

CITY OF PEWEE VALLEY, KENTUCKY

REPORT OF AUDIT

YEAR ENDED JUNE 30, 2017

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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, 2017, 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, 2017; 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 25, 26 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 26, 2017, 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 CPA, LLC

Crestwood, KY
November 26, 2017

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, 2017.

Financial Highlights

During the fiscal year 2017, the City had general revenues of \$563,362, an decrease from 2016 of \$21,104, and \$53,718 in operating grants. Total expenditures for fiscal year 2017 were \$592,006, representing a increase of \$29,963. With revenues exceeding expenditures by \$51,118, the City's Net Assets increased from \$2,487,775 to \$2,538,893.

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, 2017 was \$1,201,065, an increase of \$3,315. Non-major governmental funds balance was \$132,647, an increase of \$17,166. Total fund balances increased \$20,481 or 2.0%. 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 \$1,020,177. This reflects an increase in cash during the year of \$11,322.

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

	FYE’17	FYE’16	Increase
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>
Current and other assets	\$ 1,368,632	\$1, 349,008	\$ 19,624
Capital assets and land	<u>1,278,183</u>	<u>1,292,358</u>	<u>(14,175)</u>
Total Assets	\$2,646,815	\$2,641,366	\$ 5,449
Payables	\$ 28,299	\$ 29,982	(1,683)
Lease			
Obligations	<u>79,623</u>	<u>123,609</u>	<u>(43,986)</u>
Total Liabilities	<u>107,922</u>	<u>153,591</u>	<u>\$ (45,669)</u>

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

Invested in capital assets	1,198,560	1,168,749	29,811
Restricted	63,383	115,481	(52,098)
Unrestricted	<u>1,276,950</u>	<u>1,203,545</u>	<u>73,405</u>
Total Net Assets	<u>\$2,538,893</u>	<u>\$2,487,775</u>	<u>\$ 51,118</u>

The statement of Net Position shows that the City of Pewee Valley has assets of \$2,646,815 with liabilities of \$107,922. Of the \$2,646,815 total assets, \$1,278,183 is comprised of capital assets, net of depreciation. During fiscal year 2017, the total capital assets, net of depreciation decreased by \$14,175 or 1.0 %. This decrease was due to only \$107,693 spent on roads, vehicles and equipment while the depreciation charge was \$121,868. 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, 2017 the city had a lease obligation remaining of \$63,334, of which \$40,000 is due over the next twelve months.

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

	<u>FYE'17</u> <u>Amount</u>	<u>FYE'16</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>
General Revenue			
Property taxes	\$223,385	\$216,085	\$ 7,300
Insurance premium taxes	320,461	330,947	(10,486)
Interest Income	2,843	2,302	541
Storm water fees	26,044	25,259	785
Miscellaneous	<u>16,673</u>	<u>35,132</u>	<u>(18,459)</u>
Total General Revenue	\$589,406	\$609,725	\$ (20,319)
Net Expenses			
General government	\$173,844	\$144,367	\$ 29,477
Police	81,618	77,401	4,217
Waste management	74,907	74,907	-0-
Public works	<u>226,754</u>	<u>206,926</u>	<u>19,828</u>
Total Net Expenses	<u>\$557,123</u>	<u>\$503,601</u>	<u>\$ 53,522</u>
Increase in Net Position	<u>\$ 32,283</u>	<u>\$ 106,124</u>	<u>\$ (73,841)</u>

A storm water fee was enacted during 2010 to meet Federal mandates. The fee is \$36 per residence annually. Property taxes decrease during the Fiscal Year due to an early pay discount of 15% versus 5% the previous Fiscal Year. Public works expenditures in fiscal year 2017 net to \$207,919. On a grossed up basis, \$252,798 was spent on public works which was 43.0% 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, 2016 was \$170,880,100. The property tax rate for fiscal year 2016 was .1439 per \$100 assessed valuation. In 2016, the assessed value was \$168,865,200 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 not modified. 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 also 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
FOR THE YEAR ENDED JUNE 30, 2017

ASSETS

Current Assets	
Cash and cash equivalents	\$ 943,040
Property taxes receivable	-0-
Insurance premium taxes receivable	77,703
Grant and other receivables	333
Prepaid expenses	12,112
Short term investments	<u>248,283</u>
Total Current Assets	1,281,471
Non-Current Assets	
Cash and cash equivalents restricted	77,137
Property taxes receivable	6,621
Municipal road aid receivable restricted	3,403
Capital assets:	
Land	192,286
Capital assets, net of depreciation of \$1,089,459	<u>1,085,897</u>
Total Non-Current Assets	<u>1,365,344</u>
TOTAL ASSETS	<u><u>2,646,815</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable and payroll liabilities	28,299
Capital lease obligation	<u>47,108</u>
Total Current Liabilities	75,407
Non-Current Liabilities	
Capital lease obligation	<u>32,515</u>
Total Non-Current Liabilities	<u>32,515</u>
TOTAL LIABILITIES	<u>107,922</u>
NET POSITION	
Invested in capital assets, net of related debt	1,198,560
Restricted for:	
Roads	63,383
Unrestricted	<u>1,276,950</u>
TOTAL NET POSITION	<u><u>\$ 2,538,893</u></u>

See accompanying notes to the financial statements

CITY OF PEWEE VALLEY, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		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	(\$173,844)				(\$173,844)
Police	(90,457)		8,839		(81,618)
Waste management	(74,907)				(74,907)
Public works	(252,798)	26,044	44,879		(181,875)
Total Governmental Activities	<u>(\$592,006)</u>	<u>\$26,044</u>	<u>\$53,718</u>	<u>\$0</u>	<u>(\$512,244)</u>
General Revenues					
Taxes					
Property taxes levied for general purposes					223,385
Insurance premium taxes					320,461
Interest income					2,843
Franchise fees					2,748
Reimbursed expenses					-
Miscellaneous income					13,925
Total General Revenue					<u>563,362</u>
CHANGE IN NET POSITION					51,118
NET POSITION, beginning of year					<u>2,487,775</u>
NET POSITION, end of year					<u>\$2,538,893</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
FOR THE YEAR ENDED JUNE 30,2017

	GENERAL	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$943,040	77,137	\$1,020,177
Insurance premium taxes receivable	77,703		77,703
Municipal road receivable		3,403	3,403
Grant and other receivables	333		333
Prepaid expenses	12,112		12,112
Short-term investments	248,283		248,283
Due from General Fund		52,107	52,107
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$1,281,471</u>	<u>132,647</u>	<u>\$1,414,118</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable and payroll liabilities	28,299		28,299
Due to Special Revenue Fund	52,107		52,107
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	80,406	-	80,406
FUND BALANCES			
Unassigned	1,188,953		1,188,953
Nonspendable	12,112		12,112
Restricted		132,647	132,647
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,201,065</u>	<u>132,647</u>	<u>1,333,712</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$1,281,471</u>	<u>\$132,647</u>	<u>\$1,414,118</u>
TOTAL GOVERNMENTAL FUND BALANCE			1,333,712

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	1,278,183
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	(79,623)
Accounts receivable that do not provide current financial resources are not reported in the funds statements: Property taxes receivable	<u>6,621</u>
NET POSITION	<u><u>\$2,538,893</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, 2017

REVENUES	GENERAL	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes, including interest and penalty	\$ 222,560	\$	\$ 222,560
Insurance premium taxes	320,461		320,461
Franchise fees	2,748		2,748
Storm water fees		26,044	26,044
Interest income	2,581	262	2,843
Municipal road aid revenue		29,541	29,541
Grants and miscellaneous income	<u>38,102</u>		<u>38,102</u>
Total Revenue	586,452	55,847	642,299
EXPENDITURES			
General government	169,602		169,602
Police	84,227		84,227
Waste Management	74,907		74,907
Public Works	206,115	25,200	231,315
Water Quality management		13,481	13,481
Debt Service	<u>48,286</u>		<u>48,286</u>
Total Expenditures	583,137	38,681	621,818
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	3,315	17,166	20,481
OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	3,315	17,166	20,481
FUND BALANCE, Beginning of the year	<u>1,197,750</u>	<u>115,481</u>	<u>1,313,231</u>
FUND BALANCE, End of the year	<u>\$ 1,201,065</u>	<u>\$ 132,647</u>	<u>\$ 1,333,712</u>

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, 2017

Net change of fund balance-total governmental funds \$ 20,481

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 (14,175)

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. 43,987

Government funds report revenue that provide current financial resources. This is the amount in receivables that do not provide current financial resources:

Property taxes 825

Change in net position reflected on statement of activities \$ 51,118

See accompanying notes to the financial statements

CITY OF PEWEE VALLEY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 home rule 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, 2017

**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, 2017

**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. Municipal road aid is restricted to road construction, repairs and maintenance, and the storm water fund is restricted for storm water 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 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, 2017

**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.

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, 2017

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

As of June 30, 2017, \$77,137 was restricted for road construction and related repairs and maintenance.

Short-Term Investments

Short term investments at June 30, 2017 consist of a certificates of deposit amounting to \$248,283 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, 2017 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, 2016 upon which the levy for 2017 fiscal year was based, was \$170,880,100 resulting in gross taxes of 246,021. A discount of 10% was 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 \$23,350.

The statement of net position reflects property taxes receivable for amounts billed during the year ended June 30, 2017 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, 2017 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. Prepaid expenses 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, 2017

**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, 2017.

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, 2017

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital assets for the year ended June 30, 2017 consist of the following:

	Balance 6/30/16	Additions	Disposals/ Adjustments	Balance 6/30/17
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	56,408			56,408
Machinery and equipment	29,592			29,592
Road Improvements	977,742	107,693		1,085,435
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	2,259,949	107,693	-	2,367,642
Accumulated depreciation	967,591	121,868	-	1,089,459
Total Capital Assets, net	\$ 1,292,358			\$ 1,278,183

The costs and accumulated depreciation for each capital asset category at June 30, 2017 is as follows:

	Cost	Accumulated Depreciation	Net
Governmental activities:			
Building	\$ 110,000	\$ 110,000	\$ -
Firehouse	90,000	35,438	54,562
Land and improvements	192,286	-	192,286
Building improvements	40,974	40,974	-
Furniture and fixtures	12,786	12,018	768
Motor vehicles and accessories	56,408	38,052	18,356
Machinery and equipment	29,592	22,255	7,337
Road Improvements	1,085,435	584,089	501,346
Sidewalk improvements	230,940	107,958	122,982
Park gazebo and columns	37,420	10,774	26,646
Railroad crossing gates	449,149	100,686	348,463
Bridge improvements	32,652	27,215	5,437
Totals	2,367,642	1,089,459	1,278,183

CITY OF PEWEE VALLEY, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION
 (Continued)

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

General government	\$ 4,242
Police	6,229
Public Works	<u>111,397</u>
Total	<u>\$ 121,868</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.

	<u>Balance</u>	<u>Borrowings</u>	<u>Principal</u>	<u>Balance</u>
	<u>06/30/16</u>	<u>06/30/16</u>	<u>Payments</u>	<u>06/30/17</u>
Railroad crossing gate project	100,417	-0-	37,083	63,334

CITY OF PEWEE VALLEY, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 – CAPITAL LEASE OBLIGATION

(Continued)

The required future minimum payments of the lease obligation at June 30, 2017 are as follows:

	Principal	<u>Interest and fees</u>	Total
Year-ending June 30:			
2018	40,000	2,508	42,508
2019	<u>23,334</u>	<u>1,020</u>	<u>24,354</u>
Totals	<u>\$ 63,334</u>	<u>\$ 3,528</u>	<u>\$ 66,862</u>

The City paid interest and fees of \$3,714 on the above capital lease obligation during the year ended June 30, 2017. The interest and fees were allocated by function in the Statement of Activities as follows:

Public Works	<u>\$ 3,714</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 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.

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, 2017, the City had spent the following net of reimbursed cost:

	All work had been completed			
	Central Avenue	Muirs Lane	Wooldridge Avenue	
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, 2017

NOTE 7 – VEHICLE LOAN

On September 9, 2015, the City entered a business loan agreement for the purchase of a police vehicle. The original amount of the loan was \$28,240.00. The City is making monthly payments of \$624.05 over 48 months with an effective interest rate of 2.9179%.

	Balance 6/30/2016	Principal Payments	Balance 6/30/2017
Police Vehicle	<u>\$ 23,193</u>	<u>\$ 6,904</u>	<u>\$ 16,289</u>

The required future minimum payments of the loan at June 30, 2017 are as follows:

Year ending June 30:	Principal	Interest and Fees	Total
2018	7,108	381	7,489
2019	7,318	171	7,489
2020	<u>1,863</u>	<u>9</u>	<u>1,872</u>
Totals	<u>\$ 16,289</u>	<u>\$ 561</u>	<u>\$ 16,850</u>

The City paid interest and fees of \$585 on the above loan during the year ended June 30, 2017. The interest and fees were allocated by function in the Statement of Activities as follows:

Police	\$585
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NOTE 8 - COMMITMENTS

The City has the following contractual commitments at June 30, 2017.

- An extended two-year renewal contract with its waste management contractor for the period July 2016 to June, 2018 requiring monthly payments of \$6,241 plus any new homes. The current rate is \$6,300.
- The City has contractual commitment for police protection at June 30, 2017.

NOTE 9 – SUBSEQUENT EVENTS

City management has evaluated subsequent events through September 26, 2017 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, 2017

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
FUND BALANCE BEGINNING	\$ 1,080,000	\$1,080,000	\$ 1,197,750	\$ 117,750
REVENUES				
Property taxes	215,000	215,000	222,560	7,560
Insurance premium taxes	285,000	285,000	320,461	35,461
Franchise fees	2,000	2,000	2,748	748
Grants and miscellaneous revenues	29,000	29,000	27,406	(1,594)
Miscellaneous income	10,000	10,000	10,696	696
Interest income	2,000	2,000	2,581	581
	<u>543,000</u>	<u>543,000</u>	<u>586,452</u>	<u>43,452</u>
Total Revenues				
Total Revenues and Resources	1,623,000	1,623,000	1,784,202	161,202
Expenditures				
Administrative	68,000	68,000	61,449	6,551
Communications	14,000	14,000	13,740	260
Contingency	50,000	50,000	27,111	22,889
Environmental improvements	48,000	48,000	43,948	4,052
Festivities	16,000	16,000	13,362	2,638
Insurance	20,300	20,300	16,967	3,333
Road and drainage	100,000	125,000	124,944	56
Central Park improvement	20,000	20,000	14,725	5,275
Town Hall	37,000	37,000	36,973	27
Waste Management	80,000	80,000	74,907	5,093
Police	93,000	93,000	91,715	1,285
Sidewalks	10,000	10,000	9,800	200
Public Safety	13,000	13,000	12,699	301
Debt Service	49,960	49,960	40,797	9,163
	<u>619,260</u>	<u>644,260</u>	<u>583,137</u>	<u>61,123</u>
Total Expenditures				
FUND BALANCE ENDING	<u>\$ 1,003,740</u>	<u>\$ 978,740</u>	<u>\$ 1,201,065</u>	<u>\$ 222,325</u>

CITY OF PEWEE VALLEY, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2017

MUNICIPAL ROAD AID FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Municipal road aid	\$ 25,000	\$ 25,000	\$ 29,541	\$ 4,541
Interest income	<u>200</u>	<u>200</u>	<u>262</u>	<u>62</u>
Total Revenues	<u>25,200</u>	<u>25,200</u>	<u>29,803</u>	<u>4,603</u>
Expenditures				
Road and drainage	25,200	25,200	25,200	-
Total Expenditures	<u>25,200</u>	<u>25,200</u>	<u>25,200</u>	<u>-</u>
REVENUE OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,603</u>	<u>\$ 4,603</u>

STORM WATER FUND

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
REVENUES				
Storm water fees	<u>25,300</u>	<u>25,300</u>	<u>26,044</u>	<u>744</u>
Total Revenues	<u>25,300</u>	<u>25,300</u>	<u>26,044</u>	<u>744</u>
Expenditures				
Water Quality Management	25,300	25,300	13,481	11,819
Total Expenditures	<u>25,300</u>	<u>23,000</u>	<u>13,481</u>	<u>11,819</u>
REVENUE OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 2,300</u>	<u>\$ 12,563</u>	<u>\$ 12,563</u>

CITY OF PEWEE VALLEY, KENTUCKY
 COMBINING BALANCES SHEET-NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2017

	MUNICIPAL ROAD AID	STORM WATER FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	\$ 77,137	\$	\$ 77,137
Municipal road aid receivable	3,403		3,403
Due from General Fund	300	51,807	52,107
TOTAL ASSETS	\$ 80,840	\$ 51,807	\$ 132,647
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to the General Fund	\$	\$	\$ -
TOTAL LIABILITIES	-	-	-
FUND BALANCES			
Restricted	80,840	51,807	132,647
Total Fund Balances			
TOTAL LIABILITIES AND FUND BALANCES	\$ 80,840	\$ 51,807	\$ 132,647

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, 2017

	MUNICIPAL ROAD AID	STORM WATER FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES			
Municipal road aid revenue	\$ 29,541		\$ 29,541
Stormwater fees		26,044	26,044
Interest income	262		262
	<hr/>	<hr/>	<hr/>
Total Revenue	29,803	26,044	55,847
EXPENDITURES			
Road and drainage	25,200		25,200
Water quality management		13,481	13,481
	<hr/>	<hr/>	<hr/>
Total Expenditures	25,200	13,481	38,681
EXCESS OF REVENUE OVER EXPENDITURES	<hr/>	<hr/>	<hr/>
	4,603	12,563	17,166
FUND BALANCE, Beginning of year	76,237	39,244	115,481
Fund Balance, End of year	<u>\$ 80,840</u>	<u>51,807</u>	<u>\$ 132,647</u>

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INDEPENDENT AUDITORS'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLAINE AND OTHER MATTERS 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, 2017, 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 November 26, 2017.

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.

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

Richard F. Paulmann, CPA, LLC.

Pewee Valley, KY
November 26, 2017