

CITY OF PINEVILLE, KENTUCKY  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30, 2014

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**Gary R. Williams,**

*Certified Public Accountant*

180 CLARENCE LANE  
HARROGATE, TN 37752  
606-269-3306  
[gary8730@bellsouth.net](mailto:gary8730@bellsouth.net) email

## INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council  
Pineville, Kentucky

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pineville, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

#### *Opinions*

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pineville, Kentucky, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Other Matters*

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 and 6 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. 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 the methods of preparing the information and comparing the information for consistency with management's responses to my 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 us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pineville, Kentucky's basic financial statements. The individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements..

The individual nonmajor fund financial statements 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 auditing standards generally accepted in the United States of America. In my opinion, the individual nonmajor fund financial statements 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*, I have also issued my report dated October 7, 2014, on my consideration of the City of Pineville, Kentucky's internal control over financial reporting and on my 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 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 City of Pineville, Kentucky's internal control over financial reporting and compliance.

*Kay A. Miller CPA*

Harrogate, Tennessee  
October 7, 2014

# CITY OF PINEVILLE, KENTUCKY

## Management's Discussion and Analysis Annual Financial Statements For the Period Ended June 30, 2014

The financial management team of the City of Pineville, Kentucky: Mayor, Sherwin Rader and City Clerk, Ina L. Robbins, present this narrative to help those who review these financial statements to better understand them, their schedules and notes. It is our intent that this discussion provide all parties interested in the City's financial condition, especially the citizens of Pineville, a better understanding of the City's operations and financial status.

The City reports its annual financial statements in a required model format issued by the Governmental Accounting Standards Board.

Should any of reader of these statements have any questions or desire additional information, please contact Mayor Sherwin Rader or Ina L. Robbins, City Clerk at 606-337-2958.

### Financial Highlights

- As of June 30, 2014, the City's assets (\$20,789,168) exceeded liabilities (\$6,007,759) by \$15,781,539. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement and a surplus of \$860,729.
- Unrestricted cash and investment balances as of June 30, 2014 were \$285,730 and current liabilities payable from those funds were \$797,853. The deficit is also covered by restricted cash and investments of \$1,726,108.
- Fund Balances, a measure of current financial resources, increased in the governmental funds by \$99,355 to a June 30, 2014 balance of \$921,058. The unrestricted portion of \$260,549 was available to continue operations into the next fiscal year. The City anticipated this increase in the fund balance and net assets of the governmental funds, and adjusted the budget for it.

### Overview of the Financial Statements

The City provides two major categories of services and thus reports on two major activities: 1) governmental activities, which are primarily funded by taxes and intergovernmental revenues and 2) business-type activities, which are funded with user fees and charges. Governmental activities include services such as police, fire, recreation, streets and street lighting, maintenance, planning, zoning, industrial development, historic preservation, and the administrative and oversight functions necessary to provide all of the above. Business-type activities include water, sewer, and garbage services.

The first two financial statements report on both service categories combined. Subsequent statements report separately on the governmental services and business activities. The financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains Budget and Actual statements, which are required to demonstrate the City's compliance with state laws regarding the budgeting of public funds.

The first two statements, the Government-wide Statement of Net Assets and Government-Wide Statement of Activities present and overview of the City's governmental and business-type services. The former reports the financial condition of the City as of June 30, 2014. It reports all of the City's short-term and long-term assets and liabilities. The latter reports how the City's net assets changed during the 2014 fiscal year. It summarizes the revenues and expenditures of the past year and shows there was a reasonable increase in net assets in the governmental activities side of the statements. The statements of Business-type Activities show that those services and assets decreased primarily due to depreciation charges. User fees and charges are evaluated yearly to insure coverage of expenses.

The next two financial statements report on governmental services. That the Balance Sheet-Governmental Funds, and the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds.

The Balance Sheet lists the resources available, as of June 30, 2014, to pay current liabilities and to continue governmental operations into the following year. Capital assets and long-term debt are not included in this report, because it is already in the Government-wide Statement of Net Assets. The balance sheet is intended to demonstrate current, as opposed to long-term, financial strength and/or weakness.

The Statement of Revenues, Expenditures, and Changes in Fund Balances provides some of the most important data necessary to choose the level governmental service. It also provides insight into the level of taxation needs for those services.

Management has reviewed the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance and presents the following observations, primarily related to the General Fund.

1. The June 30, 2014 governmental fund balances, \$921,058, equals 46% of the total governmental fund expenditures, a healthy percentage. However, 68% of the fund balance is restricted to specific uses such as Municipal Road Aid; debt service retirement, and capital project completion. The fund balance of the General Fund is \$237,432, which equals 14% of the General Fund expenditures is adequate for continuing operations until full collections of anticipated revenues.
2. The Statement of Revenues and Expenditures shows that the General Fund revenues exceeded expenditures by \$2,539. This decrease was anticipated in the budget and provided for. Management plans that current year governmental revenues less expenditures do not exceed available funds. Excesses are added to fund balance and expenditures are reduced, when necessary, to maintain fund balance integrity.
3. The Fund Balance in the General Fund typically fluctuates from year to year, primarily due to intergovernmental receipts (grants) and expenditures related to those receipts. However, if those revenues and expenditures are removed from the two statements for the purpose of analysis, the change in fund balance from year to year should ideally show slight growth. Over the past several years, this fund balance, after the removal of fluctuations such as above, has been increasing slightly.

The next six statements, each subtitled Budget and Actual, report on the City's compliance with the budget adoption and execution requirements. Expenditures did not exceed budgeted amounts in the governmental funds of the city.

Management concludes its comments on the major governmental fund statements by asserting that continued operations will provide the same level of service and result in a slightly better financial report for 2014 for the governmental funds.

#### Proprietary Fund Statements

The three primary statements reporting on the proprietary of business-type activities are:

- Statement of Net Assets-Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Net Assets-Proprietary Funds
- Statement of Cash Flows-Proprietary Funds

The three Proprietary Fund Statements demonstrate that the utility operations continue to grow and to be financially sound. Net assets increased by 0.50% this year, primarily due to construction grant activity.

Proprietary Fund current liabilities exceed current assets by \$63,000. This amount will offset by release of restricted assets for funding.

Each of the reserve funds (Depreciation, Debt Service, Operations and Maintenance) required under contractual agreements with the City's debt holders is funded or is being funded as required.

The Proprietary Fund operations are producing sufficient revenue to fund payments for past capital improvements, maintenance and operating expenses, and minor on-going additions to the infrastructure.

STATEMENT OF NET POSITION  
CITY OF PINEVILLE, KENTUCKY  
JUNE 30, 2014

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 146,717	\$ 19,032	\$ 165,749
Investments	119,981		119,981
Receivables/Due from	28,252	353,911	382,163
Accrued and unbilled accounts receivable		332,237	332,237
Total current assets	<u>294,950</u>	<u>705,180</u>	<u>1,000,130</u>
Non-current Assets:			
Restricted assets:			
Restricted cash	525,378	784,500	1,309,878
Restricted investments	130,500		130,500
Capital assets (net)	167,914	18,926,928	19,094,842
Other assets		253,948	253,948
Total non-current assets	<u>823,792</u>	<u>19,965,376</u>	<u>20,789,168</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expense	1,518	109,631	111,149
Deferred revenue	28,252		28,252
Current portion of bonds and notes payable		658,452	658,452
Total current liabilities	<u>29,770</u>	<u>768,083</u>	<u>797,853</u>
Non-current liabilities:			
Revenue bonds payable and long term debt		5,209,906	5,209,906
Total non-current liabilities		<u>5,209,906</u>	<u>5,209,906</u>
Total liabilities	<u>29,770</u>	<u>5,977,989</u>	<u>6,007,759</u>
<b>NET POSITION</b>			
Net investment in capital assets	167,914	13,312,518	13,480,432
Restricted for:			
Infrastructure	655,878		655,878
Debt service		784,500	784,500
Unrestricted	265,180	595,549	860,729
Total net position	<u>\$ 1,088,972</u>	<u>\$ 14,692,567</u>	<u>\$ 15,781,539</u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES  
 CITY OF PINEVILLE, KENTUCKY  
 YEAR ENDED JUNE 30, 2014

Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Governmental activities:				
General government:				
Administrative	\$ (279,849)	\$	\$	\$
Public safety:				
Police	(549,017)			
Fire	(277,499)			
Transportation:				
Roads	(398,528)			
Parks and recreation	(29,633)		315,798	
Miscellaneous	(58,812)			
Total governmental activities	<u>(1,593,338)</u>		<u>315,798</u>	
Business-type activities:				
Water	(3,060,853)	3,553,554		
Sewer	(949,422)	419,102	53,651	
Garbage	(186,195)	200,701		
Interest expense	(178,111)			
Total business-type activities	<u>(4,374,581)</u>	<u>4,173,357</u>	<u>53,651</u>	
Total primary government	<u>\$ (5,967,919)</u>	<u>\$ 4,173,357</u>	<u>\$ 369,449</u>	<u>\$</u>

See accompanying notes to the financial statements.

Program Activities	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>			
<b>General government:</b>			
Administrative	\$ (279,849)	\$	\$ (279,849)
<b>Public safety:</b>			
Police	(549,017)		(549,017)
Fire	(277,499)		(277,499)
<b>Transportation:</b>			
Roads	(398,528)		(398,528)
Parks and recreation	286,165		286,165
Miscellaneous	(58,812)		(58,812)
Total governmental activities	<u>(1,277,540)</u>		<u>(1,277,540)</u>
<b>Business-type activities:</b>			
Water		492,701	492,701
Sewer		(476,669)	(476,669)
Garbage		14,506	14,506
Interest expense		(178,111)	(178,111)
Total business-type activities		<u>(147,573)</u>	<u>(147,573)</u>
Total primary government	<u>(1,277,540)</u>	<u>(147,573)</u>	<u>(1,425,113)</u>
<b>General revenues:</b>			
<b>Taxes:</b>			
Property	149,172		149,172
Advalorum	11,959		11,959
PILOT	18,247		18,247
Occupational	566,267		566,267
Insurance	216,967		216,967
Franchise and public service	115,657		115,657
Restaurant	177,276		177,276
<b>Licenses and permits:</b>			
Privilege	46,795		46,795
Building	885		885
Parks & recreation	4,382		4,382
Investment income	1,385	28,720	30,105
Miscellaneous	25,680		25,680
Total general revenues	<u>1,334,672</u>	<u>28,720</u>	<u>1,363,392</u>
Change in net position	57,132	(118,853)	(61,721)
Net position, beginning of year	<u>1,031,840</u>	<u>14,811,420</u>	<u>15,843,260</u>
Net position, end of year	<u>\$ 1,088,972</u>	<u>\$ 14,692,567</u>	<u>\$ 15,781,539</u>

See accompanying notes to the financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS  
 CITY OF PINEVILLE, KENTUCKY  
 JUNE 30, 2014

	General Fund	LGEA Fund	Road Fund	Restaurant Tax Fund
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 118,969	\$ 4,631	\$	\$
Investments	119,981			
Taxes receivable	28,252			
Total current assets	<u>267,202</u>	<u>4,631</u>		
Non-current Assets:				
Restricted assets:				
Restricted cash			5,853	519,525
Restricted investments				130,500
Total non-current assets			<u>5,853</u>	<u>650,025</u>
Total assets	<u>\$ 267,202</u>	<u>\$ 4,631</u>	<u>\$ 5,853</u>	<u>\$ 650,025</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expense	1,518			
Deferred revenue	28,252			
Total liabilities	<u>29,770</u>			
<b>FUND BALANCES</b>				
Reserved for:				
Infrastructure		4,631	5,853	650,025
Unrestricted	237,432			
Total fund balances	<u>237,432</u>	<u>4,631</u>	<u>5,853</u>	<u>650,025</u>
Total liabilities and fund balances	<u>\$ 267,202</u>	<u>\$ 4,631</u>	<u>\$ 5,853</u>	<u>\$ 650,025</u>

See accompanying notes to the financial statements.

	KOTB Fund	Total Governmental Funds
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 23,117	\$ 146,717
Investments		119,981
Taxes receivable		28,252
Total current assets	<u>23,117</u>	<u>294,950</u>
Non-current Assets:		
Restricted assets:		
Restricted cash		525,378
Restricted investments		130,500
Total non-current assets		<u>655,878</u>
Total assets	<u>\$ 23,117</u>	<u>\$ 950,828</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expense		1,518
Deferred revenue		28,252
Total liabilities		<u>29,770</u>
<b>FUND BALANCES</b>		
Reserved for:		
Infrastructure		660,509
Unrestricted	23,117	260,549
Total fund balances	<u>23,117</u>	<u>921,058</u>
Total liabilities and fund balances	<u>\$ 23,117</u>	<u>\$ 950,828</u>

Amounts reported for governmental activities in the statement of net assets are different because (see Note , also):

Total fund balances - total governmental funds	\$ 921,058
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	<u>167,914</u>
Net assets of governmental activities	<u>\$ 1,088,972</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 CITY OF PINEVILLE, KENTUCKY  
 YEAR ENDED JUNE 30, 2014

	General	LGEA	Road	Restaurant Tax
<b>Revenues</b>				
Taxes:				
Property	\$ 149,172	\$	\$	\$
Advalorum	11,959			
PILOT	18,247			
Occupational	566,267			
Insurance	216,967			
Bank franchise	15,001			
Restaurant				177,276
Franchise fees	100,656			
Licenses and permits:				
Privilege	46,795			
Building	885			
Parks & recreation	4,382			
Intergovernmental	255,857	16,087	43,854	
Investment income	183	19	44	1,104
Miscellaneous	25,680			
<b>Total revenues</b>	<b>1,412,051</b>	<b>16,106</b>	<b>43,898</b>	<b>178,380</b>
<b>Other sources</b>				
Transfers in	125,000			
<b>Total other sources</b>	<b>125,000</b>			
<b>Total revenue and other sources</b>	<b>1,537,051</b>	<b>16,106</b>	<b>43,898</b>	<b>178,380</b>
<b>Expenditures</b>				
General government				
General administrative	277,188			2,659
Public safety				
Police department	549,017			
Fire department	265,309			
Streets	355,086		13,409	
Parks and recreation	29,098			
Miscellaneous	58,814			
<b>Total expenditures</b>	<b>1,534,512</b>		<b>13,409</b>	<b>2,659</b>
<b>Other uses</b>				
Transfers out		(25,000)	(100,000)	
<b>Total other uses</b>		<b>(25,000)</b>	<b>(100,000)</b>	
<b>Total expenditures and other uses</b>	<b>1,534,512</b>	<b>(25,000)</b>	<b>(113,409)</b>	<b>2,659</b>
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses</b>	<b>2,539</b>	<b>(8,894)</b>	<b>(69,511)</b>	<b>175,721</b>
<b>Fund balances, beginning of year</b>	<b>234,893</b>	<b>13,525</b>	<b>75,364</b>	<b>474,304</b>
<b>Fund balances, end of year</b>	<b>\$ 237,432</b>	<b>\$ 4,631</b>	<b>\$ 5,853</b>	<b>\$ 650,025</b>

See accompanying notes to the financial statements.

	KOTB	Total Governmental Funds
<b>Revenues</b>		
Taxes:		
Property	\$	\$ 149,172
Advalorum		11,959
PILOT		18,247
Occupational		566,267
Insurance		216,967
Bank franchise		15,001
Restaurant		177,276
Franchise fees		100,656
Licenses and permits:		
Privilege		46,795
Building		885
Parks & recreation		4,382
Intergovernmental		315,798
Investment income	35	1,385
Miscellaneous		25,680
Total revenues	<u>35</u>	<u>1,650,470</u>
		<u>125,000</u>
		<u>125,000</u>
	<u>35</u>	<u>1,775,470</u>
<b>Expenditures</b>		
General government		
General administrative		279,847
Public safety		
Police department		549,017
Fire department		265,309
Streets		368,495
Parks and recreation	535	29,633
Miscellaneous		58,814
Total expenditures	<u>535</u>	<u>1,551,115</u>
		<u>(125,000)</u>
		<u>(125,000)</u>
	<u>535</u>	<u>1,426,115</u>
Excess (deficiency) of revenues over expenditures	(500)	99,355
Fund balances, beginning of year	<u>23,617</u>	<u>821,703</u>
Fund balances, end of year	<u>\$ 23,117</u>	<u>\$ 921,058</u>
Net change in fund balances - total governmental funds		\$ 99,355
Depreciation expense recorded in the statement of activities		(42,223)
Change in net assets governmental activities		<u>\$ 57,132</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GENERAL FUND  
 CITY OF PINEVILLE, KENTUCKY  
 FOR THE PERIOD ENDED JUNE 30, 2014

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Taxes	\$ 1,037,500	\$ 977,613	\$ (59,887)
Licenses and permits	40,400	47,680	7,280
Franchise fees	80,000	100,656	20,656
Other fees	5,000	4,382	(618)
Intergovernmental	273,683	255,857	(17,826)
Miscellaneous	23,200	25,863	2,663
Transfers in (out)	125,000	125,000	
TOTAL REVENUES	<u>1,584,783</u>	<u>1,537,051</u>	<u>(47,732)</u>
<b>EXPENDITURES:</b>			
General administration	304,529	277,188	27,341
Police department	644,404	549,017	95,387
Fire department	274,739	265,309	9,430
Street department	386,027	355,086	30,941
Parks and recreation	36,000	29,098	6,902
Other	185,882	58,814	127,068
TOTAL EXPENDITURES	<u>1,831,581</u>	<u>1,534,512</u>	<u>297,069</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(246,798)	2,539	249,337
Fund balance, beginning of year	<u>246,798</u>	<u>234,893</u>	<u>(11,905)</u>
Fund balance, end of year	<u>\$</u>	<u>\$ 237,432</u>	<u>\$ 237,432</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND  
 CITY OF PINEVILLE, KENTUCKY  
 FOR THE PERIOD ENDED JUNE 30, 2014

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
LGEA funds	\$ 25,000	\$ 16,087	\$ (8,913)
Interest earnings		19	19
TOTAL REVENUES	<u>25,000</u>	<u>16,106</u>	<u>(8,894)</u>
EXPENDITURES:			
Streets	13,525	13,409	116
TOTAL EXPENDITURES	<u>13,525</u>	<u>13,409</u>	<u>116</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>11,475</u>	<u>16,106</u>	<u>(8,894)</u>
OTHER SOURCES			
Transfers in (out)	(25,000)	(25,000)	
TOTAL OTHER SOURCES	<u>(25,000)</u>	<u>(25,000)</u>	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(13,525)	(8,894)	(8,894)
FUND BALANCE, BEGINNING	<u>13,525</u>	<u>13,525</u>	
FUND BALANCE, ENDING	<u>\$</u>	<u>\$ 4,631</u>	<u>\$ (8,894)</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - MUNICIPAL ROAD FUND  
 CITY OF PINEVILLE, KENTUCKY  
 FOR THE PERIOD ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Municipal road aid funds	\$ 45,000	\$ 43,854	\$ (1,146)
Interest earnings		44	44
TOTAL REVENUES	<u>45,000</u>	<u>43,898</u>	<u>(1,102)</u>
<b>EXPENDITURES:</b>			
Streets	20,364	13,409	6,955
TOTAL EXPENDITURES	<u>20,364</u>	<u>13,409</u>	<u>6,955</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	24,636	30,489	5,853
<b>OTHER SOURCES</b>			
Transfers in (out)	(100,000)	(100,000)	
TOTAL OTHER SOURCES	<u>(100,000)</u>	<u>(100,000)</u>	
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	(75,364)	(69,511)	5,853
<b>FUND BALANCE, BEGINNING</b>			
	<u>75,364</u>	<u>75,364</u>	
<b>FUND BALANCE, ENDING</b>			
	<u>\$</u>	<u>\$ 5,853</u>	<u>\$ 5,853</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - RESTAURANT TAX FUND  
 CITY OF PINEVILLE, KENTUCKY  
 FOR THE PERIOD ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES:</b>			
Restaurant tax	\$ 175,000	\$ 177,276	\$ 2,276
Interest earnings		1,104	1,104
TOTAL REVENUES	<u>175,000</u>	<u>178,380</u>	<u>3,380</u>
<b>EXPENDITURES:</b>			
General government - administration fee	2,700	2,659	41
TOTAL EXPENDITURES	<u>2,700</u>	<u>2,659</u>	<u>41</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>172,300</u>	<u>175,721</u>	<u>3,421</u>
FUND BALANCE, BEGINNING	<u>474,304</u>	<u>474,304</u>	
FUND BALANCE, ENDING	<u>\$ 646,604</u>	<u>\$ 650,025</u>	<u>\$ 3,421</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE,  
 BUDGET AND ACTUAL - KOTB FUND  
 CITY OF PINEVILLE, KENTUCKY  
 FOR THE PERIOD ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Interest earnings	\$	\$ 35	\$ 35
TOTAL REVENUES	<u>          </u>	<u>35</u>	<u>35</u>
EXPENDITURES			
Parks and recreation	23,617	535	23,082
TOTAL EXPENDITURES	<u>23,617</u>	<u>535</u>	<u>23,082</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(23,617)	(500)	23,117
FUND BALANCE, BEGINNING	<u>23,617</u>	<u>23,617</u>	
FUND BALANCE, ENDING	<u>\$</u>	<u>\$ 23,117</u>	<u>\$ 23,117</u>

See accompanying notes to the financial statements.

STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
 CITY OF PINEVILLE, KENTUCKY  
 AS OF JUNE 30, 2014

	Water Fund	Sewer Fund	Garbage Fund	Total Proprietary Funds
<b>ASSETS</b>				
Current assets:				
Cash	\$ 2,166	\$ 2,152	\$ 14,714	\$ 19,032
Accounts receivable	300,516	36,840	16,555	353,911
Accrued and unbilled accounts receivable	282,291	32,600	17,346	332,237
Total current assets	<u>584,973</u>	<u>71,592</u>	<u>48,615</u>	<u>705,180</u>
Non-current assets:				
Restricted cash	457,233	327,267		784,500
Property, plant and equipment	23,159,618	9,337,008		32,496,626
Accumulated depreciation	(9,833,087)	(3,736,611)		(13,569,698)
Unamortized bond issuance cost	93,864			93,864
Construction in-progress		160,084		160,084
Total non-current assets	<u>13,877,628</u>	<u>6,087,748</u>		<u>19,965,376</u>
<b>TOTAL ASSETS</b>	<u>14,462,601</u>	<u>6,159,340</u>	<u>48,615</u>	<u>20,670,556</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued expense	65,480	10,250	33,901	109,631
Line of credit	22,568	175,922		198,490
Current portion of bonds and notes payable	247,931	212,031		459,962
Total current liabilities	<u>335,979</u>	<u>398,203</u>	<u>33,901</u>	<u>768,083</u>
Non-current liabilities				
Revenue bonds payable and long term debt	4,198,582	1,011,324		5,209,906
<b>TOTAL LIABILITIES</b>	<u>4,534,561</u>	<u>1,409,527</u>	<u>33,901</u>	<u>5,977,989</u>
<b>NET POSITION</b>				
Invested in capital assets, net of Restricted for debt service/projects	8,951,314	4,361,204		13,312,518
Unrestricted	457,233	327,267		784,500
	519,493	61,342	14,714	595,549
<b>TOTAL NET POSITION</b>	<u>\$ 9,928,040</u>	<u>\$ 4,749,813</u>	<u>\$ 14,714</u>	<u>\$ 14,692,567</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
 PROPRIETARY FUNDS  
 CITY OF PINEVILLE, KENTUCKY  
 FOR THE PERIOD ENDED JUNE 30, 2014

	Water Fund	Sewer Fund	Garbage Fund	Total Proprietary Funds
<b>OPERATING REVENUES</b>				
Service Fees	\$ 3,491,799	\$ 419,102	\$ 200,701	\$ 4,111,602
Other revenue	61,755			61,755
<b>TOTAL OPERATING REVENUES</b>	<b>3,553,554</b>	<b>419,102</b>	<b>200,701</b>	<b>4,173,357</b>
<b>OPERATING EXPENSES:</b>				
General administration	559,947	100,801	186,195	846,943
Plant operations	695,315	292,363		987,678
Service operations	1,233,675	290,755		1,524,430
Depreciation	568,440	265,503		833,943
Amortization	3,476			3,476
<b>TOTAL OPERATING EXPENSES</b>	<b>3,060,853</b>	<b>949,422</b>	<b>186,195</b>	<b>4,196,470</b>
<b>OPERATING INCOME (LOSS)</b>	<b>492,701</b>	<b>(530,320)</b>	<b>14,506</b>	<b>(23,113)</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>				
Interest expense	(170,080)	(8,031)		(178,111)
Transfers in (out)	(378,458)	378,458		
Other non-operating income		53,651		53,651
Investment income	18,281	10,439		28,720
<b>TOTAL NON-OPERATING INCOME (EXPENSE)</b>	<b>(530,257)</b>	<b>434,517</b>		<b>(95,740)</b>
<b>CHANGE IN NET POSITION</b>	<b>(37,556)</b>	<b>(95,803)</b>	<b>14,506</b>	<b>(118,853)</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>9,965,596</b>	<b>4,845,616</b>	<b>208</b>	<b>14,811,420</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 9,928,040</b>	<b>\$ 4,749,813</b>	<b>\$ 14,714</b>	<b>\$ 14,692,567</b>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
 CITY OF PINEVILLE, KENTUCKY  
 FOR THE PERIOD ENDED JUNE 30, 2014

	Water Fund	Sewer Fund	Garbage Fund	Total Proprietary Funds
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>				
Cash received from customers and others	\$ 3,652,110	\$ 415,441	\$ 181,509	\$ 4,249,060
Cash paid to suppliers	(1,829,103)	(525,545)	(182,376)	(2,537,024)
Cash paid to employees	(746,226)	(160,303)		(906,529)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,076,781</u>	<u>(270,407)</u>	<u>(867)</u>	<u>805,507</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>				
Purchase of plant/equipment	(171,391)	(52,467)		(223,858)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(171,391)</u>	<u>(52,467)</u>		<u>(223,858)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>				
Transfers	(378,458)	378,458		
Principal reduction of long-term debt	(478,846)			(478,846)
Interest paid on long-term debt	(170,080)	(6,959)		(177,039)
Investment income	18,281	10,439		28,720
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(1,009,103)</u>	<u>381,938</u>	<u>0</u>	<u>(627,165)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(103,713)	59,064	(867)	(45,516)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	563,112	270,355	15,581	849,048
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 459,399</u>	<u>\$ 329,419</u>	<u>\$ 14,714</u>	<u>\$ 803,532</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 492,701	\$ (530,320)	\$ 14,506	\$ (23,113)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	568,440	265,503		833,943
Amortization of bond issuance cost	3,476			3,476
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	14,480	(5,339)	(19,192)	(10,051)
Increase (decrease) in payables	(2,316)	(251)	3,819	1,252
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,076,781</u>	<u>\$ (270,407)</u>	<u>\$ (867)</u>	<u>\$ 805,507</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY  
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A – REPORTING ENTITY

The City of Pineville, Kentucky (the “City”) was incorporated under the provisions of the State of Kentucky. The City is a fourth class city and operates under a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, culture-recreation, public improvements, planning and zoning, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards, and authorities are part of the City’s operations include how the budget is adopted, whether debt is secured by general obligation of the City, the City’s duty to cover and deficits that may occur and supervision over the accounting functions.

The City does not have any blended or discreetly present component units.

B – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all the activities of the primary government and its component units. Interfund activity which duplicates revenues or expenses has been eliminated from these statements. Governmental activities and business-type activities are reported separately to highlight the differences in funding and operations. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, on the other hand, rely mostly on fees and charges that are designed to recover the costs of operations, including the cost of capital.

The statement of activities outlines the direct expenses of each of the City’s major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund statements include separate statements for governmental and proprietary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the financial statements.

C – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized as a revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY (CONTINUED)  
JUNE 30, 2014

C – MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION  
(Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund accounts for the state allocation of the gasoline tax to local governments for road improvements. Expenditures for street construction, reconstruction, and maintenance are eligible for this funding source.

The LGEA Fund accounts for the state allocation of coal and mineral severance tax to local governments. Expenditures for coal haul roads and other eligible expenses are eligible for this funding source.

The Restaurant Tax Fund accounts for the collection of the locally levied restaurant tax. Expenditures for debt service and a small administrative fee are eligible for this funding source.

The KOTB Fund accounts for a license fee assessed for off-track betting. Expenditures for local community development are eligible for this funding source.

The City's Proprietary Funds are the combined utility operations. The City's utilities include operation of water treatment, wastewater treatment, and garbage pickup. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY (CONTINUED)  
JUNE 30, 2014

D – ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash and investments

Unrestricted Cash and Investments - Unrestricted operating cash funds are classified as cash and cash equivalents in the Financial Statements. Investments were in certificates of deposit or treasury bills held in the name of the City.

Restricted Cash and Investments - Restricted cash is set apart to satisfy debt service and reserve requirements defined in bonding ordinances and long term notes. Restricted Investments are set apart for the same purposes and are in the form of certificates of deposit held in the name of the City.

Receivables

Accounts receivable recorded in the enterprise funds are net of an allowance for uncollectible accounts receivable of \$740.

Inventories

Inventories of materials and supplies are recorded in the proprietary funds at the lower of cost or market. Cost, generally, is determined on a first-in, first-out basis.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

The City has established a capitalization policy to recognize capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs if purchased or constructed. The costs or normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Fixed assets are recorded in the respective funds and depreciated using the straight-line method. Major additions are recorded in the respective property accounts; replacements, maintenance, and repairs, which do not materially improve or extend the life of the respective assets, are charged to earnings. Storage tanks, service connections, sewage gathering lines and plant are depreciated on the straight-line basis with an estimated useful life of 40 - 50 years. Other equipment is depreciated on a straight-line basis with an estimated useful life of 5 - 7 years.

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY (CONTINUED)  
JUNE 30, 2014

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation pay, which will be paid to employees upon separation from City's service. Employees accumulate a limited amount of earned but unused sick pay to be credited to subsequent sick days taken. All funds recognize this expense when payments are made to the employees. At June 30, 2014 no provision has been made for compensating balances for accumulated absences.

E - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City reporting entity considers highly liquid investments (including restricted assets) to be cash and cash equivalents.

*Deposits* - It is the City's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance. The City's deposits are categorized to give an indication of the level of risk assumed by the City at June 30, 2014. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Uncollateralized

The City's deposits are categorized as Category 1 and 2.

NOTE 3 - BUDGETARY DATA

The Mayor submits an annual budget to the City Council in accordance with Kentucky statutes. In June, the City Council adopts annual fiscal year appropriated budgets for City operating funds. These include General, L.G.E.A., Road, Restaurant Tax, and KOTB. An annual operating budget was formulated and adopted using estimated fund balances. The operating budget for the Enterprise funds was prepared using the accrual basis of accounting. The Council may amend the budget at any time, as long as, the amended budget appropriations do not exceed funds available in any one fiscal year. All appropriations lapse at year end.

Each fund's budget is prepared on a fund basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. The budget at the fund level constitutes legal control. All budget revisions are subject to final review by the City Council.

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY (CONTINUED)  
JUNE 30, 2014

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

<u>Governmental Activities</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Capital assets at historical cost			
Equipment & vehicles	\$ 324,857	\$ (249,637)	\$ 75,220
Infrastructure	214,159	(79,239)	134,920
Totals	<u>\$ 539,016</u>	<u>\$ (328,876)</u>	<u>\$ 210,140</u>
 <u>Business-type Activities</u>			
Water Fund	\$ 23,159,618	\$ (9,833,087)	\$ 13,326,531
Sewer Fund	9,497,092	(3,736,611)	5,760,481
Totals	<u>\$ 32,656,710</u>	<u>\$ (13,569,698)</u>	<u>\$ 19,087,012</u>

NOTE 5 - DEBT

Short-Term Debt

*Line-of-credit* - The City's utility commission has a short-term line-of-credit with a local financial institution to fund current operations of the utilities. The debt is secured by operating revenues. At June 30, 2014 the Water Fund had \$22,568 outstanding and the Sewer Fund had \$175,922 outstanding for a total of \$198,490. The balance will be liquidated during the current operating year.

Long-Term Debt

*Revenue Bonds and Long-Term Notes Payable* - Revenue bonds outstanding consist of debt issued by the City for water and sewer infrastructure acquisitions. Bond indentures contain significant requirements for annual debt service and flow of funds through various restricted accounts. The City is in compliance with all significant requirements of the bond covenants.

The City entered into long-term financing arrangements with the Federal Economic Development Agency, Federal Rural Development Agency, State of Kentucky, Kentucky Infrastructure Authority/Bell County, Kentucky for water and sewer infrastructure acquisitions. Certain note agreements require the establishment reserve accounts. The City is in compliance with all significant requirements of the long-term agreements.

The City refinanced seven bond issues financed through the Rural Development Authority. The bond issues were retired with a new bond issue through the Kentucky Rural Water Finance Corporation. The issue is finance for twenty-nine years with coupon rates from 2.30 percent to 4.30 percent over the term of the bond. The bond principal is \$3,900,000.00 with principal due each February 1 and interest payments due each August 1 and February 1. The issue will be paid from the utility revenues. The City received a reoffering premium of \$158,538 with the bond issue.

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY (CONTINUED)  
JUNE 30, 2014

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The City has three remaining bond issues outstanding with the Federal Rural Development Agency for utility water infrastructure.

The City acquired vehicles and equipment for utility operations with local financing entities.

The following is a summary of changes in long-term debt for June 30, 2014:

Description	Interest Rate	Final Maturity Date	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014
Revenue Bonds:						
1976	4.25%	2011	\$ 59,000	\$	\$ 29,000	\$ 30,000
KRWFC Series 2012F	various	2040	3,863,077		88,910	3,774,167
KIA Note B291-09	2.90%	2014	80,057		52,984	27,073
KIA Note A92-09	2.20%	2015	278,868		137,909	140,959
KIA Note A95-09	0.70%	2016	78,633		22,271	56,362
KIA Note A209-05	1.00%	2032	1,002,518		48,163	954,355
KIA Note 111-01	3.00%			71,679		71,679
KIA Note F01-03	1.80%	2021	81,253		8,930	72,323
Bell Co/KACOLT #3	variable	2015	12,000		6,000	6,000
Series 2003A	4.50%	2043	180,400		3,000	177,400
Series 2003B	4.50%	2043	225,700		3,700	222,000
Vehicle Loan 2011	variable	2014	144,532		31,209	113,323
Vehicle Loan 2008	variable	2017	70,997		46,770	24,227
			4,518,192			
		Total	\$ 6,077,035	\$ 71,679	\$ 478,846	\$ 5,669,868

The annual debt service requirements to maturity at June 30, 2014 are as follows:

Year	Interest	Principal	Total
2015	180,744	459,962	640,706
2016	168,681	236,920	405,601
2017	163,370	230,187	393,557
2018	157,867	199,627	357,494
2019	152,652	190,773	343,425
Thereafter	1,667,380	4,352,399	6,019,779
Total	\$ 2,490,694	\$ 5,669,868	\$ 8,160,562

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY (CONTINUED)  
JUNE 30, 2014

NOTE 6 - PENSION PLANS

The City participates in the Kentucky County Employee Retirement System, a defined benefit plan that covers substantially all full time employees of each county, school board, and additional local agencies electing to participate. The City's total payroll for June 30, 2014 was \$1,514,542 and the City's employer contribution was \$356,624. Both the City and covered employees made the required contributions.

For the year ended June 30, 2014 participating non-hazardous employees contributed 5.00% and participating hazardous employees contributed 8.00% of creditable compensation to the System. Employer Contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. Participating employers contributed 18.89% (non-hazardous) and 35.70% (hazardous), for the year ended June 30, 2014.

Vesting in a retirement benefit begins immediately upon entry into the system. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986 and 4% thereafter.

Further information regarding the plan agreement and the vesting and benefit provisions is contained in the pamphlet Summary Plan Description. Copies of this pamphlet are available from the office of Kentucky Retirement Systems. Additionally, ten year historical trend is available from the Office of Kentucky Retirement.

NOTE 7 - MAJOR SUPPLIER/CONTRACT

The City has entered into a contract to handle the City's sanitation service. For the period ended June 30, 2014, the City paid \$186,195 for this service.

NOTE 8 - FUND EQUITY

Reservations of fund equity show amounts that are not appropriate for expenditure or are legally restricted for specific purpose. The purpose for each is indicated by the account title on the face of the balance sheet.

NOTE 9 - RELATED ORGANIZATIONS

*Pineville Parks & Recreation Commission (PPRC)* - the City appoints the Governing Board and the scope of public service entails the City of Pineville, however, these factors are not considered adequate demonstration of oversight and control. The City has no responsibility for the budget, debt, financing deficits or fiscal management of the PPRC. Additionally, the City does not influence the operation of the PPRC in any respect. Therefore, this unit is excluded from the Entity.

NOTES TO THE FINANCIAL STATEMENTS  
CITY OF PINEVILLE, KENTUCKY (CONTINUED)  
JUNE 30, 2014

**NOTE 10 - CONTINGENT LIABILITIES**

The City is party to various legal proceedings, which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

The City taxes insurance premiums from insured policies. The Kentucky Legislature passed HB 18 to go into effect June 20, 2005. The bill changed certain provision in KYS 91A.080. Certain insurance companies have interpreted the changes in their favor and have requested refunds from the City. At this time there is no way to estimate the amount of impact on the financial statements in the upcoming fiscal year ending June 30, 2014. The City has provided a budget line item to cover a limited amount of this.

**NOTE 11 - SUBSEQUENT EVENTS**

Management is not aware of any subsequent events since year end to affect the financial statements.

**NOTE 12 – SURCHARGES**

The Pineville Utilities Commission has incorporated surcharges in the rate structure of sewer rates for the retirement of debt. Surcharges are no longer separately billed for water purposes.

**NOTE 13 - RESERVE REQUIREMENTS**

Various bond and note covenants require reserve requirements to be maintained. The covenants allow the usage of the reserves for unanticipated repairs and maintenance with the requirement that restoration of the funds to the reserve is made.

These reserve requirements require monthly payments or yearly payments for a specified time. At June 30, 2014 it appears the Pineville Utilities Commission has reserves on hand or has budgeted a replenishment of the reserves used over several years.

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**Gary R. Williams,**

*Certified Public Accountant*

180 CLARENCE LANE  
HARROGATE, TN 37752  
606-269-3306  
[gary8730@bellsouth.net](mailto:gary8730@bellsouth.net) email

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

To the Mayor and City Council  
Pineville, 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 statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pineville, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Pineville, Kentucky's basic financial statements, and have issued my report thereon dated October 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, I considered City of Pineville, 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Pineville, Kentucky's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Pineville, 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies, 2014-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pineville, Kentucky's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-01.

City of Pineville, Kentucky's Response to Findings

City of Pineville, Kentucky's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. City of Pineville, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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

Harrogate, Tennessee  
October 7, 2014

CITY OF PINEVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2014

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Pineville, Kentucky.
2. One significant deficiency identified as 2014-01 was disclosed during the audit of the general purpose financial statements and reported in the 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*.
3. No instances of noncompliance material to the basic financial statements of City of Pineville, Kentucky were disclosed during the audit.

CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiency

2014-01 Inadequate Segregation Of Duties

Condition

The receipts, disbursements, and payroll functions lack adequate segregation of duties

Criteria

Segregation of duties is a primary requirement to the establishment and operation of internal controls.

Cause

The City of Pineville, Kentucky does not have additional personnel to assist the city clerk in administering the financial affairs of the city.

Effect

The internal controls structure elements may not reduce to a relatively low level of risk that errors or irregularities in amounts that could be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. There is strong oversight on a monthly basis by the City Council which reviews all financial activity and statements.

Recommendation

We recommend management review the segregation of duties and eliminate conflicts where budget limitations will allow.

Management Response/Corrective Actions

We concur; however, budgetary limitations will not permit hiring of more staff. All work is reviewed by the city council monthly and approved.

NON COMPLIANCES

None.

MATERIAL WEAKNESS

None.

PRIOR YEAR FINDINGS AND RESPONSES

Inadequate Segregation Of Duties