11,370
Restricted		99,286	99,286
Total Fund Balances	<u>1,084,449</u>	<u>99,286</u>	<u>1,183,735</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$1,166,120</u>	<u>\$150,230</u>	<u>\$1,316,350</u>
TOTAL GOVERNMENTAL FUND BALANCE			1,183,735
Amounts reported for governmental activites in the statement of net assets are different because:			
Capital assets and loan cost, net of accumulated depreciation and amortization, used in governmental activites are not financial resources and, therefore, are not reported in the funds			1,325,865
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			(135,417)
Accounts receivable that do not provide current financial resources are not reported in the funds statements: Property taxes receivable			<u>7,471</u>
<b>NET POSITION</b>			<u><u>\$2,381,654</u></u>

See the accompanying notes to the financial statements

CITY OF PEWEE VALLEY, KENTUCKY STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE-GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

REVENUES	GENERAL	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes, including interest and penalty	\$ 229,712	\$	\$ 229,712
Insurance premium taxes	290,749		290,749
Franchise fees	2,223		2,223
Storm water fees		24,912	24,912
Interest income	2,140	179	2,319
Municipal road aid revenue		36,200	36,200
Grants and miscellaneous income	32,225		32,225
 Total Revenue	 557,049	 61,291	 618,340
 EXPENDITURES			
General government	156,141		156,141
Police	84,559		84,559
Waste Management	74,906		74,906
Public Works	149,603	23,420	173,023
Water Quality management		18,032	18,032
Debt Service	40,886		40,886
 Total Expenditures	 506,095	 41,452	 547,547
 EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	 50,954	 19,839	 70,793
 OTHER FINANCING SOURCES	 -	 -	 -
 NET CHANGE IN FUND BALANCE	 50,954	 19,839	 70,793
 FUND BALANCE, Beginning of the year	 1,033,495	 79,447	 1,112,942
 FUND BALANCE, End of the year	 \$ 1,084,449	 \$ 99,286	 \$ 1,183,735

See accompanying notes to the financial statements

CITY OF PEWEE VALLEY, KENTUCKY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED, JUNE 30, 2015

Net change of fund balance-total governmental funds	\$70,793
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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 depreciation exceeded net capital outlays in the current period	(76,954)
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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 the long-term debt during the current period.	35,000
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Governmental funds report revenue that provide current financial resources. This is the amount in receivables that do not provide current financial resources:

Property taxes	858
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Change in net position reflected on statement of activities	<u>\$29,697</u>
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See accompanying notes to the financial statements



CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

**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 Governmental 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 5<sup>th</sup> Class City as defined by Kentucky Statute.

**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 governmental --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.

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 are reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. If there is significant unspent proceeds at year-end, the

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

portion of debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt; the portion of the debt 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 position that does 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 position are available.

The Statement of Net Position 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. Governmental-wide statements distinguish between governmental and business-type activities. Currently, the City does not engage in any business-type, inter-governmental revenues, and non-exchange revenue 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 governmental functions or activities. A fund is a separate entity with a self-balancing set of accounts. Funds of the City's general activities including the collection of legally restricted monies, administrative expense and the acquisition or construction of capital assets.

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

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 revenue funds group. The municipal road aid 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 statement 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 program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. The City's program revenue 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 revenue 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 to 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, 2015

**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 once.

**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 maturities of three months or less when purchased and 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 investing policies complying with state statutes and the City Charter. City funds may be invested in : (1) obligation of the United States and its agencies and instrumentalities, (2) obligations of any corporation of the United States government, (3) certificates of deposit 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, certificate of deposit, money market savings accounts, repurchase agreement, passbooks and other available bank investment provided that such financial institutions are insured by an agency of the U.S. Government. Investment in excess of the insured amount must be secured with approved securities pledged by the financial institution.

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

As of June 30, 2015, \$147,060 was restricted for road construction and related repairs and maintenance.

**Short-Term Investments**

Short term investments at June 30, 2015 consist of a certificates of deposit amounting to \$246,220 earning interest at .25% per annum.

**Property Taxes and Property Tax Receivable**

Property taxes are levied as of October 1, on 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, 2015 to finance general fund operations was based on \$.1439 per \$100 assed valuation for real and personal property. The total assessed value of the tax roll on January 1, 2014 upon which the levy for 2015 fiscal year was based, was based, was \$166,685,190 resulting in gross taxes of 239,860. A discount of 5% 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 \$11,765.

The statement of net position reflects property taxes receivable for amounts billed during the year ended June 30, 2015 and prior, for which tax liens have been placed on the properties.

The balance sheet – governmental funds reflected properties 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, 2015 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.

**Prepaid Expenses**

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

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

**Due from General Fund**

Certain revenues are temporarily deposited into 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 No. 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 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 Insurance Recoveries, City's management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of capital assets 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 circumstances is outside the normal life cycle of the capital asset. No impairment losses were identified or recognized for the year ended June 30, 2015.

Capital assets used in operations are depreciated over their estimated useful lives using the straight -line method in the governmental- 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	12-15 years



CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

**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 assets 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 Government 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 the 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 amounts 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 purpose but not meeting the criteria to be classified as restricted or committed.
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.

**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.

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014

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

**Compensated Absences**

The city provides vacation benefits to its police officer. This liability for the June 30, 2015 was \$5,303 and was recorded on the City's financial statements.

**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, 2015.

**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 financial statement; and the reported amounts of receipts and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
<b><u>Cash and Cash Equivalents</u></b>			
General Fund Checking	\$ 784,830	\$	\$ 784,830
Municipal Road Aid Money Market		133,346	133,346
LGEAF (Mineral Severance Tax) Money Market		13,714	13,714
Total	\$ <u>784,830</u>	\$ <u>147,060</u>	\$ <u>931,890</u>

**Short-term Investments**

Certificate of Deposit			
.25% annual yield	\$ <u>246,220</u>	\$ <u>-0 -</u>	\$ <u>246,220</u>

At June 30, 2015, the City's deposit balances in excess of FDIC coverage limitations were collateralized with securities pledged by the bank in the City's name, as required by Kentucky law and City policy.

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

**NOTE 3 -- CAPITAL ASSETS AND DEPRECIATION**

Capital assets for the year ended June 30, 2015 consist of the following:

	Balance 6/30/14	Additions	Disposals/ Adjustments	Balance 6/30/15
Governmental activities:				
Building	\$ 110,000	\$	\$	\$ 110,000
Firehouse	90,000			90,000
Land and 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	902,558	31,807		934,365
Sidewalk improvements	230,940			230,940
Park gazebo and columns	37,420			37,420
Railroad crossing gates	449,149			449,149
Bridge improvements	32,652			32,652
Totals	2,167,818	31,807	-	2,199,625
Accumulated depreciation	764,999	108,761	-	873,760
Total Capital Assets, net	\$ 1,402,819			\$ 1,325,865

The costs and accumulated depreciation for each capital asset category at June 30, 2015 is as follows:

	Cost	Accumulated Depreciation	Net
Governmental activities:			
Building	\$ 110,000	\$ 110,000	\$ -
Firehouse	90,000	30,938	59,062
Land and improvements	192,286	-	192,286
Building improvements	40,974	40,974	-
Furniture and fixtures	12,786	10,933	1,853
Motor vehicles and accessories	49,767	49,767	-
Machinery and equipment	19,286	19,286	-
Road Improvements	934,365	449,008	485,357
Sidewalk improvements	230,940	77,671	153,269
Park gazebo and columns	37,420	6,551	30,869
Railroad crossing gates	449,149	57,948	391,201
Bridge improvements	32,652	20,684	11,968
Totals	2,199,625	873,760	1,325,865

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

**NOTE 3- CAPITAL ASSETS AND DEPRECIATION**

(Continued)

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

General government	\$ 1,144
Police	-0-
Public Works	<u>107,617</u>
Total	<u>\$ 108,761</u>

**NOTE 4- RISK MANAGEMENT**

The City is subject to normal insurance risks as other cities 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 - 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 were 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 a 80 month period including interest at a fixed rate of 2.8% 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. The lease was issued pursuant to an ordinance adopted by the Council of the City of Pewee Valley on February 1, 2012.

	Balance 06/30/14	Borrowings	Principal Payments	Balance 06/30/15
Railroad crossing gate project	170,417	-0-	35,000	135,417



CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

**NOTE 5-CAPITAL LEASE OBLIGATION**

(Continued)

The required future minimum payments of the lease obligation at June 30, 2015 are as follows:

	Principal	<u>Interest and fees</u>	Total
Year-ending June 30:			
2016	\$35,000	\$4,851	\$39,851
2017	37,083	3,714	40,797
2018	40,000	2,508	42,508
2019	<u>23,334</u>	<u>1,020</u>	<u>24,354</u>
Totals	<u>\$135,417</u>	<u>\$12,093</u>	<u>\$147,510</u>

The City paid interest and fees of \$5,886 on the above capital lease obligation during the year ended June 30, 2015. The interest and fees were allocated by function in the Statement of Activities as follows:

Public Works	<u>\$ 5886</u>
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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 \$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.

The City Contracted with CSX Corporation (CSX) for engineering and installation of railroad crossing gates at the three 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 reimbursement cost at completion of the projects when actual cost is measureable. At June 30, 2015, the City had spent the following net of reimbursed cost:

	All work had been completed			
	Central Avenue	Muirs Lane	Wooldridge Avenue	Total
Costs advanced to CSX	\$319,637	\$217,154	\$231,698	\$768,489
Cost reimbursed by CSX to City	<u>(133,871)</u>	<u>(95,469)</u>	<u>(90,000)</u>	<u>(319,340)</u>
Net Costs	<u>\$185,766</u>	<u>\$121,685</u>	<u>\$141,698</u>	<u>\$449,149</u>

CITY OF PEWEE VALLEY, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

**NOTE 7– COMMITMENTS**

The City has the following contractual commitments at June 30, 2015.

- An extended one-year renewal contract with its waste management contractor for the period July 2015 to June 2016 requiring monthly payments of \$6,241.
- The City has contractual commitment for police protection at June 30, 2015.

**NOTE 8– SUBSEQUENT EVENTS**

City management has valuated subsequent events through September 25, 2015 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.

CITY OF PEWEE VALLEY, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2015

GENERAL FUND

		ORIGINAL	FINAL		VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
		BUDGET	BUDGET	ACTUAL	
FUND BALANCE, BEGINNING	\$	415,000	\$ 415,000	\$ 1,033,495	\$ 618,495
REVENUES					
Property taxes	\$	221,360	\$ 221,360	\$ 229,712	\$ 8,352
Insurance premium taxes		280,000	280,000	290,749	10,749
Franchise fees		500	500	2,223	1,723
Grant and miscellaneous revenues		30,000	33,000	22,926	(10,074)
Misc. Income		1,900	1,900	9,299	7,399
Interest income		500	500	2,141	1,641
Total Revenues		534,260	537,260	557,050	19,790
Total Revenues and Resources		949,260	952,260	1,590,545	638,285
EXPENDITURES					
Administrative		64,000	64,000	61,874	2,126
Communications		13,000	13,000	12,781	219
Environmental improvements		50,000	50,000	39,407	10,593
Festivities		12,000	15,000	14,791	209
Insurance		18,300	18,300	15,343	2,957
Road and drainage		95,000	100,000	100,965	(965)
Central Park improvements		20,000	20,000	18,955	1,045
Town Hall		17,000	43,000	27,316	15,684
Waste Management		80,000	80,000	74,906	5,094
Police		85,000	85,000	84,559	441
Sidewalks		18,000	13,000	2,368	10,632
Public Safety		12,000	12,000	11,945	55
KLC loan repayments		49,960	49,960	40,886	9,074
Total Expenditures		534,260	563,260	506,096	57,164
FUND BALANCES, ENDING	\$	415,000	\$ 389,000	\$ 1,084,449	\$ 695,449

CITY OF PEWEE VALLEY, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015

MUNICIPAL ROAD AID FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>				
Municipal road aid	\$ 25,000	\$ 25,000	\$ 36,200	\$ 11,200
Interest income	250	250	179	(71)
Total Revenues	25,250	25,250	36,379	11,129
<b>Expenditures</b>				
Road and drainage	25,250	25,250	23,420	(1,830)
Total Expenditures	25,250	25,250	23,420	(1,830)
EXPENDITURES OVER REVENUE	\$ -	\$ -	\$ 12,959	\$ 12,959

STORM WATER FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>				
Storm water fees	23,000	23,000	24,912	1,912
Total Revenues	23,000	23,000	24,912	1,912
<b>Expenditures</b>				
Water Quality Management	23,000	23,000	18,032	(4,968)
Total Expenditures	23,000	23,000	18,032	(4,968)
EXPENDITURES OVER REVENUE	\$ -	\$ -	\$ 6,880	\$ 6,880



CITY OF PEWEE VALLEY, KENTUCKY  
 COMBINING BALANCES SHEET-NON-MAJOR GOVERNMENTAL FUNDS  
 June 30, 2015

	MUNICIPAL ROAD AID	STORM WATER FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 147,060	\$	\$ 147,060
Municipal road aid receivable	3,170		3,170
Due from General Fund		27,649	27,649
TOTAL ASSETS	\$ 150,230	\$ 27,649	\$ 177,879
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to the General Fund	\$ 78,593	\$	\$ 78,593
TOTAL LIABILITIES	78,593	-	78,593
FUND BALANCES			
Restricted	71,637	27,649	99,286
Total Fund Balances			
TOTAL LIABILITIES AND FUND BALANCES	\$ 150,230	\$ 27,649	\$ 177,879

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, 2015

	MUNICIPAL ROAD AID	STORM WATER FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES			
Municipal road aid revenue	\$ 36,200		\$ 36,200
Stormwater fees		24,912	24,912
Interest income	<u>179</u>	<u></u>	<u>179</u>
Total Revenue	36,379	24,912	61,291
EXPENDITURES			
Road and drainage	23,420		23,420
Water quality management	<u></u>	<u>18,032</u>	<u>18,032</u>
Total Expenditures	23,420	18,032	41,452
EXCESS OF REVENUE OVER EXPENDITURES	<u>12,959</u>	<u>6,880</u>	<u>19,839</u>
FUND BALANCE, Beginning of year	58,678	20,769	79,447
Fund Balance, End of year	\$ <u><u>71,637</u></u>	<u><u>27,649</u></u>	\$ <u><u>99,286</u></u>

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; the financial statement of the governmental activities, each major fund and aggregate fund information of the City of Pewee Valley, Kentucky as of and for the year June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Pewee Valley, Kentucky's basic financial statements and have issued my report thereon dated October 5, 2015.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered City of Pewee Valley, Kentucky's internal control over financial reporting (internal control); to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements; but not for the purpose of expressing an opinion on the effectiveness of City of Pewee Valley, Kentucky's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Pewee Valley, Kentucky's financial statements are free from material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City of Pewee Valley, Kentucky  
Internal Control  
Pg. 2

**Purpose of this Report**

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

Richard F. Paulmann, CPA, LLC.



Pewee Valley, KY  
October 5, 2015