

CITY OF PINEVILLE
Pineville, Kentucky

REPORT OF AUDIT
Year Ended June 30, 2017

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Marr, Miller & Myers, PSC

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INDEPENDENT AUDITOR'S REPORT

November 21, 2017

Mayor and City Council
City of Pineville
Pineville, Kentucky

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pineville (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Marr, Miller & Myers, PSC

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Pineville, KY as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above include only the primary government of the City of Pineville, KY, which consists of all funds, agencies, departments, and offices that comprise the City's legal entity. These primary government financial statements do not include financial data for the City's legally separate component unit (Pineville Utility Commission), which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the City of Pineville, KY, as of June 30, 2017, the changes in its financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis (Unaudited) and budgetary comparison information on pages 4-7 and 27-31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Marr, Miller & Myers, PSC

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of the City of Pineville, KY's basic financial statements. The Combining Balance Sheets – Nonmajor Governmental Funds – Special Revenue Funds – Cash Basis and the Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Special Revenue Funds – Cash Basis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Requisitions Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, also not a required part of the basic financial statements.

The Combining Balance Sheets – Nonmajor Governmental Funds – Special Revenue Funds – Cash Basis and the Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Special Revenue Funds – Cash Basis and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Combining Balance Sheets – Nonmajor Governmental Funds – Special Revenue Funds – Cash Basis and the Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – Special Revenue Funds – Cash Basis and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Marr, Miller & Myers, PSC

Certified Public Accountants

CITY OF PINEVILLE
Pineville, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017

As management of the City of Pineville (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the City was \$802,049 in 2017 and \$1,166,417 in 2016.
- The General Fund had \$2,734,384 in revenues (excluding interfund transfers), which primarily consisted of the occupational, property, franchise, and municipal insurance taxes. There were \$1,782,071 in General Fund expenditures.
- Governmental capital assets had a net decrease of \$18,538.
- Notes are used to finance long-term capital projects. The total debt decreased by \$7,579.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis on pages 8-9 provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

OVERVIEW OF FINANCIAL STATEMENTS

The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the modified cash basis of accounting.

These two statements report the City's net position and changes in them. You can think of the City's net position, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's capital assets (roads, buildings, and sidewalks) to assess the overall health of the City.

The government-wide financial statements outlines the City's basic services including the police, fire, street, sanitation, recreation and general administration. Municipal insurance tax, occupational tax, property taxes, and state and federal grants finance most of these activities.

CITY OF PINEVILLE
Pineville, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law. However, the City Council may establish many other funds to help it control and manage money for particular purposes (for example, capital projects) or to show that it is meeting legal responsibilities for grant funds (Municipal Aid Road Fund).

Governmental funds: All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called cash basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis) and governmental funds in two reconciliations on pages 11 and 13.

Net Position for the period ending June 30, 2017

Fiscal year 2017 government-wide net position of the primary government is summarized as follows:

	<u>2017</u>
Current assets	\$ 882,811
Noncurrent assets	899,718
Total Assets	<u>\$ 1,782,529</u>
Current liabilities	\$ 7,706
Noncurrent liabilities	127,110
Total Liabilities	<u>\$ 134,816</u>
Net position	
Net investment in capital assets	\$ 777,802
Restricted	604,547
Unrestricted	265,364
Total Net Position	<u>\$ 1,647,713</u>

The most significant change in the financial position of the City since the last audit was the decrease in cash in the amount of \$364,368. This is primarily due to the Pineville Community Hospital Association, Inc. (PCH) being approximately \$240,349 in arrears for their occupational tax they have withheld from their employees but not remitted to the City. PCH is anticipating a sale of the hospital by mid-to-late November. The prospective purchasers anticipate having this liability current within one year after closing.

CITY OF PINEVILLE
Pineville, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017

REVENUES AND EXPENDITURES SUMMARY

Governmental Activities

The following table presents a summary of the primary government revenues and expenditures (excluding transfers) for the fiscal year ended June 30:

	<u>2017</u>	
	<u>Amount</u>	<u>Percent</u>
REVENUES		
Taxes	\$ 1,144,432	41.85 %
Sanitation department	222,765	8.15
Police department	69,683	2.55
Parks/Recreation department	2,323	.08
Main Street	15,150	.55
Fire department	30,218	1.11
Earnings on investments	5,770	.21
General government	77,664	2.84
Federal funds	<u>1,166,379</u>	<u>42.66</u>
TOTAL REVENUES	<u>2,734,384</u>	<u>100.00</u>
EXPENDITURES		
General government	361,112	13.21
Police department	471,810	17.25
Fire department	252,788	9.24
Street department	333,978	12.21
Sanitation department	142,003	5.19
Parks/Recreation department	18,796	.69
Main Street	63,584	2.33
Engineering-levy certification	<u>138,000</u>	<u>5.05</u>
TOTAL EXPENDITURES	<u>1,782,071</u>	<u>65.17</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 952,313</u>	<u>34.83 %</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council did not revise the General Fund budget. The current year budget relied on the expectation of moderate increases in occupational, property and municipal insurance taxes. The actual results showed increases in overall tax revenue of \$64,532 as compared to budget. General government revenues were \$43,138 less than budget excluding carryover of funds of \$453,524. General government expenses were \$27,025 more than budget. The City ended the year with a fund balance that was \$173,305 less than what was budgeted.

CITY OF PINEVILLE
Pineville, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2017, the City had \$2,615,982 invested in capital assets for governmental funds. This represents a net increase of \$64,388.

A summary of capital assets, governmental activities, at June 30 is as follows:

	<u>2017</u>
Buildings and improvements	\$ 1,911,541
Recreation buildings and equipment	117,084
Infrastructure	214,159
Vehicles	127,325
Equipment	<u>245,873</u>
Totals	<u>\$ 2,615,982</u>

Debt Administration

At year-end, the City has \$134,816 of outstanding notes. That is a decrease of 5.32%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City is experiencing slow-growing revenues and rising operating costs. More economical ways of delivering services to the citizens and paying for those services is currently being researched. On a positive note, the citizens continue to enjoy a very low property tax rate compared to other communities.

In summary, the City enjoys a high level of services, excellent facilities, and adequate financial reserves at a very low tax rate. However, the reality is that steady development in the City that would generate new revenue to offset increased costs has not occurred.

PINEVILLE UTILITY SYSTEM

The financial statements of the City do not include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board. The Pineville Utility Commission meets the definition of a component unit. A separate audit report has been issued.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at P.O. Box 688, Pineville, Kentucky 40977 or phone at 606-337-2958.

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF NET POSITION – CASH BASIS
June 30, 2017

	<u>ASSETS</u>	<u>Primary Government Governmental Activities</u>
CURRENT ASSETS		
Cash and cash equivalents		\$ 802,049
Due (to) from component unit		<u>80,762</u>
Total current assets		<u>882,811</u>
NONCURRENT ASSETS		
Capital assets, net		<u>899,718</u>
Total noncurrent assets		<u>899,718</u>
TOTAL ASSETS		<u>1,782,529</u>
	<u>LIABILITIES AND NET POSITION</u>	
CURRENT LIABILITIES		
Current portion of notes payable		<u>7,706</u>
Total current liabilities		<u>7,706</u>
NONCURRENT LIABILITIES		
Noncurrent portion of notes payable		<u>127,110</u>
Total noncurrent liabilities		<u>127,110</u>
TOTAL LIABILITIES		<u>134,816</u>
NET POSITION		
Net investment in capital assets		777,802
Restricted		
Levee certification		5,202
Municipal roads		33,010
Economic development		8,228
Tourism and recreation		547,324
Public safety		10,783
Unrestricted		<u>265,364</u>
TOTAL NET POSITION		<u>\$ 1,647,713</u>

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

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF ACTIVITIES – CASH BASIS
Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					Total
General government	\$ 358,617	\$ 77,664	\$ -	\$ -	\$ (280,953)
Police department	471,810	13,875	55,808	-	(402,127)
Fire department	259,656	-	19,218	11,000	(229,438)
Street department	367,644	-	48,244	-	(319,400)
Sanitation department	142,003	222,765	-	-	80,762
Parks/Recreation department	26,612	2,323	-	-	(24,289)
Main Street	63,584	15,150	-	-	(48,434)
Engineering-levy certification	138,000	-	-	-	(138,000)
Special revenue projects	<u>363,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(363,430)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>2,191,356</u>	<u>331,777</u>	<u>123,270</u>	<u>11,000</u>	<u>(1,725,309)</u>
 TOTAL PRIMARY GOVERNMENTAL	 <u>\$ 2,191,356</u>	 <u>\$ 331,777</u>	 <u>\$ 123,270</u>	 <u>\$ 11,000</u>	 <u>(1,725,309)</u>
GENERAL REVENUES					
Taxes					
Property					
					168,666
Franchise					
					137,289
Municipal insurance					
					284,402
Occupational					
					532,113
Payment in lieu of taxes					
					21,962
Restaurant					
					218,941
Alcohol					
					14,640
Earnings on investments					
					16,330
Federal funds					
					1,166,379
Other local revenues					
					<u>31,822</u>
Total general revenues					2,592,544
Transfers to component unit					<u>(1,166,378)</u>
Total general revenues and transfers					<u>1,426,166</u>
Change in net position					<u>(299,143)</u>
Net position, July 1, 2016 as previously reported					1,171,712
Restatement – See Note 16					<u>775,144</u>
Net position, July 1, 2016, as restated					<u>1,946,856</u>
Net position, June 30, 2017					<u>\$ 1,647,713</u>

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

CITY OF PINEVILLE
Pineville, Kentucky

BALANCE SHEET
GOVERNMENTAL FUNDS – CASH BASIS
June 30, 2017

	General Fund	Special Revenue Funds	Total Governmental Funds
ASSETS AND RESOURCES			
Cash and cash equivalents	\$ 202,704	\$ 599,345	\$ 802,049
Due (to) from component unit	80,762	-	80,762
TOTAL ASSETS AND RESOURCES	<u>\$ 283,466</u>	<u>\$ 599,345</u>	<u>\$ 882,811</u>
LIABILITIES AND FUND BALANCES			
Restricted			
Levee certification	\$ 5,202	\$ -	\$ 5,202
Municipal roads	-	33,010	33,010
Economic development	-	8,228	8,228
Tourism and recreation	-	547,324	547,324
Public safety	-	10,783	10,783
Unassigned	278,264	-	278,264
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 283,466</u>	<u>\$ 599,345</u>	<u>\$ 882,811</u>

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

CITY OF PINEVILLE
Pineville, Kentucky

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
CASH BASIS TO THE STATEMENT OF NET POSITION – CASH BASIS
June 30, 2017

Total Fund Balances – Governmental Funds	\$ 882,811
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, but they are reported in the statement of net position.	899,718
Certain liabilities, such as notes payable, are not reported in this fund financial statement because they are not due and payable in the current period, but they are presented in the statement of net position.	<u>(134,816)</u>
Total Net Position – Governmental Funds	<u>\$ 1,647,713</u>

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

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS – CASH BASIS
Year Ended June 30, 2017

	General Fund	Special Revenue Funds	Total Governmental Funds
REVENUES			
Taxes			
Property	\$ 168,666	\$ -	\$ 168,666
Franchise	137,289	-	137,289
Municipal insurance	284,402	-	284,402
Occupational	532,113	-	532,113
Payment in lieu of taxes	21,962	-	21,962
Restaurant	-	218,941	218,941
Alcohol	-	14,640	14,640
Intergovernmental revenues	-	48,244	48,244
Sanitation department	222,765	-	222,765
Police department	69,683	-	69,683
Parks/Recreation department	2,323	-	2,323
Fire department	30,218	-	30,218
Earnings on investments	5,770	10,560	16,330
General government	77,664	-	77,664
Main Street	15,150	-	15,150
Federal funds	1,166,379	-	1,166,379
Other revenues	-	31,822	31,822
TOTAL REVENUES	<u>2,734,384</u>	<u>324,207</u>	<u>3,058,591</u>
EXPENDITURES			
General government	361,112	-	361,112
Police department	471,810	-	471,810
Fire department	252,788	-	252,788
Street department	333,978	4,650	338,628
Sanitation department	142,003	-	142,003
Parks/Recreation department	18,796	-	18,796
Main Street	63,584	-	63,584
Engineering-levy certification	138,000	-	138,000
Special projects	-	340,338	340,338
Other special revenue expenditures	-	48,759	48,759
TOTAL EXPENDITURES	<u>1,782,071</u>	<u>393,747</u>	<u>2,175,818</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>952,313</u>	<u>(69,540)</u>	<u>882,773</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	40,760	12,313	53,073
Operating transfers out	<u>(1,166,378)</u>	<u>(53,073)</u>	<u>(1,219,451)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,125,618)</u>	<u>(40,760)</u>	<u>(1,166,378)</u>
Net change in fund balances	<u>(173,305)</u>	<u>(110,300)</u>	<u>(283,605)</u>
Fund balances, July 1, 2016, as previously reported	313,420	702,188	1,015,608
Restatement – See Note 16	143,351	7,457	150,808
Fund balances, July 1, 2016, as restated	456,771	709,645	1,166,416
Fund balances, June 30, 2017	<u>\$ 283,466</u>	<u>\$ 599,345</u>	<u>\$ 882,811</u>

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

CITY OF PINEVILLE
Pineville, Kentucky

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS – CASH BASIS TO THE STATEMENT OF ACTIVITIES
CASH BASIS
Year Ended June 30, 2017

Net Change In Fund Balances per fund financial statements **\$ (283,605)**

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 is allocated over their estimated useful lives as depreciation expense.

Capital outlays	\$ 64,388	
Depreciation	<u>(82,926)</u>	(18,538)

Payments on the notes payable are an expenditure in the governmental funds, but the repayments reduce noncurrent liabilities in the statement of net position and does not result in an expense in the statement of activities.

3,000

Change In Net Position of Governmental Activities **\$ (299,143)**

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

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that affect the significant elements of the financial statements of the City of Pineville are summarized as follows:

REPORTING ENTITY

The City of Pineville (City) is a fourth-class city and has oversight responsibilities over all activities related to the operation of the City. The City receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement since the Council members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The City, for financial purposes, includes all of the funds and account groups relevant to the operation of the City of Pineville.

The financial statements of the City do not include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board. The Pineville Utility Commission meets the definition of a component unit. A separate audit report has been issued.

BASIS OF PRESENTATION

Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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. All taxes and revenues not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements: Fund financial statements report detailed information about the City. Their focus is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balances.

The City has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the City.
- (B) The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. These are not major funds of the City.

BASIS OF ACCOUNTING

The financial statements of the City have been prepared on the modified cash basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Consequently, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

CASH AND CASH EQUIVALENTS

The City has bank accounts and certificates of deposit. The monies are either maintained in a central bank account or used to purchase legal investments.

It is the policy of the City to value investment contracts and money market investments with a maturity of one year or less at the time of purchase at cost or amortized cost. Investment contracts and money market investments that had a remaining maturity of greater than one year at the time of purchase are reported at fair value.

The Kentucky Revised Statutes authorized the City to invest in United States and State of Kentucky bonds, notes and other obligations; bank certificates of deposit; banker's acceptances; and commercial paper notes rated prime and issued by United States corporations. It is the City's policy to invest in all of the above types of investments. Under existing Kentucky statutes, all investment earnings accrue to the general fund except certain trust funds, which accrue to those funds individually.

INVESTMENTS

The City's investments are comprised solely of certificates of deposit.

CAPITAL ASSETS AND DEPRECIATION

General capital assets are reported in the government-wide statement of net position but are not reported in the fund financial statements.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City follows the policy of not capitalizing assets with a cost of less than \$1,000 and a useful life of less than 1 year.

All reported capital assets, with the exception of land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for governmental fund capital assets:

<u>Description</u>	<u>Useful Life</u>
Buildings and improvements	10-30 years
Parks and recreation equipment	10-15 years
Equipment	7-10 years
Vehicles	5 years
Infrastructure-roads/sidewalks	20 years

INTERFUND ACTIVITY

Transfers between funds on the government-wide statements are reported in the same manner as general revenues. Sales of goods and services between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

COMPENSATED ABSENCES

The City allows employees vacation days based upon length of service and type of employee (full-time salaried, part-time salaried or hourly). Vacation hours cannot accumulate to more than fifty work days. Upon termination, an employee is compensated at their current pay rate for unused vacation, provided proper notice has been given.

The City also allows employees sick leave with pay, which is also based upon length of service and type of employment. Sick leave hours cannot accumulate to more than one hundred twenty workdays. Upon termination, the City does not pay for unused sick leave. There are no accruals for vacation or sick leave reflected in the basic financial statements.

RESTRICTED RESOURCES

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NET POSITION

Net position in government-wide financial statements is classified as net investment in capital assets, restricted and unrestricted. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- *Inventories* – Portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Committed Fund Balance – Portion of fund balance that can only be used for specific purposes imposed by a majority vote of the City of Pineville's Council members. Any changes or removal of specific purposes also requires majority action by the Council.

Assigned Fund Balance – Portion of fund balance that has been budgeted by the Council.

- *Purchase Obligations* – Portion of fund balance that is appropriated in the subsequent year's budget that is not already classified in restricted or committed.

Unassigned Fund Balance – Portion of fund balance that has not been restricted, committed or assigned for a specific purpose.

ESTIMATES

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

BUDGETARY PROCESS

Budgetary Basis of Accounting: The City's budgetary process accounts for certain transactions on a basis other than U.S. Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are that revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP) and expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Council at their regular meetings.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

The City's funds are required to be deposited and invested under statutory regulations. The depository bank deposits for safekeeping and trust with the City's third party agent approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation coverage.

At June 30, 2017, the carrying amount of the City's deposits (cash and investments) was \$802,049 and the bank balance was \$988,799. The entire bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

The deposits were deemed collateralized under Kentucky Law during the year and the City maintains copies of all safekeeping receipts. The following is disclosed:

- a. Name of bank utilized during fiscal year: First State Financial.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$1,139,498.
- c. Largest cash, savings and time deposit combined account balance amounted to \$1,395,021 and occurred during the month of March 2017.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$500,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- | | |
|------------|---|
| Category 1 | Deposits, which are insured or collateralized with securities, held by the City or by its agent in the City's name. |
| Category 2 | Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. |
| Category 3 | Deposits, which are not collateralized or insured. |

Based on these three levels of risk, the City's cash deposits are classified as Category 1 and 2.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – PROPERTY TAXES

The City's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The assessed value of the certified roll, upon which the levy for the 2017 fiscal year was based, was \$50,543,227. The tax rates assessed for the year ended June 30, 2017 to finance general fund operations were \$.279 per \$100 valuation for real estate and tangible property. Taxes are due on October 1, and become delinquent by January 1 following the October 1 levy date.

NOTE 4 – TAX ABATEMENTS

On October 12, 2015, the City approved an ordinance related to the establishment of a moratorium on reassessment of property tax values of qualified rehabilitation properties in the Pineville Main Street District Area.

A program is established in which these properties in the Historic Main Street Pineville district may qualify for a five-year moratorium on reassessment of property value for the purpose of ad valorem taxes. Properties which qualify for this program are those in the target areas which, if commercial, are at least twenty-five years old and have improvements made to them which equal at least twenty-five percent (25%) of the value of the property as shown on the most recent assessment by the Property Valuation Office, and, if residential, are at least twenty-five years old, provide independent living facilities for at least one family and have improvements made to them which equal ten percent (10%) of the value of the property as shown on the most recent assessment by the Property Valuation Office. The moratorium on reassessment shall be for the term of five years. Application for the moratorium shall be made no more than thirty (30) days prior to the commencement of the improvement. Applications shall be submitted to the Pineville City Clerk's office with copies to Main Street Pineville. Value of the improvements shall be fully documented by the applicant. The applicant shall have no more than two (2) years to complete the project.

The City approved an incentive package on January 29, 2016 with a local developer. The original assessment of this property was \$435,000. The expected improvements were projected to be \$1,200,000. Based on these estimates, the City will forego approximately \$2,100 in property tax revenue for five years.

NOTE 5 – CAPITAL ASSETS

A summary of capital assets activity during the fiscal year follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
GOVERNMENTAL ACTIVITIES				
Buildings and improvements	\$ 1,905,702	\$ 5,839	\$ -	\$ 1,911,541
Infrastructure	214,159	-	-	214,159
Recreation buildings and equipment	106,876	10,208	-	117,084
Vehicles	106,026	21,299	-	127,325
Equipment	218,831	27,042	-	245,873
Totals at cost	2,551,594	64,388	-	2,615,982
Less accumulated depreciation	1,633,338	-	82,926	1,716,264
Governmental activities capital assets, net	<u>\$ 918,256</u>	<u>\$ 64,388</u>	<u>\$ 82,926</u>	<u>\$ 899,718</u>

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Governmental activities depreciation was allocated as follows:

General government	\$ 30,104
Fire department	6,868
Street department	29,016
Bell Theater	7,082
Restaurant tax	2,040
Parks/Recreation department	7,816
Total	<u>\$ 82,926</u>

NOTE 6 – NOTES PAYABLE

The following is a summary of the notes payable - governmental activities at June 30:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Borrowings</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2017</u>
2.875% note payable, unsecured, varying annual payments (\$3,000 to \$3,500) plus interest, matures January, 2020	\$ 15,900	\$ -	\$ 3,000	\$ 12,900
3.0% note payable, secured by Bell Theater, monthly payments of \$691 including interest, matures October, 2036	<u>126,495</u>	<u>-</u>	<u>4,579</u>	<u>121,916</u>
Totals	<u>\$ 142,395</u>	<u>\$ -</u>	<u>\$ 7,579</u>	<u>\$ 134,816</u>

Interest of \$323 for the year is included in general government expenses and \$3,625 is included in Bell Theater expenses.

The following is a summary of principal maturities and interest requirements:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,706	\$ 4,011	\$ 11,717
2019	7,848	3,771	11,619
2020	8,495	3,527	12,022
2021	8,547	3,261	11,808
2022	5,304	2,994	8,298
2023-27	29,038	12,452	41,490
2028-32	33,731	7,759	41,490
2033-37	<u>34,147</u>	<u>2,341</u>	<u>36,488</u>
Totals	<u>\$ 134,816</u>	<u>\$ 40,116</u>	<u>\$ 174,932</u>

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the City participates in the Kentucky League of Cities and Kentucky Risk Management Associations Trust. These public entity risk pools operate as common risk management and insurance programs for all cities. The City pays an annual premium to each fund for coverage. Contributions to the workers' compensation fund are based on premium rates established by such funds in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro-rata basis.

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The City has purchased certain policies, which are retrospectively rated, which include workers' compensation insurance.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the City at risk for a substantial loss (contingency). There were no instances of noncompliance noted.

NOTE 8 – RETIREMENT PLANS

Plan Description

The City of Pineville participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Employees Retirement Systems (KERS) administers the CERS. CERS issues publicly available financial reports that include financial statements and required supplementary information. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided – Non-Hazardous and Hazardous

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2015, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Contributions – Non-Hazardous

For the fiscal year ended June 30, 2017, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Plan members who began participating after September 1, 2008 were required to contribute 6% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first date of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The City's contractually required contribution rate for the year ended June 30, 2017, was 18.68 percent of annual creditable compensation. Contributions to the pension plan from the City were \$53,463.

Contributions – Hazardous

For the fiscal year ended June 30, 2017, plan members were required to contribute 8% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first date of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The City's contractually required contribution rate for the year ended June 30, 2017, was 31.06% of annual creditable compensation. Contributions to the pension plan from the City were \$103,400.

Pension Liabilities and Pension Expense – Non-Hazardous

At June 30, 2017, the City had a liability of \$549,603 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2016, the City's proportion was .01116 percent.

For the year ended June 30, 2017, the City recognized pension expense of \$53,463.

Pension Liabilities and Pension Expense – Hazardous

At June 30, 2017, the City had a liability of \$1,042,555 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participants, actuarially determined. At June 30, 2016, the City's proportion was .06076 percent.

For the year ended June 30, 2017, the City recognized pension expense of \$103,400.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvements in mortality rates and that margin will be reviewed again with the next experience investigation conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on pension plan investments is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in the future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40 %
Real Return (Diversified Inflation Strategies)	10%	3.50 %
Absolute Return (Diversified Hedge Funds)	10%	4.25 %
Real Estate	5%	4.50 %
Combined Fixed Income	19%	1.50 %
Private Equity	10%	8.50 %
Cash Equivalent	2%	(0.25)%
Total	<u>100%</u>	

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 – RETIREMENT PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Non-Hazardous

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 684,894	\$ 549,603	\$ 433,631

Hazardous

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 1,309,753	\$ 1,042,555	\$ 822,163

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The City receives funding from federal, state and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

No provision was made in the accompanying financial statements for any contingent liabilities.

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – MAJOR CONTRACT

The City entered into a contract with Poff Carting Services, LLC ("POFF") on September 30, 2015, which gave them exclusive rights to collect and dispose of all garbage generated within the city limits of Pineville, KY. POFF agrees to charge \$13 per month per household for this service. The term of this contract is for five years and may be renewed for an additional five years upon approval by POFF and the City. The amount paid under this contract was \$83,630 for the year ended June 30, 2017.

NOTE 11 – OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Accounting Standards require disclosure of information about financial instruments for which risk could exceed amounts reflected in the financial statements and information about significant geographic, industry, or other concentrations of credit risk for all financial instruments. We noted no additional items that needed to be disclosed.

NOTE 12 – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Restaurant Tax	General	Main Street Expenses	\$ 27,500
Operating	Restaurant Tax	General	Special projects	13,260
Operating	Restaurant Tax	Bell Theater	Special projects	12,313

NOTE 13 – DUE (TO) FROM COMPONENT UNIT

Due (to) from component unit consisted of the following at June 30, 2017:

<u>Governmental Activities</u>	
Due from component unit – Pineville Utility Commission	<u>\$ 80,762</u>

NOTE 14 – DEFICIT OPERATING/FUND BALANCES

The following governmental funds had operations that resulted in current year operating deficits:

General	<u>\$ 173,305</u>
Restaurant Tax	<u>\$ 157,793</u>
Bell Theater	<u>\$ 3,918</u>

NOTE 15 – FUND BALANCE DESIGNATIONS

The following governmental funds had restricted fund balances at June 30, 2017:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 5,202	Levee certification
Special Revenue	33,010	Municipal roads
Special Revenue	8,228	Economic development
Special Revenue	547,324	Tourism and recreation
Special Revenue	10,783	Public safety

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 16 – RESTATEMENT OF PRIOR YEAR

The net position for the City has been restated for the following omitted items:

Cash	\$ 150,808
Capital assets	1,812,578
Accumulated depreciation	(1,190,450)
Notes payable	2,208
	<u>\$ 775,144</u>

The fund balance for the City has been restated for the following omitted items:

Cash	<u>\$ 150,808</u>
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NOTE 17 – SUBSEQUENT EVENTS

We evaluated events and transactions that occurred after the balance sheet date as potential subsequent events. We performed this evaluation through November 21, 2017, the date on which we issued our financial statements. .

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GENERAL FUND
CASH BASIS – BUDGET AND ACTUAL
Year Ended June 30, 2017

	Budgeted Amounts			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
Taxes				
Property	\$ 158,900	\$ 158,900	\$ 168,666	\$ 9,766
Franchise	126,000	126,000	137,289	11,289
Municipal insurance	225,000	225,000	284,402	59,402
Occupational tax	550,000	550,000	532,113	(17,887)
Payment in lieu of taxes	20,000	20,000	21,962	1,962
Sanitation department	-	-	222,765	222,765
Police department	88,152	88,152	69,683	(18,469)
Parks/Recreation department	6,000	6,000	2,323	(3,677)
Fire department	31,970	31,970	30,218	(1,752)
Earnings on investments	1,000	1,000	5,770	4,770
General government	70,500	70,500	77,664	7,164
Main Street	-	-	15,150	15,150
Federal funds	1,500,000	1,500,000	1,166,379	(333,621)
Carryover of funds	453,524	453,524	-	(453,524)
TOTAL REVENUES	<u>3,231,046</u>	<u>3,231,046</u>	<u>2,734,384</u>	<u>(496,662)</u>
EXPENDITURES				
General government	370,535	370,535	361,112	9,423
Police department	543,225	543,225	471,810	71,415
Fire department	267,554	267,554	252,788	14,766
Street department	356,320	356,320	333,978	22,342
Sanitation department	-	-	142,003	(142,003)
Parks/Recreation department	24,805	24,805	18,796	6,009
Main Street	49,607	49,607	63,584	(13,977)
Engineering-levy certification	143,000	143,000	138,000	5,000
TOTAL EXPENDITURES	<u>1,755,046</u>	<u>1,755,046</u>	<u>1,782,071</u>	<u>(27,025)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,476,000</u>	<u>1,476,000</u>	<u>952,313</u>	<u>(523,687)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	24,000	24,000	40,760	16,760
Operating transfers out	(1,500,000)	(1,500,000)	(1,166,378)	333,622
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,476,000)</u>	<u>(1,476,000)</u>	<u>(1,125,618)</u>	<u>350,382</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(173,305)</u>	<u>\$ (173,305)</u>
FUND BALANCE, JULY 1, 2016, AS RESTATED			<u>456,771</u>	
FUND BALANCE, JUNE 30, 2017			<u>\$ 283,466</u>	

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

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS
CASH BASIS – BUDGET AND ACTUAL
Year Ended June 30, 2017

	<u>Municipal Road Aid</u>			
	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
REVENUES				
Intergovernmental revenues:				
Street department	\$ 33,000	\$ 33,000	\$ 37,583	\$ 4,583
Carryover of funds	38	38	-	(38)
Earnings on investments	-	-	39	39
TOTAL REVENUES	<u>33,038</u>	<u>33,038</u>	<u>37,622</u>	<u>4,584</u>
EXPENDITURES				
Street department	<u>33,038</u>	<u>33,038</u>	<u>4,650</u>	<u>28,388</u>
TOTAL EXPENDITURES	<u>33,038</u>	<u>33,038</u>	<u>4,650</u>	<u>28,388</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>32,972</u>	<u>32,972</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>32,972</u>	<u>\$ 32,972</u>
FUND BALANCES, JULY 1, 2016			<u>38</u>	
FUND BALANCES, JUNE 30, 2017			<u>\$ 33,010</u>	

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

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS
CASH BASIS – BUDGET AND ACTUAL
Year Ended June 30, 2017

<u>Local Government Economic Assistance</u>				
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenues:				
Coal and mineral grants	\$ 11,000	\$ 11,000	\$ 10,661	\$ (339)
Carryover of funds	580	580	-	(580)
Earnings on investments	-	-	109	109
TOTAL REVENUES	<u>11,580</u>	<u>11,580</u>	<u>10,770</u>	<u>(810)</u>
EXPENDITURES				
Special projects	<u>11,580</u>	<u>11,580</u>	<u>3,122</u>	<u>8,458</u>
TOTAL EXPENDITURES	<u>11,580</u>	<u>11,580</u>	<u>3,122</u>	<u>8,458</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>7,648</u>	<u>7,648</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>7,648</u>	<u>\$ 7,648</u>
FUND BALANCES, JULY 1, 2016			<u>580</u>	
FUND BALANCES, JUNE 30, 2017			<u>\$ 8,228</u>	

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

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS
CASH BASIS – BUDGET AND ACTUAL
Year Ended June 30, 2017

	<u>Restaurant Tax</u>		
	<u>Budgeted Amounts</u>		Variance with
	<u>Original</u>	<u>Final</u>	Final Budget
			Favorable
			<u>(Unfavorable)</u>
REVENUES			
Restaurant tax	\$ 195,000	\$ 195,000	\$ 218,941
Carryover of funds	690,143	690,143	-
Earnings on investments	-	-	10,225
TOTAL REVENUES	<u>885,143</u>	<u>885,143</u>	<u>229,166</u>
EXPENDITURES			
Special projects	<u>861,143</u>	<u>861,143</u>	<u>333,886</u>
TOTAL EXPENDITURES	<u>861,143</u>	<u>861,143</u>	<u>333,886</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>24,000</u>	<u>24,000</u>	<u>(104,720)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers out	<u>(24,000)</u>	<u>(24,000)</u>	<u>(53,073)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(24,000)</u>	<u>(24,000)</u>	<u>(53,073)</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>(157,793)</u>
FUND BALANCES, JULY 1, 2016			<u>690,143</u>
FUND BALANCES, JUNE 30, 2017			<u>\$ 532,350</u>

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

CITY OF PINEVILLE
Pineville, Kentucky

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – SPECIAL REVENUE FUNDS
CASH BASIS – BUDGET AND ACTUAL
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Other local revenues	\$ 30,000	\$ 30,000	\$ 31,822	\$ 1,822
Carryover of funds	11,427	11,427	-	(11,427)
Earnings on investments	-	-	125	125
TOTAL REVENUES	<u>41,427</u>	<u>41,427</u>	<u>31,947</u>	<u>(9,480)</u>
EXPENDITURES				
Special projects	<u>41,427</u>	<u>41,427</u>	<u>48,178</u>	<u>(6,751)</u>
TOTAL EXPENDITURES	<u>41,427</u>	<u>41,427</u>	<u>48,178</u>	<u>(6,751)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(16,231)</u>	<u>(16,231)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>-</u>	<u>-</u>	<u>12,313</u>	<u>12,313</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>12,313</u>	<u>12,313</u>
NET CHANGE IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>(3,918)</u>	<u>\$ (3,918)</u>
FUND BALANCES, JULY 1, 2016			<u>11,427</u>	
FUND BALANCES, JUNE 30, 2017			<u>\$ 7,509</u>	

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

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL
Year Ended June 30, 2017

The City's budgetary process accounts for transactions on the modified cash basis of accounting. In accordance with state law, the City prepares an annual budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget ordinance shall be submitted to the council not later than thirty days prior to the beginning of the fiscal year it covers. The council adopts the budget ordinance after the required two readings. The budget ordinance is then published by title and summary within thirty days of its adoption. The City has the ability to amend the budget. The budget was not amended during the year.

CITY OF PINEVILLE
Pineville, Kentucky

COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS – SPECIAL REVENUE FUNDS – CASH BASIS
June 30, 2017

	Bell Theater	Municipal Road Aid	Local Government Economic Assistance	Restaurant Tax
ASSETS AND RESOURCES				
Cash and cash equivalents	\$ 7,509	\$ 33,010	\$ 8,228	\$ 532,350
TOTAL ASSETS AND RESOURCES	<u>\$ 7,509</u>	<u>\$ 33,010</u>	<u>\$ 8,228</u>	<u>\$ 532,350</u>
FUND BALANCES				
Restricted				
Municipal roads	\$ -	\$ 33,010	\$ -	\$ -
Economic development	-	-	8,228	-
Tourism and recreation	7,509	-	-	532,350
Public safety	-	-	-	-
TOTAL FUND BALANCES	<u>7,509</u>	<u>33,010</u>	<u>8,228</u>	<u>532,350</u>
TOTAL FUND BALANCES	<u>\$ 7,509</u>	<u>\$ 33,010</u>	<u>\$ 8,228</u>	<u>\$ 532,350</u>

Cumberland Ford/ Narrows	Alcohol Tax	Total
\$ 7,465	\$ 10,783	\$ 599,345
<u>\$ 7,465</u>	<u>\$ 10,783</u>	<u>\$ 599,345</u>

\$ -	\$ -	\$ 33,010
-	-	8,228
7,465	-	547,324
-	10,783	10,783
<u>7,465</u>	<u>10,783</u>	<u>599,345</u>
<u>\$ 7,465</u>	<u>\$ 10,783</u>	<u>\$ 599,345</u>

CITY OF PINEVILLE
Pineville, Kentucky

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS – SPECIAL REVENUE FUNDS – CASH BASIS
Year Ended June 30, 2017

	Bell Theater	Municipal Road Aid	Local Government Economic Assistance	Restaurant Tax
REVENUES				
Restaurant tax	\$ -	\$ -	\$ -	\$ 218,941
Alcohol tax	-	-	-	-
Intergovernmental revenues:				
Street department	-	37,583	-	-
Coal and mineral grants	-	-	10,661	-
Earnings on investments	125	39	109	10,225
Other local revenues	<u>31,822</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>31,947</u>	<u>37,622</u>	<u>10,770</u>	<u>229,166</u>
EXPENDITURES				
Street department	-	4,650	-	-
Special projects	48,178	-	3,122	289,038
Administrative	-	-	-	1,719
Inter-local agreement	-	-	-	11,460
Capital outlay	-	-	-	25,273
Advertising	-	-	-	6,396
Public safety	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>48,178</u>	<u>4,650</u>	<u>3,122</u>	<u>333,886</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(16,231)</u>	<u>32,972</u>	<u>7,648</u>	<u>(104,720)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	12,313	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(53,073)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>12,313</u>	<u>-</u>	<u>-</u>	<u>(53,073)</u>
NET CHANGE IN FUND BALANCES	(3,918)	32,972	7,648	(157,793)
FUND BALANCES, JULY 1, 2016, AS RESTATED	<u>11,427</u>	<u>38</u>	<u>580</u>	<u>690,143</u>
FUND BALANCES, JUNE 30, 2017	<u>\$ 7,509</u>	<u>\$ 33,010</u>	<u>\$ 8,228</u>	<u>\$ 532,350</u>

Cumberland Ford/ Narrows	Alcohol Tax	Total
\$ -	\$ -	\$ 218,941
-	14,640	14,640
-	-	37,583
-	-	10,661
8	54	10,560
-	-	31,822
<u>8</u>	<u>14,694</u>	<u>324,207</u>
-	-	4,650
-	-	340,338
-	-	1,719
-	-	11,460
-	3,282	28,555
-	-	6,396
-	629	629
<u>-</u>	<u>3,911</u>	<u>393,747</u>
<u>8</u>	<u>10,783</u>	<u>(69,540)</u>
-	-	12,313
<u>-</u>	<u>-</u>	<u>(53,073)</u>
<u>-</u>	<u>-</u>	<u>(40,760)</u>
8	10,783	(110,300)
<u>7,457</u>	<u>-</u>	<u>709,645</u>
<u>\$ 7,465</u>	<u>\$ 10,783</u>	<u>\$ 599,345</u>

CITY OF PINEVILLE
Pineville, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation</u>			
HIGHWAY SAFETY CLUSTER			
State and Community Highway Safety	20.600	Pineville PD PT-17-46	\$ 5,922
Total U.S. Department of Transportation			<u>5,922</u>
<u>U.S. Environmental Protection Agency</u>			
CLEAN WATER STATE REVOLVING FUND CLUSTER			
Capitalization Grants for Clean Water State Revolving Funds	66.458	KIA A11-051	446,713*
Total U.S. Environmental Protection Agency			<u>446,713</u>
<u>Appalachian Regional Commission</u>			
Passed Through KY Department of Local Government:			
Appalachian Regional Development	23.001	13-039	338,482*
Total Appalachian Regional Commission			<u>338,482</u>
<u>Department of Housing and Urban Development</u>			
Passed Through KY Department of Local Government:			
Community Development Block Grants	14.228	13-039	827,896*
Total Department of Housing and Urban Development			<u>827,896</u>
<u>United States Department of Agriculture</u>			
Rural Housing Development	10.411	15F-006	10,698
Total United States Department of Agriculture			<u>10,698</u>
Total Expenditures of Federal Awards			<u>\$ 1,629,711</u>

* Denotes major program

CITY OF PINEVILLE
Pineville, Kentucky

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pineville under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the City, it is not intended to, and does not present, the financial position or changes in net position of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified cash basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – LOAN PROGRAMS

The loan programs listed subsequently were obtained for the Virginia Avenue Utility project and the Levee Certification Project. The balances and transactions related to these programs are included in the City's and the Pineville Utility Systems' basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the schedule. The balance of the loans outstanding at June 30, 2017 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at June 30, 2017</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 446,713
10.411	Rural Housing Development	12,900

CITY OF PINEVILLE
Pineville, Kentucky

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<u>✓</u> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>✓</u> None reported
Noncompliance material to financial statement notes	_____	Yes	<u>✓</u> No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<u>✓</u> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>✓</u> None reported
Type of auditor's report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	_____	Yes	<u>✓</u> No

Identification of major programs:

CFDA Number

66.458
23.001
14.228

Name of Federal Program or Cluster

Clean Water State Revolving Fund Cluster
Appalachian Regional Development
Community Development Block Grants

Dollar threshold used to distinguish between Type A and Type B programs

\$ 750,000

Auditee qualified as low risk

_____	Yes	<u>✓</u>	No
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Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

CITY OF PINEVILLE
Pineville, Kentucky

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2017

None

Marr, Miller & Myers, PSC

Certified Public Accountants
(606) 528-2454 (FAX 528-1770)

P.O. Box 663
Corbin, Kentucky 40702

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

November 21, 2017

Mayor and City Council Members
City of Pineville
Pineville, Kentucky

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Pineville, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

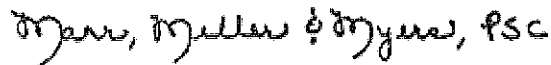
Marr, Miller & Myers, PSC

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Marr, Miller & Myers, PSC

Certified Public Accountants
(606) 528-2454 (FAX 528-1770)

P.O. Box 663
Corbin, Kentucky 40702

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

November 21, 2017

Mayor and City Council Members
City of Pineville
Pineville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Pineville's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Marr, Miller & Myers, PSC

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marr, Miller & Myers, PSC

Certified Public Accountants