

CITY OF PINEVILLE, KENTUCKY
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2015

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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, 2015, 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, 2015, 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 January 11, 2016, 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.

 CPA

Harrogate, Tennessee
January 11, 2016

CITY OF PINEVILLE, KENTUCKY

Management's Discussion and Analysis Annual Financial Statements For the Period Ended June 30, 2015

The financial management team of the City of Pineville, Kentucky: Mayor, Scott Madon 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, 2015, the City's assets (\$21,021,056) exceeded liabilities (\$5,723,370) by \$16,183,662. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement and a surplus of \$632,436.
- Unrestricted cash and investment balances as of June 30, 2014 were \$264,888 and current liabilities payable from those funds were \$522,626. The deficit is also covered by restricted cash and investments of \$1,425,282.
- Fund Balances, a measure of current financial resources, increased in the governmental funds by \$82,525 to a June 30, 2015 balance of \$1,171,497. The unrestricted portion of \$250,274 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, 2015. 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 2015 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, 2015, 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, 2015 governmental fund balances, \$1,046,181, equals 77% of the total governmental fund expenditures, a healthy percentage. However, .5% 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 \$250,274, which equals 17% 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 \$21,135. 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 decreased by 3% this year, primarily due to construction grant activity.

Proprietary Fund current assets exceed current liabilities by \$123,000. 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, 2015

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets:			
Cash	\$ 245,067	\$ 19,821	\$ 264,888
Investments	5,207		5,207
Receivables/due from	28,252	335,788	364,040
Accrued and unbilled accounts receivable		251,841	251,841
Total current assets	278,526	607,450	885,976
Non-current Assets:			
Restricted assets:			
Restricted cash	665,407	759,875	1,425,282
Restricted investments	130,500		130,500
Capital assets (net)	336,401	19,038,485	19,374,886
Other assets		90,388	90,388
Total non-current assets	1,132,308	19,888,748	21,021,056
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expense		225,288	225,288
Construction payable		21,376	21,376
Deferred revenue	28,252		28,252
Current portion of bonds and notes payable	10,791	236,919	247,710
Total current liabilities	39,043	483,583	522,626
Non-current liabilities:			
Revenue bonds payable and long term debt	131,950	5,068,794	5,200,744
Total non-current liabilities	131,950	5,068,794	5,200,744
Total liabilities	170,993	5,552,377	5,723,370
NET POSITION			
Net investment in capital assets	193,660	13,801,784	13,995,444
Restricted for:			
Infrastructure	795,907		795,907
Debt service		759,875	759,875
Unrestricted	250,274	382,162	632,436
Total net position	\$ 1,239,841	\$ 14,943,821	\$ 16,183,662

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
CITY OF PINEVILLE, KENTUCKY
FOR THE PERIOD ENDED JUNE 30, 2015

Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Governmental activities:				
General government:				
Administrative	\$ (263,349)	\$	\$	\$
Public safety:				
Police	(527,763)			
Fire	(256,434)			
Transportation:				
Roads	(362,424)			
Parks and recreation	(53,814)			
Miscellaneous	(59,008)			
Total governmental activities	(1,522,792)			
Business-type activities:				
Water	(2,972,049)	3,515,896		
Sewer	(1,098,640)	427,796		
Garbage	(192,689)	192,232		
Interest expense	(183,484)			
Total business-type activities	(4,446,862)	4,135,924		
Total primary government	\$ (5,969,654)	\$ 4,135,924	\$	\$

See accompanying notes to the financial statements.

Program Activities	Net (Expenses) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Governmental activities:			
General government:			
Administrative	\$ (263,349)	\$	\$ (263,349)
Public safety:			
Police	(527,763)		(527,763)
Fire	(256,434)		(256,434)
Transportation:			
Roads	(362,424)		(362,424)
Parks and recreation	(53,814)		(53,814)
Miscellaneous	(59,008)		(59,008)
Total governmental activities	(1,522,792)		(1,522,792)
Business-type activities:			
Water		543,847	543,847
Sewer		(670,844)	(670,844)
Garbage		(457)	(457)
Interest expense		(183,484)	(183,484)
Total business-type activities		(310,938)	(310,938)
Total primary government	(1,522,792)	(310,938)	(1,833,730)
General revenues:			
Taxes:			
Property	149,330		149,330
Advalorum	12,873		12,873
PILOT	19,804		19,804
Occupational	589,963		589,963
Insurance	222,587		222,587
Franchise and public service	129,480		129,480
Restaurant	188,961		188,961
Licenses and permits:			
Privilege	56,725		56,725
Building	770		770
Alcohol sales	1,438		1,438
Parks & recreation	5,036		5,036
Intergovernmental	167,787		167,787
Investment income	1,535	27,320	28,855
Miscellaneous	59,028	5,749	64,777
Total general revenues	1,605,317	33,069	1,638,386
Change in net position	82,525	(277,869)	(195,344)
Net position, beginning of year	1,088,972	15,221,690	16,310,662
Net position, end of year	\$ 1,171,497	\$ 14,943,821	\$ 16,115,318

See accompanying notes to the financial statements.

**BALANCE SHEET - GOVERNMENTAL FUNDS
CITY OF PINEVILLE, KENTUCKY
JUNE 30, 2015**

	General Fund	LGEA Fund	Road Fund	Restaurant Tax Fund
ASSETS				
Current Assets:				
Cash	\$ 222,174	\$ 4,600	\$ 2,161	\$
Investments	5,207			
Taxes receivable	28,252			
Total current assets	<u>255,633</u>	<u>4,600</u>	<u>2,161</u>	
Non-current Assets:				
Restricted assets:				
Restricted cash				665,407
Restricted investments				130,500
Total non-current assets				<u>795,907</u>
Total assets	<u>\$ 255,633</u>	<u>\$ 4,600</u>	<u>\$ 2,161</u>	<u>\$ 795,907</u>
LIABILITIES				
Current liabilities:				
Deferred revenue	28,252			
Total liabilities	<u>28,252</u>			
FUND BALANCES				
Reserved for:				
Infrastructure		4,600	2,161	
Unrestricted	227,381			795,907
Total fund balances	<u>227,381</u>	<u>4,600</u>	<u>2,161</u>	<u>795,907</u>
Total liabilities and fund balances	<u>\$ 255,633</u>	<u>\$ 4,600</u>	<u>\$ 2,161</u>	<u>\$ 795,907</u>

See accompanying notes to the financial statements.

	Bell Theater	Total Governmental Funds
ASSETS		
Current Assets:		
Cash	\$ 16,132	\$ 245,067
Investments		5,207
Taxes receivable		28,252
Total current assets	<u>16,132</u>	<u>278,526</u>
Non-current Assets:		
Restricted assets:		
Restricted cash		665,407
Restricted investments		130,500
Total non-current assets		<u>795,907</u>
Total assets	<u>\$</u>	<u>\$ 1,074,433</u>
LIABILITIES		
Current liabilities:		
Deferred revenue		28,252
Total liabilities		<u>28,252</u>
FUND BALANCES		
Reserved for:		
Infrastructure		6,761
Unrestricted	16,132	1,039,420
Total fund balances	<u>16,132</u>	<u>1,046,181</u>
Total liabilities and fund balances	<u>\$ 16,132</u>	<u>\$ 1,074,433</u>

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

Total fund balances - total governmental funds	\$ 1,046,181
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	336,401
Long-term debt	<u>(142,741)</u>
Net assets of governmental activities	<u>\$ 1,239,841</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 CITY OF PINEVILLE, KENTUCKY
 FOR THE PERIOD ENDED JUNE 30, 2015

	General	LGEA	Road	Restaurant Tax
Revenues				
Taxes:				
Property	\$ 149,330	\$	\$	\$
Advalorum	12,873			
PILOT	19,804			
Occupational	589,963			
Insurance	222,587			
Bank franchise	14,717			
Restaurant				188,961
Franchise fees	114,763			
Licenses and permits:				
Privilege	56,725			
Building	770			
Alcohol sales	1,438			
Parks & recreation	5,036			
Intergovernmental	107,092	16,032	44,663	
Investment income	255	10	11	1,259
Miscellaneous	53,701			
Total revenues	1,349,054	16,042	44,674	190,220
Other sources				
Transfers in	70,117			
Total other sources	70,117			
Total revenue and other sources	1,419,171	16,042	44,674	190,220
Expenditures				
General government				
General administrative	260,515			2,834
Public safety				
Police department	527,763			
Fire department	244,244			
Streets	329,733		13,366	
Parks and recreation	23,116			21,503
Miscellaneous	54,935	4,073		
Total expenditures	1,440,306	4,073	13,366	24,337
Other uses				
Transfers out		12,000	35,000	20,000
Total other uses		12,000	35,000	20,000
Total expenditures and other uses	1,440,306	16,073	48,366	44,337
Excess (deficiency) of revenues and other sources over expenditures and other uses	(21,135)	(31)	(3,692)	145,883
Fund balances, beginning of year	237,432	4,632	5,853	650,025
Fund balances, end of year	\$ 216,297	\$ 4,601	\$ 2,161	\$ 795,908

See accompanying notes to the financial statements.

	KOTB	Bell Theater	Total Governmental Funds
Revenues			
Taxes:			
Property	\$	\$	\$ 149,330
Advalorum			12,873
PILOT			19,804
Occupational			589,963
Insurance			222,587
Bank franchise			14,717
Restaurant			188,961
Franchise fees			114,763
Licenses and permits:			
Privilege			56,725
Building			770
Alcohol sales			1,438
Parks & recreation			5,036
Intergovernmental			167,787
Investment income			1,535
Miscellaneous		5,327	59,028
Total revenues		5,327	1,605,317
		20,000	90,117
Total other sources		20,000	90,117
Total revenue and other sources		25,327	1,695,434
Expenditures			
General government			
General administrative			263,349
Public safety			
Police department			527,763
Fire department			244,244
Streets			343,099
Parks and recreation		9,195	53,814
Miscellaneous			59,008
Total expenditures		9,195	1,491,277
		23,117	90,117
		23,117	90,117
		23,117	1,581,394
Excess (deficiency) of revenues and other sources over expenditures and other uses	(23,117)	16,132	114,040
Fund balances, beginning of year	23,117		921,059
Fund balances, end of year	\$	\$ 16,132	\$ 1,035,099
Net change in fund balances - total governmental funds			\$ 114,040
Depreciation expense recorded in the statement of activities			(31,515)
Change in net assets governmental activities			\$ 82,525

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, 2015

	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 971,500	\$ 1,009,272	\$ 37,772
Licenses and permits	46,800	58,933	12,133
Franchise fees	99,500	114,763	15,263
Other fees	7,000	5,038	(1,962)
Intergovernmental	151,851	107,092	(44,759)
Miscellaneous	21,200	53,956	32,756
Transfers in (out)	70,117	70,117	0
TOTAL REVENUES	<u>1,367,968</u>	<u>1,419,171</u>	<u>51,203</u>
EXPENDITURES:			
General administration	271,632	260,515	11,117
Police department	598,946	527,763	71,183
Fire department	251,835	244,244	7,591
Street department	349,914	329,733	20,181
Parks and recreation	23,809	23,116	693
Other	107,579	54,935	52,644
TOTAL EXPENDITURES	<u>1,603,715</u>	<u>1,440,306</u>	<u>163,409</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(235,747)	(21,135)	214,612
Fund balance, beginning of year	<u>235,747</u>	<u>237,432</u>	<u>1,685</u>
Fund balance, end of year	<u><u>\$</u></u>	<u><u>\$ 216,297</u></u>	<u><u>\$ 216,297</u></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, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
LGEA funds	\$ 12,800	\$ 16,032	\$ 3,232
Interest earnings		10	10
TOTAL REVENUES	<u>12,800</u>	<u>16,042</u>	<u>3,242</u>
EXPENDITURES:			
Other	5,431	4,073	1,358
TOTAL EXPENDITURES	<u>5,431</u>	<u>4,073</u>	<u>1,358</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
	<u>7,369</u>	<u>11,969</u>	<u>4,600</u>
OTHER SOURCES			
Transfers in (out)	(12,000)	(12,000)	
TOTAL OTHER SOURCES	<u>(12,000)</u>	<u>(12,000)</u>	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
	(4,631)	(31)	4,600
FUND BALANCE, BEGINNING			
	<u>4,631</u>	<u>4,631</u>	
FUND BALANCE, ENDING	<u>\$ 0</u>	<u>\$ 4,600</u>	<u>\$ 4,600</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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Municipal road aid funds	\$ 38,400	\$ 44,663	\$ 6,263
Interest earnings		11	11
TOTAL REVENUES	<u>38,400</u>	<u>44,674</u>	<u>6,274</u>
EXPENDITURES:			
Streets	9,253	13,365	(4,112)
TOTAL EXPENDITURES	<u>9,253</u>	<u>13,365</u>	<u>(4,112)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	29,147	31,309	2,162
OTHER SOURCES			
Transfers in (out)	(35,000)	(35,000)	
TOTAL OTHER SOURCES	<u>(35,000)</u>	<u>(35,000)</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(5,853)	(3,691)	2,162
FUND BALANCE, BEGINNING	<u>5,853</u>	<u>5,853</u>	
FUND BALANCE, ENDING	<u>\$</u>	<u>\$ 2,162</u>	<u>\$ 2,162</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, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Restaurant tax	\$ 173,400	\$ 188,961	\$ 15,561
Interest earnings		1,259	1,259
TOTAL REVENUES	<u>173,400</u>	<u>190,220</u>	<u>16,820</u>
EXPENDITURES:			
General government - administration fee		2,834	(2,834)
General government - OTHER	823,425	41,504	781,921
TOTAL EXPENDITURES	<u>823,425</u>	<u>44,338</u>	<u>779,087</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(650,025)</u>	<u>145,882</u>	<u>795,907</u>
FUND BALANCE, BEGINNING	<u>650,025</u>	<u>650,025</u>	
FUND BALANCE, ENDING	<u>\$</u>	<u>\$ 795,907</u>	<u>\$ 795,907</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE,
 BUDGET AND ACTUAL - BELL THEATER FUND
 CITY OF PINEVILLE, KENTUCKY
 FOR THE PERIOD ENDED JUNE 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Rents	\$ 5,500	\$ 5,327	\$ (173)
TOTAL REVENUES	<u>5,500</u>	<u>5,327</u>	<u>(173)</u>
EXPENDITURES:			
Repairs and maintenance	20,000	3,330	16,670
Utilities	5,500	2,713	2,787
Insurance		237	(237)
Bank Charges		152	(152)
Community development		784	(784)
Debt service		1,979	(1,979)
Total expenditures	<u>25,500</u>	<u>9,195</u>	<u>16,305</u>
Other income (uses)			
Transfers in (out)	20,000	20,000	
Total other income (uses)	<u>20,000</u>	<u>20,000</u>	<u>16,132</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses			
		16,132	16,132
FUND BALANCE, BEGINNING			
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE, ENDING	<u>\$ </u>	<u>\$ 16,132</u>	<u>\$ 16,132</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, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Interest earnings	\$ _____	\$ _____	\$ _____
TOTAL REVENUES	_____	_____	_____
OTHER SOURCES			
Transfers in (out)	(23,117)	(23,117)	_____
TOTAL OTHER SOURCES	(23,117)	(23,117)	_____
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,117	(23,117)	
FUND BALANCE, BEGINNING	23,117	23,117	_____
FUND BALANCE, ENDING	\$ _____	\$ _____	\$ _____

See accompanying notes to the financial statements.

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
 CITY OF PINEVILLE, KENTUCKY
 JUNE 30, 2015

	Water Fund	Sewer Fund	Garbage Fund	Total Proprietary Funds
ASSETS				
Current assets:				
Cash	\$ 980	\$ 4,037	\$ 14,804	\$ 19,821
Accounts receivable	300,961	34,827		335,788
Accrued and unbilled accounts receivable	225,721	26,120		251,841
Total current assets	527,662	64,984	14,804	607,450
Non-current assets:				
Restricted cash	476,136	283,739		759,875
Property, plant and equipment	23,531,240	9,497,092		33,028,332
Accumulated depreciation	(10,437,728)	(3,989,718)		(14,427,446)
Unamortized bond issuance cost	90,388			90,388
Construction in-progress	270,113	167,486		437,599
Total non-current assets	13,930,149	5,958,599		19,888,748
TOTAL ASSETS	14,457,811	6,023,583	14,804	20,496,198
LIABILITIES				
Current liabilities				
Accounts payable and accrued expense	177,596	47,692		225,288
Construction payable	21,376			21,376
Current portion of bonds and notes payable	165,204	71,715		236,919
Total current liabilities	364,176	119,407		483,583
Non-current liabilities				
Revenue bonds payable and long term debt	4,033,377	1,035,417		5,068,794
TOTAL LIABILITIES	4,397,553	1,154,824		5,552,377
NET POSITION				
Invested in capital assets, net of	9,234,056	4,567,728		13,801,784
Restricted for debt service/projects	476,136	283,739		759,875
Unrestricted	350,066	17,292	14,804	382,162
TOTAL NET POSITION	\$ 10,060,258	\$ 4,868,759	\$ 14,804	\$ 14,943,821

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, 2015

	Water Fund	Sewer Fund	Garbage Fund	Total Proprietary Funds
OPERATING REVENUES				
Service Fees	\$ 3,495,425	\$ 420,121	\$ 192,232	\$ 4,107,778
Other revenue	20,471	7,675		28,146
TOTAL OPERATING REVENUES	3,515,896	427,796	192,232	4,135,924
OPERATING EXPENSES:				
General administration	803,517	125,374	192,689	1,121,580
Plant operations	680,985	264,242		945,227
Service operations	915,666	455,917		1,371,583
Depreciation	568,405	253,107		821,512
Amortization	3,476			3,476
TOTAL OPERATING EXPENSES	2,972,049	1,098,640	192,689	4,263,378
OPERATING INCOME (LOSS)	543,847	(670,844)	(457)	(127,454)
NON-OPERATING INCOME (EXPENSE)				
Interest expense	(172,755)	(10,729)		(183,484)
Transfers in (out)	(718,826)	718,826		
Other non-operating income	5,749			5,749
Investment income	16,761	10,012	547	27,320
TOTAL NON-OPERATING INCOME (EXPENSE)	(869,071)	718,109	547	(150,415)
CHANGE IN NET POSITION	(325,224)	47,265	90	(277,869)
NET POSITION, BEGINNING OF YEAR	10,385,482	4,821,494	14,714	15,221,690
NET POSITION, END OF YEAR	\$ 10,060,258	\$ 4,868,759	\$ 14,804	\$ 14,943,821

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
CITY OF PINEVILLE, KENTUCKY
FOR THE PERIOD ENDED JUNE 30, 2015

	Water Fund	Sewer Fund	Garbage Fund	Total Proprietary Funds
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:				
Cash received from customers and others	\$ 3,589,052	\$ 446,301	\$ 207,126	\$ 4,242,479
Cash paid to suppliers	(1,634,819)	(730,458)	(207,583)	(2,572,860)
Cash paid to employees	(670,264)	(162,529)		(832,793)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,283,969	(446,686)	(457)	836,826
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Purchase of plant/equipment	(1,515,898)	(271,133)		(1,787,031)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,515,898)	(271,133)		(1,787,031)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:				
Transfers	(718,826)	718,826		
Loan proceeds	1,154,059	95,807		1,249,866
Principal reduction of long-term debt	(161,902)	(141,937)		(303,839)
Interest paid on long-term debt	(41,966)	(6,959)		(48,925)
Investment income	18,281	10,439	547	29,267
NET CASH PROVIDED BY INVESTING ACTIVITIES	249,646	676,176	547	926,369
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,717	(41,643)	90	(23,836)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	459,399	329,419	14,714	803,532
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 477,116	\$ 287,776	\$ 14,804	\$ 779,696
RECONCILIATION OF NET OPERATING LOSS TO NET CASH (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 543,847	\$ (670,844)	\$ (457)	\$ (127,454)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	568,405	253,107		821,512
Amortization of bond issuance cost	3,476			3,476
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	56,125	8,493		64,618
Increase (decrease) in payables	112,116	(37,442)		74,674
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,283,969	\$ (446,686)	\$ (457)	\$ 836,826

See accompanying notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
CITY OF PINEVILLE, KENTUCKY
JUNE 30, 2015**

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 – FUND FINANCIAL STATEMENTS

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

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

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 then 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.

NOTES TO THE FINANCIAL STATEMENTS
CITY OF PINEVILLE, KENTUCKY (CONTINUED)
JUNE 30, 2015

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

There were no receivables in the governmental funds of the City.

Inventories

There were no inventories in the governmental funds of the City.

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.

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, 2015 no provision has been made for compensating balances for accumulated absences.

**NOTES TO THE FINANCIAL STATEMENTS
CITY OF PINEVILLE, KENTUCKY (CONTINUED)
JUNE 30, 2015**

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, 2015. 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 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, 2015

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

<u>Governmental Activities</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Capital assets at historical cost			
Equipment & vehicles	\$ 524,857	\$ (312,668)	\$ 212,189
Infrastructure	214,159	(89,947)	124,212
Totals	<u>\$ 739,016</u>	<u>\$ (402,615)</u>	<u>\$ 336,401</u>
 <u>Business-type Activities</u>			
Water Fund	\$ 23,801,353	\$ (10,437,728)	\$ 13,363,625
Sewer Fund	9,664,578	(3,989,718)	5,674,860
Totals	<u>\$ 33,465,931</u>	<u>\$ (14,427,446)</u>	<u>\$ 19,038,485</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 and is current at year end.

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.

The City assumed the Bell Theater note in the process of acquisition of the Bell Theater at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS
CITY OF PINEVILLE, KENTUCKY (CONTINUED)
JUNE 30, 2015

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

The City acquired vehicles and equipment for utility operations with local financing entities and the debt is being serviced through Pineville Utilities Commission revenues.

The City is current on all debt as of June 30, 2015.

The following is a summary of changes in long-term debt for June 30, 2015:

Description	Interest Rate	Final Maturity Date	Balance July 1, 2014	Increase	Decrease	Balance June 30, 2015
Revenue Bonds:						
1976	4.25%	2011	\$ 30,000	\$	\$ 30,000	\$
KRWFC Series 2012F	various	2040	3,774,167		112,084	3,662,083
KIA Note B291-09	2.90%	2014	27,073		27,073	
KIA Note A92-09	2.20%	2015	140,959		140,959	
KIA Note A95-09	0.70%	2016	56,362		22,427	33,935
KIA Note A209-05	1.00%	2032	954,355		48,645	905,710
KIA Note 111-01	3.00%		71,679	95,807		167,486
KIA Note F01-03	1.80%	2021	72,323		9,090	63,233
Bell Co/KACOLT #3	variable	2015	6,000		6,000	
Series 2003A	4.50%	2043	177,400		3,100	174,300
Series 2003B	4.50%	2043	222,000		3,900	218,100
Bell Theater				142,741		142,741
Vehicle Loan 2011	variable	2017	113,323		32,457	80,866
Vehicle Loan 2008	variable	2014	24,227		24,227	
			4,366,068			
			Total	\$ 5,669,868	\$ 459,962	\$ 5,448,454

The annual debt service requirements to maturity at June 30, 2015 are as follows:

Year	Interest	Principal	Total
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
2020	147,962	196,858	344,820
Thereafter	1,519,418	4,394,089	5,913,507
Total	\$ 2,309,950	\$ 5,448,454	\$ 7,758,404

**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, 2015 was \$1,456,522 and the City's employer contribution was \$336,403. Both the City and covered employees made the required contributions.

For the year ended June 30, 2015 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, 2015.

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, a 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, 2015, the City paid \$192,689 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 KRS 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, 2015. 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, 2015 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,

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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, 2015, 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 January 11, 2016.

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, 2015-01.

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 my 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 2015-01.

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
January 11, 2016

CITY OF PINEVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

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 2015-01 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

2015-01 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