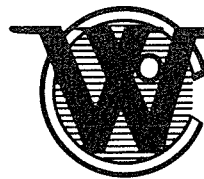


CITY OF PAINTSVILLE, KENTUCKY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2008



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240

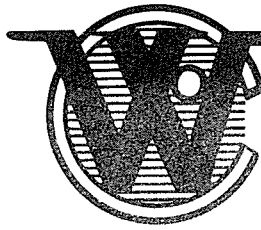
(606) 789-3588

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Bob Porter, Mayor  
Members of the City Council  
City of Paintsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paintsville, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our 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 Paintsville, Kentucky, as of June 30, 2008, and the respective changes in financial position, and cash flow, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2008 on our consideration of the City of Paintsville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of Paintsville, Kentucky

October 14, 2008

Page 2

The City of Paintsville, Kentucky has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paintsville, Kentucky's basic financial statements. The accompanying supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wells & Company, PSC*

Paintsville, Kentucky

October 14, 2008, except for information pertaining to the Paintsville Utilities Commission as to which the date is November 17, 2008.

CITY OF PAINTSVILLE, KENTUCKY  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

|   | Governmental<br>Activities | Business-Type<br>Activities | Total                |
|---|----------------------------|-----------------------------|----------------------|
| <b>ASSETS</b>   |                            |                             |                      |
| Cash and cash equivalents                             | \$ 444,396                 | \$ 4,006,373                | \$ 4,450,769         |
| Investments   | -                          | 569,047                     | 569,047              |
| Taxes receivable                                      | 62,322                     | -                           | 62,322               |
| Accounts receivable                                   | 94,695                     | 621,385                     | 716,080              |
| Grants receivable                                     | 16,439                     | 53,227                      | 69,666               |
| Other receivable                                      | 13,574                     | -                           | 13,574               |
| Due from Paintsville Utilities                        | 61,280                     | -                           | 61,280               |
| Unbilled revenues                                     | -                          | 257,809                     | 257,809              |
| Inventory   | -                          | 125,963                     | 125,963              |
| Prepaid and other assets                              | 416,837                    | 222,074                     | 638,911              |
| Capital assets:                                       |                            |                             |                      |
| Land and construction-in-progress                     | 858,515                    | 3,261,981                   | 4,120,496            |
| Other capital assets, net of accumulated depreciation | 8,236,470                  | 38,765,326                  | 47,001,796           |
|   | <u>10,204,528</u>          | <u>47,883,185</u>           | <u>58,087,713</u>    |
| <b>Total Assets</b>                                   |                            |                             |                      |
| <b>LIABILITIES</b>                                    |                            |                             |                      |
| Accounts payable                                      | 239,699                    | 390,185                     | 629,884              |
| Accrued payroll taxes                                 | 9,984                      | 7,347                       | 17,331               |
| Accrued vacation                                      | 45,290                     | 36,592                      | 81,882               |
| Other accrued liabilities                             | 28,473                     | 170,324                     | 198,797              |
| Deferred grant revenues                               | 18,000                     | -                           | 18,000               |
| Customer meter deposits payable                       | -                          | 780,728                     | 780,728              |
| Interest payable on customer meter deposits           | -                          | 227,730                     | 227,730              |
| Long-term liabilities:                                |                            |                             |                      |
| Due within one year                                   | 638,765                    | 463,314                     | 1,102,079            |
| Due in more than one year                             | 889,348                    | 7,057,739                   | 7,947,087            |
|   | <u>1,869,559</u>           | <u>9,133,959</u>            | <u>11,003,518</u>    |
| <b>Total Liabilities</b>                              |                            |                             |                      |
| <b>NET ASSETS</b>                                     |                            |                             |                      |
| Invested in capital assets, net of related debt       | 7,982,761                  | 34,506,254                  | 42,489,015           |
| Restricted for:                                       |                            |                             |                      |
| Other purposes  | 290,036                    | 2,943,920                   | 3,233,956            |
| Unrestricted  | 62,172                     | 1,299,052                   | 1,361,224            |
|   | <u>\$ 8,334,969</u>        | <u>\$ 38,749,226</u>        | <u>\$ 47,084,195</u> |
| <b>Total Net Assets</b>                               |                            |                             |                      |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

| Functions/Programs                    | Program Revenues     |                      |                          | Net (Expenses) Revenues and Changes in Net Assets |                      |                      |
|---------------------------------------|----------------------|----------------------|--------------------------|---|----------------------|----------------------|
|                                       | Expenses             | Charges for          | Operating                | Governmental                                      | Business-Type        | Total                |
|                                       |                      | Services             | Grants and Contributions |   |                      |                      |
| <b>Primary Government:</b>            |                      |                      |                          |   |                      |                      |
| Governmental activities:              |                      |                      |                          |   |                      |                      |
| General government                    | \$ 919,184           | \$ 48,245            | \$ 75,000                | \$ (795,939)                                      | \$ -                 | \$ (795,939)         |
| Public safety                         | 2,414,126            | 1,312,404            | 167,589                  | (874,876)   | -                    | (874,876)            |
| Recreation                            | 751,410              | 331,049              | -                        | (420,361)   | -                    | (420,361)            |
| Streets                               | 548,878              | -                    | 143,851                  | (405,027)   | -                    | (405,027)            |
| Sanitation                            | 668,185              | 647,672              | -                        | (20,513)  | -                    | (20,513)             |
| Tourism                               | 806,580              | 39,417               | -                        | (767,163)   | -                    | (767,163)            |
| Interest on long-term debt            | 70,003               | -                    | -                        | (70,003)  | -                    | (70,003)             |
| Total governmental activities         | <u>6,178,366</u>     | <u>2,378,787</u>     | <u>386,440</u>           | <u>(3,353,882)</u>                                | <u>-</u>             | <u>(3,353,882)</u>   |
| Business-type activities:             |                      |                      |                          |   |                      |                      |
| Water, gas, and sewer                 | 7,462,149            | 7,914,498            | -                        | -   | 1,462,485            | 1,462,485            |
| Total business-type activities        | <u>7,462,149</u>     | <u>7,914,498</u>     | <u>1,010,136</u>         | <u>-</u>  | <u>1,462,485</u>     | <u>1,462,485</u>     |
| <b>Total primary government</b>       | <u>\$ 13,640,515</u> | <u>\$ 10,293,285</u> | <u>\$ 386,440</u>        | <u>(3,353,882)</u>                                | <u>1,462,485</u>     | <u>(1,891,397)</u>   |
| General revenues:                     |                      |                      |                          |   |                      |                      |
| Property taxes                        |                      |                      |                          | 469,516   | -                    | 469,516              |
| Occupational taxes                    |                      |                      |                          | 1,186,136   | -                    | 1,186,136            |
| Insurance premium taxes               |                      |                      |                          | 487,653   | -                    | 487,653              |
| Motor vehicle taxes                   |                      |                      |                          | 24,220  | -                    | 24,220               |
| Restaurant taxes                      |                      |                      |                          | 643,478   | -                    | 643,478              |
| Room occupancy taxes                  |                      |                      |                          | 69,542  | -                    | 69,542               |
| Franchise fees and taxes              |                      |                      |                          | 68,503  | -                    | 68,503               |
| Licenses and permits                  |                      |                      |                          | 14,339  | -                    | 14,339               |
| Intergovernmental revenue             |                      |                      |                          | 43,214  | -                    | 43,214               |
| Investment income                     |                      |                      |                          | 3,794   | 109,105              | 112,899              |
| Gain/(Loss) on sale of capital assets |                      |                      |                          | (30,246)  | 918                  | (29,328)             |
| Donation/contributions                |                      |                      |                          | 606,405   | -                    | 606,405              |
| Miscellaneous                         |                      |                      |                          | 104,732   | -                    | 104,732              |
| Total general revenues and transfers  |                      |                      |                          | <u>3,691,286</u>                                  | <u>110,023</u>       | <u>3,801,309</u>     |
| Change in net assets                  |                      |                      |                          | 337,404   | 1,572,508            | 1,909,912            |
| Net assets - beginning                |                      |                      |                          | 7,997,565   | 37,176,718           | 45,174,283           |
| <b>Net assets - ending</b>            |                      |                      |                          | <u>\$ 8,334,969</u>                               | <u>\$ 38,749,226</u> | <u>\$ 47,084,195</u> |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2008

|  | General<br>Fund          | Paintsville<br>Tourism<br>Commission | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------------|--------------------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                          |                                      |                                |                                |
| Cash and cash equivalents                  | \$ 120,910               | \$ 307,235                           | \$ 16,251                      | \$ 444,396                     |
| Receivables:                               |                          |                                      |                                |                                |
| Property taxes                             | 3,032                    | -                                    | -                              | 3,032                          |
| Accounts                                   | 94,695                   | -                                    | -                              | 94,695                         |
| Grants                                     | 16,439                   | -                                    | -                              | 16,439                         |
| Other                                      | 13,574                   | -                                    | -                              | 13,574                         |
| Due from Paintsville Utilities             | 61,280                   | -                                    | -                              | 61,280                         |
| Prepaid expenses                           | 416,837                  | -                                    | -                              | 416,837                        |
| <b>Total Assets</b>                        | <b><u>\$ 726,767</u></b> | <b><u>\$ 307,235</u></b>             | <b><u>\$ 16,251</u></b>        | <b><u>\$ 1,050,253</u></b>     |
| <b>LIABILITIES AND FUND BALANCES</b>       |                          |                                      |                                |                                |
| <b>Liabilities:</b>                        |                          |                                      |                                |                                |
| Accounts payable                           | \$ 213,403               | \$ 9,101                             | \$ 17,195                      | \$ 239,699                     |
| Accrued payroll taxes                      | 9,984                    | -                                    | -                              | 9,984                          |
| Accrued vacation                           | 38,136                   | 4,436                                | 2,718                          | 45,290                         |
| Other accrued liabilities                  | 28,473                   | -                                    | -                              | 28,473                         |
| Deferred revenues                          | 18,000                   | -                                    | -                              | 18,000                         |
| <b>Total Liabilities</b>                   | <b><u>307,996</u></b>    | <b><u>13,537</u></b>                 | <b><u>19,913</u></b>           | <b><u>341,446</u></b>          |
| <b>Fund Balances:</b>                      |                          |                                      |                                |                                |
| Reserved for prepaid items                 | 416,837                  | -                                    | -                              | 416,837                        |
| Unreserved reported in:                    |                          |                                      |                                |                                |
| General Fund                               | 1,934                    | -                                    | -                              | 1,934                          |
| Special Revenue Funds                      | -                        | 293,698                              | (3,662)                        | 290,036                        |
| <b>Total Fund Balances</b>                 | <b><u>418,771</u></b>    | <b><u>293,698</u></b>                | <b><u>(3,662)</u></b>          | <b><u>708,807</u></b>          |
| <b>Total Liabilities and Fund Balances</b> | <b><u>\$ 726,767</u></b> | <b><u>\$ 307,235</u></b>             | <b><u>\$ 16,251</u></b>        | <b><u>\$ 1,050,253</u></b>     |

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

|  |                            |
|--|----------------------------|
| Fund Balances - Total Governmental Funds   | \$ 708,807                 |
| Amounts reported for governmental activities in the statement of net assets are different because:                       |                            |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds   |                            |
| Governmental capital assets  | 13,432,093                 |
| Less: accumulated depreciation   | (4,337,108)                |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds          | (1,528,113)                |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: |                            |
| Delinquent property taxes  | <u>59,290</u>              |
| <b>Net Assets of Governmental Activities</b>   | <u><u>\$ 8,334,969</u></u> |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

|   | General<br>Fund   | Paintsville<br>Tourism<br>Commission | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|--------------------------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>                                  |                   |                                      |                                |                                |
| Taxes:  |                   |                                      |                                |                                |
| Property  | \$ 469,724        | \$ -                                 | \$ -                           | \$ 469,724                     |
| Occupational                                      | 1,186,136         | -                                    | -                              | 1,186,136                      |
| Insurance premium                                 | 487,653           | -                                    | -                              | 487,653                        |
| Motor vehicle                                     | 24,220            | -                                    | -                              | 24,220                         |
| Franchise   | 30,165            | -                                    | -                              | 30,165                         |
| Restaurant  | -                 | 643,478                              | -                              | 643,478                        |
| Room occupancy                                    | -                 | 69,542                               | -                              | 69,542                         |
| Franchise fees                                    | 38,338            | -                                    | -                              | 38,338                         |
| Licenses and permits                              | 14,339            | -                                    | -                              | 14,339                         |
| Intergovernmental revenues                        | 182,010           | -                                    | 143,851                        | 325,861                        |
| Grants  | 163,050           | -                                    | -                              | 163,050                        |
| Charges for services                              | 2,014,983         | 39,417                               | 324,387                        | 2,378,787                      |
| Investment income                                 | 247               | 3,453                                | 94                             | 3,794                          |
| Contributions                                     | 606,405           | -                                    | -                              | 606,405                        |
| Miscellaneous revenues                            | 96,550            | 8,182                                | -                              | 104,732                        |
| Total revenues                                    | <u>5,313,820</u>  | <u>764,072</u>                       | <u>468,332</u>                 | <u>6,546,224</u>               |
| <b>Expenditures:</b>                              |                   |                                      |                                |                                |
| General government                                | 828,761           | -                                    | -                              | 828,761                        |
| Public safety                                     | 1,949,888         | -                                    | 305,839                        | 2,255,727                      |
| Recreation  | 675,951           | -                                    | -                              | 675,951                        |
| Streets   | 346,612           | -                                    | 151,227                        | 497,839                        |
| Sanitation  | 643,129           | -                                    | -                              | 643,129                        |
| Tourism   | -                 | 676,818                              | -                              | 676,818                        |
| Debt service                                      |                   |                                      |                                |                                |
| Principal retirement                              | 723,657           | -                                    | 32,869                         | 756,526                        |
| Interest  | 65,648            | -                                    | 4,355                          | 70,003                         |
| Capital outlay                                    | 617,397           | 24,105                               | 32,120                         | 673,622                        |
| Total expenditures                                | <u>5,851,043</u>  | <u>700,923</u>                       | <u>526,410</u>                 | <u>7,078,376</u>               |
| Excess (deficiency) of revenues over expenditures | (537,223)         | 63,149                               | (58,078)                       | (532,152)                      |
| <b>Other financing sources (uses):</b>            |                   |                                      |                                |                                |
| Operating transfers in                            | 34,199            | -                                    | -                              | 34,199                         |
| Operating transfers out                           | -                 | -                                    | (34,199)                       | (34,199)                       |
| Proceeds from sale of assets                      | 55,400            | -                                    | -                              | 55,400                         |
| Proceeds from borrowing                           | 515,889           | -                                    | -                              | 515,889                        |
| Total other financing sources (uses)              | <u>605,488</u>    | <u>-</u>                             | <u>(34,199)</u>                | <u>571,289</u>                 |
| Net change in fund balances                       | 68,265            | 63,149                               | (92,277)                       | 39,137                         |
| Fund balances - beginning as restated             | <u>350,506</u>    | <u>230,549</u>                       | <u>88,615</u>                  | <u>669,670</u>                 |
| Fund balances - ending                            | <u>\$ 418,771</u> | <u>\$ 293,698</u>                    | <u>\$ (3,662)</u>              | <u>\$ 708,807</u>              |

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT**  
**OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

|  |                          |
|--|--------------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>  | \$ 39,137                |
| Amounts reported for governmental activities in the statement of activities are different because:   |                          |
| Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense: |                          |
| Capital asset purchases capitalized  | 673,622                  |
| Depreciation expense   | (530,138)                |
|  | (85,646)                 |
| The net effect of various miscellaneous transactions involving capital assets  |                          |
| Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:  |                          |
| Decrease in property taxes   | (208)                    |
| Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:               |                          |
| Capital debt proceeds  | (515,889)                |
| Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities:  |                          |
| Loans payable  | 554,468                  |
| Capital leases payable   | 202,058                  |
|  | <hr/>                    |
| <b>Change in Net Assets of Governmental Activities</b>   | <b><u>\$ 337,404</u></b> |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2008

|  |                            |
|--|----------------------------|
| <b>Cash flows from operating activities:</b>                                     |                            |
| <b>Cash inflows:</b>   |                            |
| Payments received from customers   | <u>\$ 7,790,098</u>        |
| <b>Total cash provided</b>   | <u>7,790,098</u>           |
| <b>Cash outflows:</b>  |                            |
| Payments for salaries and benefits   | 1,910,545                  |
| Payments to suppliers for goods and services                                     | <u>3,817,593</u>           |
| <b>Total cash used</b>   | <u>5,728,138</u>           |
| <b>Net cash provided (used) by operating activities</b>                          | <u>2,061,960</u>           |
| <b>Cash flows from noncapital financing activities:</b>                          |                            |
| Interest paid on customer deposits   | <u>(2,390)</u>             |
| <b>Net cash provided (used) by noncapital financing activities</b>               | <u>(2,390)</u>             |
| <b>Cash flows from capital and related financing activities:</b>                 |                            |
| Purchase and construction of utility plant                                       | (1,405,158)                |
| Principal payments on long-term debt   | (348,657)                  |
| Payments on capital leases   | (40,000)                   |
| Interest paid on long-term debt and capital leases (net of interest capitalized) | (267,511)                  |
| Proceeds from sale of capital assets   | 918                        |
| Contributions-in-aid of construction   | <u>956,909</u>             |
| <b>Net cash provided (used) by capital and related financing activities</b>      | <u>(1,103,499)</u>         |
| <b>Cash flows from investing activities:</b>                                     |                            |
| Maturity of certificate of deposit   | 71,828                     |
| Purchase of certificate of deposit   | (71,828)                   |
| Interest received  | <u>82,087</u>              |
| <b>Net cash provided (used) by investing activities</b>                          | <u>82,087</u>              |
| <b>Net cash inflow (outflow) from all activities</b>                             | 1,038,158                  |
| Cash and cash equivalents at beginning of period                                 | <u>2,968,215</u>           |
| <b>Cash and cash equivalents at end of period</b>                                | <u><u>\$ 4,006,373</u></u> |

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)**  
**YEAR ENDED JUNE 30, 2008**

**Reconciliation of utility operating income to net cash provided by operating activities:**

|   |                     |
|---|---------------------|
| Utility operating income                  | \$ 851,360          |
| Depreciation and amortization             | 1,187,462           |
| Contribution of utility services          | (106,405)           |
| (Increase) decrease in:                   |                     |
| Accounts receivable                       | (16,405)            |
| Unbilled revenue                          | (1,590)             |
| Inventory                                 | (1,804)             |
| Prepaid expenses and other assets         | 950                 |
| Increase (decrease) in:                   |                     |
| Accounts payable                          | 80,925              |
| Accrued liabilities and other liabilities | 67,467              |
|   | <u>\$ 2,061,960</u> |

**Net cash provided (used) by operating activities**

**Schedule of cash and cash equivalents:**

**Beginning of period:**

|  |                     |
|--|---------------------|
| Unrestricted cash and cash equivalents | \$ 332,995          |
| Restricted cash and cash equivalents   | <u>2,635,220</u>    |
|  | <u>\$ 2,968,215</u> |

**End of period:**

|  |                     |
|--|---------------------|
| Unrestricted cash and cash equivalents | \$ 623,042          |
| Restricted cash and cash equivalents   | <u>3,383,331</u>    |
|  | <u>\$ 4,006,373</u> |

**Supplemental disclosure of noncash capital and related financing activities:**

The utilities had accounts payable for capital expenditures of \$160,490 at June 30, 2008.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Narrative Profile**

The City of Paintsville, Kentucky (the City) operates under a Home Rule Charter adopted on February 24, 1834. The City operates under Council-Mayor form of government and provides the following service as authorized by its charter: public safety, highway and street, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Paintsville, Kentucky have been prepared in conformity with the accounting principles generally accepted in the United States of America as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

**A. Financial Reporting Entity**

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable.

**Blended Component Units:**

**Paintsville Utilities Commission**

Created to provide gas, water, and wastewater services to residents and businesses within the boundaries of the City and other areas of Johnson County, Martin County, and Floyd County, Kentucky. The governing body is composed of commissioners appointed by the City Council. Financial information for the Commission is reported as part of the primary government as a component unit under the blending method.

**Paintsville Tourism Commission**

Created to promote tourism in Paintsville and Johnson County, Kentucky. The governing body is composed of commissioners appointed by the City Council. Financial information for the Commission is reported as part of the primary government as a component unit under the blending method.

Complete financial statements for the Paintsville Utilities Commission may be obtained at the entity's administrative offices. The Paintsville Tourism Commission does not issue separate financial statements.

Paintsville Utilities  
137 Main Street  
Paintsville, Kentucky 41240

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Excluded From Entity**

The accounts of the Housing Authority of Paintsville, Kentucky are excluded from the accompanying financial statements because the Authority is an autonomous agency which has a self elected Board of Directors responsible for its operations and the hiring of its director. The City presently provides meeting facilities and periodically contributes to the Authority's operations; however, the City has no responsibility for financing deficits.

**B. Government-wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). The focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, general government, recreation, etc.) that are otherwise being supported by general government revenues (property, occupational taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants and contributions.

In the fund financial statements, financial transactions and accounts of the City are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The following is a brief description of the specific funds used by the City:

**1. Governmental Funds**

Governmental Funds are those through which most governmental functions typically are financed.

**a. General Fund**

The General Fund is the primary operating fund of the City and always classified as a major fund. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

**b. Special Revenue Fund**

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The reporting entity includes the following special revenue funds, all except tourism are reported as nonmajor funds:

| <u>Fund</u>                         | <u>Brief Description</u>   |
|-------------------------------------|--|
| Coal and Mineral Severance Tax Fund | Accounts for grant money received from the Local Government Economic Assistance Program (LGEAP) and expended to improve the environment for new industry and to improve the quality of life for the residents. |
| Municipal Road Aid Fund             | Accounts for the revenues received and expenditures paid for construction, reconstruction, and maintenance of city streets.  |
| 911 Fund                            | Accounts for E-911 revenues legally restricted for E-911 services.   |
| Tourism                             | Accounts for the revenues received and expenditures paid for the promotion of local tourism. The tourism fund is considered a major fund for government-wide reporting purposes.                               |



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**2. PROPRIETARY FUNDS**

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The City applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The City has elected not to follow FASB pronouncements issued since that date.

**a. Enterprise Fund or Business Funds**

Enterprise Funds account for operations that are financed in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's Enterprise Fund is the Paintsville Utilities Commission.

**b. Internal Service Fund**

Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The City has no Internal Service Funds.

**3. Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The City has no Fiduciary Funds.

**C. Basis of Accounting**

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

The government-wide statements of net assets and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The statements of net assets, statements of activities, financial statements of the Proprietary Funds are presented on the accrual basis of accounting. Under this method of accounting exchange, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Real and personal property taxes are recognized in the period for which levied, provided the City has an enforceable legal claim to the resources. Grants, shared revenues, and contributions are recognized when all eligibility requirements have been met.

The fund financial statements of the General, Special Revenue and Capital Projects are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

**D. Budgets and Budgetary Accounting**

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the City Charter, prior to June 1, the City Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The City Charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Mayor is required by the City Charter to present a quarterly report to the City Council explaining any variance from the approved budget.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. The City Council may authorize supplemental appropriations during the year.

**E. Cash and Investments**

The City considers all cash, certificates of deposit, and savings to be cash equivalents. At June 30, 2008, the reported amount of the City's deposits was \$5,019,816 and the bank balance was \$5,633,669.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

KRS 66.480 authorizes the City to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Allowance for Uncollectible Accounts**

The City's delinquent taxes and accounts receivable and the component units' accounts receivable are considered fully collectible and therefore an allowance for uncollectible accounts is not applicable to those receivables.

**G. Capital Assets**

Capital outlays are recorded as expenditures of the General, Special Revenue, Capital Project Funds, and Tourism Commission Component Unit, and as assets in the government-wide financial statements to the extent the City's capitalization threshold of \$2,500 is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

|                               |            |
|-------------------------------|------------|
| Buildings                     | 40 years   |
| Furniture and Other Equipment | 3-20 years |
| Infrastructure                | 25 years   |

To the extent the City's capitalization threshold of \$2,500 is met, capital outlays of the Utilities Commission Component Unit are recorded as fixed assets and depreciated over their estimated useful lives on the government-wide basis using the straight-line method and the following estimated useful lives:

|                        |            |
|------------------------|------------|
| Utility Plant          | 3-50 years |
| Leasehold Improvements | 3-40 years |
| Equipment              | 3-20 years |

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially changes capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

**H. Compensated Absences**

The City's policy allows full-time employees to earn vacation leave and sick leave. Employees earn five (5) days of vacation leave after year one of employment; ten (10) days after year two, year three, year four, and year

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

five; and one additional day for each year after year five up to a maximum of fifteen days after year ten. Any accumulated vacation will be paid to an employee upon termination.

Employees earn one-half of one day of sick leave for each month worked and can only accumulate up to ten days. Accumulated sick leave will not be paid to an employee upon termination.

**I. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**J. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**K. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net assets consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

**N. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**O. Defined Benefit Pension Plan**

Substantially all City full-time regular employees participate in the Statewide Kentucky Retirement Systems ("System"), a multiple-employer public employee retirement system. Kentucky Retirement Systems is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the City but are the liability of the State of Kentucky. The payroll for employees covered by the System for the year ended June 30, 2008 was \$1,737,639; the City's total payroll was \$2,391,252.

All City full-time employees are eligible to participate in the System. The Plan provides for retirement, disability and death benefits.

Covered employees are required by State statute to contribute 5 percent 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 cost per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 16.17% percent for all covered employees. The contribution requirement for the year ended June 30, 2008 was \$367,857, which consisted of \$280,976 from the City and \$86,881 from employees.

Additional information and historical trend information can be obtained from the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

**NOTE 2. DEPOSITS**

The City maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The City does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, the City's deposits were under collateralized by \$556,073.

**NOTE 3. PROPERTY TAXES**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and are due and payable at that time. All unpaid taxes levied October 1, become delinquent January 1, of the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Delinquent taxes are considered fully collectible and therefore no allowance for uncollected taxes is provided.

**NOTE 4. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2008, consisted of the following:

**Primary Government**

**Governmental Activities**

|  | <u>Balance<br/>July 1, 2007</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance<br/>June 30, 2008</u> |
|--|---------------------------------|------------------|--------------------|----------------------------------|
| <b>Capital assets, not being depreciated:</b>      |                                 |                  |                    |                                  |
| Land and land improvements                         | \$ 764,997                      | \$ 93,518        | \$ -               | \$ 858,515                       |
| Construction in progress                           | <u>-</u>                        | <u>-</u>         | <u>-</u>           | <u>-</u>                         |
| <b>Total capital assets, not being depreciated</b> | <u>764,997</u>                  | <u>93,518</u>    | <u>-</u>           | <u>858,515</u>                   |
| <b>Capital assets, being depreciated:</b>          |                                 |                  |                    |                                  |
| Buildings and improvements                         | 7,128,642                       | 419,000          | -                  | 7,547,642                        |
| Improvements other than buildings                  | 821,882                         | -                | -                  | 821,882                          |
| Automobiles and trucks                             | 1,966,310                       | 112,990          | 108,690            | 1,970,610                        |
| Infrastructure                                     | 137,293                         | -                | -                  | 137,293                          |
| Machinery and equipment                            | <u>2,132,487</u>                | <u>48,114</u>    | <u>84,450</u>      | <u>2,096,151</u>                 |
| <b>Total capital assets being depreciated</b>      | 12,186,614                      | 580,104          | 193,140            | 12,573,578                       |
| <b>Less accumulated depreciation for:</b>          |                                 |                  |                    |                                  |
| Buildings and improvements                         | (1,259,469)                     | (184,592)        | -                  | (1,444,061)                      |
| Improvements other than buildings                  | (452,014)                       | (44,962)         | -                  | (496,976)                        |
| Automobiles and trucks                             | (1,177,354)                     | (123,147)        | (77,936)           | (1,222,565)                      |
| Infrastructure                                     | (29,634)                        | (13,729)         | -                  | (43,363)                         |
| Machinery and equipment                            | <u>(995,993)</u>                | <u>(163,708)</u> | <u>(29,558)</u>    | <u>(1,130,143)</u>               |
| <b>Total accumulated depreciation</b>              | <u>(3,914,464)</u>              | <u>(530,138)</u> | <u>(107,494)</u>   | <u>(4,337,108)</u>               |
| <b>Total capital assets being depreciated, net</b> | <u>8,272,150</u>                | <u>49,966</u>    | <u>85,646</u>      | <u>8,236,470</u>                 |
| <b>Governmental activities capital assets, net</b> | <u>\$ 9,037,147</u>             | <u>\$143,484</u> | <u>\$ 85,646</u>   | <u>\$ 9,094,985</u>              |

CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

NOTE 4. CAPITAL ASSETS (Continued)

Depreciation was charged to governmental activities as follows:

|                    |                         |
|--------------------|-------------------------|
| General government | \$ 90,423               |
| Public safety      | 158,399                 |
| Recreation         | 75,459                  |
| Streets            | 51,039                  |
| Sanitation         | 25,056                  |
| Tourism            | <u>129,762</u>          |
| <b>Total</b>       | <b><u>\$530,138</u></b> |

| <b>Business-Type Activities</b>                    | <b>Balance<br/>July 1, 2007</b> | <b>Additions</b>          | <b>Retirements</b>        | <b>Balance<br/>June 30, 2008</b> |
|--|---------------------------------|---------------------------|---------------------------|----------------------------------|
| <b>Capital assets, not being depreciated:</b>      |                                 |                           |                           |                                  |
| Land and land improvements                         | \$ 511,589                      | \$ 10,000                 | \$ -                      | \$ 521,589                       |
| Construction in progress                           | <u>3,402,473</u>                | <u>1,267,731</u>          | <u>1,929,812</u>          | <u>2,740,392</u>                 |
| <b>Total capital assets, not being depreciated</b> | <u>3,914,062</u>                | <u>1,277,731</u>          | <u>1,929,812</u>          | <u>3,261,981</u>                 |
| <b>Capital assets, being depreciated:</b>          |                                 |                           |                           |                                  |
| Buildings and improvements                         | 609,848                         | 15,581                    | -                         | 625,429                          |
| Utility plants                                     | 51,131,884                      | 2,067,413                 | -                         | 53,199,297                       |
| Automobiles and trucks                             | 526,527                         | 55,572                    | 14,506                    | 567,593                          |
| Machinery and equipment                            | <u>131,058</u>                  | <u>2,972</u>              | <u>-</u>                  | <u>134,030</u>                   |
| <b>Total capital assets being depreciated</b>      | 52,399,317                      | 2,141,538                 | 14,506                    | 54,526,349                       |
| <b>Less accumulated depreciation for:</b>          |                                 |                           |                           |                                  |
| Buildings and improvements                         | (141,641)                       | (12,278)                  | -                         | (153,919)                        |
| Utility plants                                     | (13,884,435)                    | (1,135,324)               | -                         | (15,019,759)                     |
| Automobiles and trucks                             | (458,627)                       | (25,582)                  | (14,506)                  | (469,703)                        |
| Machinery and equipment                            | <u>(110,848)</u>                | <u>(6,794)</u>            | <u>-</u>                  | <u>(117,642)</u>                 |
| <b>Total accumulated depreciation</b>              | <u>(14,595,551)</u>             | <u>(1,179,978)</u>        | <u>(14,506)</u>           | <u>(15,761,023)</u>              |
| <b>Total capital assets being depreciated, net</b> | <u>37,803,766</u>               | <u>961,560</u>            | <u>-</u>                  | <u>38,765,326</u>                |
| <b>Total utilities capital assets, net</b>         | <b><u>\$41,717,828</u></b>      | <b><u>\$2,239,291</u></b> | <b><u>\$1,929,812</u></b> | <b><u>\$42,027,307</u></b>       |

Depreciation was charged to business-type activities as follows:

|                       |                    |
|-----------------------|--------------------|
| Water, gas, and sewer | <u>\$1,179,978</u> |
|-----------------------|--------------------|

**NOTE 5. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays annual premiums to the Kentucky League of Cities Insurance Agency for its general liability coverage, public officials' liability, auto liability, workers' compensation, and property coverage. The City's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the City. Kentucky League of Cities Insurance Agency pays claims as they arise.

**NOTE 6. CAPITAL LEASES**

The City has entered into various lease agreements for financing capital assets. The lease agreements qualify as capital leases for accounting purposes, therefore have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2008, were as follows:

| <u>Fiscal Year</u>                          | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> |
|---|------------------------------------|-------------------------------------|
| 2009  | \$209,808                          | \$ 66,545                           |
| 2010  | 214,369                            | 64,673                              |
| 2011  | 35,455                             | 62,757                              |
| 2012  | 27,748                             | 60,876                              |
| 2013  | 27,235                             | 58,893                              |
| 2014-2018                                   | 13,685                             | 313,192                             |
| 2019-2021                                   | <u>-</u>                           | <u>126,479</u>                      |
| Total minimum lease payments                | 528,300                            | 753,415                             |
| Less amount representing interest           | <u>(28,084)</u>                    | <u>(183,415)</u>                    |
| Present value of net minimum lease payments | <u>\$500,216</u>                   | <u>\$570,000</u>                    |

Following is a summary of property held by the City under capital leases at June 30, 2008:

|                               | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> |
|-------------------------------|------------------------------------|-------------------------------------|
| Building                      | \$283,063                          | \$ -                                |
| Equipment                     | 762,647                            | 1,070,990                           |
| Less accumulated depreciation | <u>(200,989)</u>                   | <u>(365,922)</u>                    |
|                               | <u>\$844,721</u>                   | <u>\$ 705,068</u>                   |



CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

NOTE 7. LONG-TERM DEBT

Governmental Activities

On January 13, 1999, the City borrowed \$80,000 from Citizens National Bank to fund the purchase of property on Preston Street next to the Community Center. The loan agreement provides for 120 monthly payments of \$859 to be made beginning February 15, 1999 with the final payment made on January 15, 2009. The loan bears interest at 5.25%.

On May 31, 2006, the City borrowed \$650,000 from Citizens National Bank to refinance the debt on the Entrepreneur Center on Teays Branch. The loan agreement provides for 59 monthly payments of \$4,192 to be made beginning June 15, 2006 and 1 balloon payment of \$543,126 to be made on May 15, 2011. The loan bears interest at 4.75%.

On June 24, 2008, the City borrowed \$415,889 from Citizens National Bank to pay the 2008/2009 property, liability, and workers compensation insurance premiums. The loan agreement provides for 12 monthly payments of \$35,303 to be made beginning July 20, 2008 with the final payments made on June 20, 2009. The loan bears interest at 3.35%.

|  | Amount<br>Outstanding<br><u>6/30/2007</u> | <u>Additions</u> | <u>Deductions</u>  | Amount<br>Outstanding<br><u>6/30/2008</u> | Amounts<br>Due Within<br><u>One Year</u> |
|--|---|------------------|--------------------|---|--|
| Preston Street Property loan payable (CNB) | \$ 15,620                                 | \$ -             | (\$ 9,714)         | \$ 5,906                                  | \$ 5,906                                 |
| Entrepreneur Center loan payable (CNB)     | 627,075                                   | -                | (20,973)           | 606,102                                   | 21,991                                   |
| Working capital loan payable (CNB)         | -   | 100,000          | (100,000)          | -   | -  |
| Insurance loan payable (CNB)               | -   | 415,889          | -                  | 415,889                                   | 415,889                                  |
| Insurance loan payable (CNB)               | <u>423,781</u>                            | <u>-</u>         | <u>(423,781)</u>   | <u>-</u>                                  | <u>-</u>                                 |
| Long-Term Debt                             | <u>\$1,066,476</u>                        | <u>\$515,889</u> | <u>(\$554,468)</u> | <u>\$1,027,897</u>                        | <u>\$443,786</u>                         |

Principal and interest payments to be made on all long-term debt at June 30, 2008, for each of the next five years and thereafter are as follows:

| <u>Year Ending<br/>6/30</u> | <u>Notes</u>       | <u>Total<br/>Interest</u> | <u>Total</u>       |
|-----------------------------|--------------------|---------------------------|--------------------|
| 2009                        | \$ 443,786         | \$36,162                  | \$ 479,948         |
| 2010                        | 23,058             | 27,248                    | 50,306             |
| 2011                        | <u>561,053</u>     | <u>23,995</u>             | <u>585,048</u>     |
|                             | <u>\$1,027,897</u> | <u>\$87,405</u>           | <u>\$1,115,302</u> |

Business-Type Activities

Long-term debt at June 30, 2008 consists of the following:

**CITY OF PAINTSVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 7. LONG-TERM DEBT (Continued)**

| <b>Bonds:</b>  | <u>Amount</u>               | <u>Interest Rate</u> | <u>Maturity Date</u> |
|--|-----------------------------|----------------------|----------------------|
| City of Paintsville Combined Utility Refunding Bonds, Series 1978 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.         | \$ 434,000                  | 5.00%                | 09/2017              |
| City of Paintsville Combined Utility Refunding Revenue Bonds, Series 1998 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year. | 2,355,000                   | 4.50%                | 09/2018              |
| City of Paintsville, Kentucky Water Revenue Bond, Series 1989. Principal installments and interest payable in July of each year.   | 853,000                     | 5.00%                | 07/2029              |
| City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.   | 389,300                     | 4.50%                | 07/2034              |
| City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.   | 311,500                     | 4.50%                | 07/2037              |
| City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.   | <u>250,000</u><br>4,592,800 | 4.125%               | 07/2046              |
| <b>Notes:</b>  |                             |                      |                      |
| Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.  | 43,523                      | 5.75%                | 07/2013              |
| Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.  | 12,112                      | 7.00%                | 07/2013              |
| Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.  | 1,471,126                   | 1.30%                | 06/2032              |
| Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year.   | 453,283                     | 3.00%                | 06/2012              |

**CITY OF PAINTSVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 7. LONG-TERM DEBT (Continued)**

Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year.

|                  |       |         |
|------------------|-------|---------|
| <u>390,990</u>   | 1.00% | 06/2026 |
| <u>2,371,034</u> |       |         |
| 6,963,834        |       |         |

**Less:**

|                      |                    |
|----------------------|--------------------|
| Current maturities   | 423,314            |
| Unamortized discount | <u>12,781</u>      |
|                      | <u>\$6,527,739</u> |

The Utility Refunding Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 2.86 at June 30, 2008.

|   | Amount<br>Outstanding<br><u>6/30/2007</u> | <u>Additions</u> | <u>Deductions</u>  | Amount<br>Outstanding<br><u>6/30/2008</u> | Amounts<br>Due Within<br><u>One Year</u> |
|---|---|------------------|--------------------|---|--|
| Combined Utility Refunding Bond – 1978 Issue  | \$ 467,000                                | \$ -             | (\$ 33,000)        | \$ 434,000                                | \$ 35,000                                |
| Combined Utility Refunding Bond – 1998 Issue  | 2,515,000                                 | -                | (160,000)          | 2,355,000                                 | 170,000                                  |
| Water Revenue Bond – Series 1989              | 876,000                                   | -                | (23,000)           | 853,000                                   | 24,000                                   |
| Water Revenue Bond – Series 1994              | 396,600                                   | -                | (7,300)            | 389,300                                   | 7,600                                    |
| Water Revenue Bond – Series 1998              | 316,500                                   | -                | (5,000)            | 311,500                                   | 5,500                                    |
| Water Revenue Bond – Series 2006              | 250,000                                   | -                | -                  | 250,000                                   | 3,000                                    |
| EDA Loans Payable                             | 65,193                                    | -                | (9,559)            | 55,634                                    | 10,139                                   |
| KIA Loan Payable                              | 1,523,048                                 | -                | (51,922)           | 1,471,126                                 | 52,599                                   |
| KIA Loan Payable (water treatment plant)      | 500,000                                   | -                | (46,717)           | 453,283                                   | 95,547                                   |
| KIA Loan Payable (wastewater treatment plant) | <u>403,149</u>                            | <u>-</u>         | <u>(12,159)</u>    | <u>390,990</u>                            | <u>19,929</u>                            |
| <b>Long-Term Debt</b>                         | <u>\$7,312,490</u>                        | <u>\$ -</u>      | <u>(\$348,657)</u> | <u>\$6,963,833</u>                        | <u>\$423,314</u>                         |

**CITY OF PAINTSVILLE, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 7. LONG-TERM DEBT (Continued)**

Principal and interest payments to be made on all long-term debt at June 30, 2008, for each of the next five years and thereafter are as follows:

| <u>Year Ending<br/>June 30,</u> | <u>Bonds</u>       | <u>Notes</u>       | <u>Total<br/>Principal</u> | <u>Total<br/>Interest</u> | <u>Total</u>       |
|---------------------------------|--------------------|--------------------|----------------------------|---------------------------|--------------------|
| 2009                            | \$ 245,100         | \$ 178,214         | \$ 423,314                 | \$ 251,457                | \$ 674,771         |
| 2010                            | 247,500            | 182,606            | 430,106                    | 235,388                   | 665,494            |
| 2011                            | 262,400            | 187,135            | 449,535                    | 218,807                   | 668,342            |
| 2012                            | 274,800            | 191,805            | 466,605                    | 201,388                   | 667,993            |
| 2013                            | 291,300            | 140,767            | 432,067                    | 183,147                   | 615,214            |
| 2014-2018                       | 1,695,200          | 394,875            | 2,090,075                  | 672,130                   | 2,762,205          |
| 2019-2023                       | 624,100            | 419,618            | 1,043,718                  | 343,150                   | 1,386,868          |
| 2024-2028                       | 448,000            | 397,995            | 845,995                    | 214,228                   | 1,060,223          |
| 2029-2033                       | 278,800            | 278,018            | 556,818                    | 90,734                    | 647,552            |
| 2034-2038                       | 138,600            | -                  | 138,600                    | 32,603                    | 171,203            |
| 2039-2043                       | 75,500             | -                  | 75,500                     | 16,235                    | 91,735             |
| 2044-2048                       | 11,500             | -                  | 11,500                     | 475                       | 11,975             |
|                                 | <u>\$4,592,800</u> | <u>\$2,371,033</u> | <u>\$6,963,833</u>         | <u>\$2,459,742</u>        | <u>\$9,423,575</u> |

**NOTE 8. COMMITMENTS AND CONTINGENCIES**

**Litigation**

The City is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. It is the opinion of City management and the City Attorney that any losses not covered by insurance which may ultimately be incurred as a result of the suits and claims will not be material.

**NOTE 9. GRANTS**

The City receives financial assistance from numerous federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any unallowed disbursements resulting from such audits could become a liability of the City. In the opinion of City management, no material refunds will be required as a result of unallowed disbursements (if any), by the grantor agencies.

**NOTE 10. PRIOR PERIOD ADJUSTMENTS**

**Fund Financial Statements**

The City recorded the following certain reclassifications:

The City determined that \$93,801 of activity previously recorded in the General Fund should be reclassified to the Municipal Road Aid Fund to more accurately reflect the transactions in the prior years.

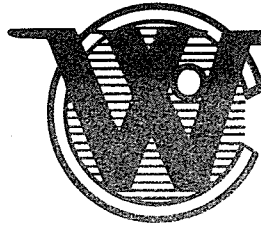
The City determined that \$77,000 of activity previously recorded in the General Fund should be reclassified to the Coal & Mineral Tax Severance Fund to more accurately reflect the transactions in the prior years.

CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008

The City eliminated the Parking Meter Fund as of 7/1/07 and the Parking Meter Fund was merged into the General Fund.

|                                   | <u>Fund Balances,<br/>as Previously<br/>Reported</u> | <u>Prior Period Adjustment<br/>Reclassification<br/>of Funds</u> | <u>Fund Balances<br/>as Restated</u> |
|-----------------------------------|--|--|--------------------------------------|
| Major Fund:                       |  |  |                                      |
| General Fund                      | \$180,460  | \$170,046  | \$350,506                            |
| Non-Major Funds:                  |  |  |                                      |
| Municipal Road Aid Fund           | 112,469  | (93,801)   | 18,668                               |
| Coal & Mineral Tax Severance Fund | 132,043  | (77,000)   | 55,043                               |
| Parking Meter Fund                | <u>(755)</u>   | <u>755</u>   | <u>-</u>                             |
| Total                             | <u>\$424,217</u>                                     | <u>\$ -</u>  | <u>\$424,217</u>                     |

**AUDITOR'S REPORTS**



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*  
865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

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**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**

The Honorable Bob Porter, Mayor  
Members of the City Council  
City of Paintsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky as of and for the year ended June 30, 2008 which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated October 14, 2008, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. We conducted our 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Paintsville, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Paintsville, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Paintsville, Kentucky's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Paintsville, Kentucky's ability to initiate, authorize, record, process, or report financial data

reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Paintsville, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Paintsville, Kentucky's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

#### **2008-1 Segregation of Duties**

Condition: Presently, the City has an absence of appropriate segregation of duties consistent with appropriate internal control objectives.

Criteria: The City should have appropriate segregation of duties to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Cause of Condition: Due to its small size and budget restrictions the City has limited options for establishing an adequate segregation of duties.

Recommendation: Compensating controls should be designed and implemented as effectively as possible to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Management Comment: Management of the City concurs with the finding and plans to develop compensating controls that will reduce to the lowest level any chance of misappropriation of assets and/or misrepresentation of financial records.

#### **2008-2 Financial Reporting**

Condition: There is a lack of adequate controls in financial accounting and reporting to properly prepare financial statements and disclosures according to generally accepted accounting principles.

Criteria: The Statement on Auditing Standards (SAS) 112 cites a significant deficiency if an entity is unable to prepare its own financial statements in accordance with Generally Accepted Accounting Principles (GAAP) including the disclosure notes.

Cause of Condition: The City's limited budget prevents the hiring of an individual with the accounting skills and knowledge to properly prepare financial statements.

Recommendation: There should be continuing education for personnel engaged in financial reporting.

Management Comment: Management of the City concurs with the finding.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Paintsville, Kentucky's internal control.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider 2008-1 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Paintsville, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below:

#### **2008-3 ARC Flex Grant**

Condition: The City was awarded a \$10,000 ARC Flex Grant in which it received \$5,000 in June 2006 and \$5,000 in September 2006. The money was deposited in the General Fund. The grant was for a tourism plan/study done by the Big Sandy Area Development District. The Big Sandy ADD invoiced the City April 3, 2007 for \$10,000 with payment due by May 3, 2007. The invoice had not been paid as of the fiscal year end.

Criteria: The City is to use the grant money for the intended purpose.

Cause of Condition: The City deposited the grant money in the General Fund checking account and due to cash flow difficulties has not used the money for its intended purpose.

Recommendation: The City is to adhere to the grant agreement and make it a priority to get the Big Sandy ADD paid as soon as possible.

Management Comment: The invoice has subsequently been paid.

#### **2008-4 PURCHASES**

Condition: The City had numerous invoices that were not paid in a timely manner.

Criteria: KRS 65.140 states that all bills for goods and services be paid within thirty working days of receipt of a vendor's invoice.

Cause of Condition: The City's cash flow difficulties have left them unable to pay invoices in a timely manner.

Recommendation: The City needs to find a solution to improving its cash flow either by reducing expenditures or finding additional revenue sources.

Management Comment: Management of the City concurs with the finding and is working to improve the situation.

City of Paintsville, Kentucky  
October 14, 2008  
Page 4

## 2008-5 FUND BALANCES

Condition: The audited financial statements of the City show a negative fund balance of \$3,762 in the 911 Fund and a negative fund balance of \$170 in the Municipal Road Aid Fund.

Criteria: Cities must pass a balanced budget where appropriations do not exceed revenues including any positive prior year fund balance. Thus, there should not be negative fund balances.

Cause of Condition: Expenditures have been in excess of revenues.

Recommendation: The City should strictly adhere to the balanced budget ordinance adopted by the City Council. The Mayor, Finance Officer, and Treasurer need to work closely together to develop a way to reach positive fund balances. It is further recommended that City Officials closely monitor financial operations to ensure the City is able to meet its financial obligations.

Management Comment: Management of the City concurs and will work to eliminate the negative fund balances.

We noted certain matters that we reported to management of the City of Paintsville, Kentucky, in a separate letter dated October 14, 2008.

The City of Paintsville, Kentucky's response to the findings identified in our audit is described above. We did not audit the City of Paintsville, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
October 14, 2008

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2008

|   | <u>Budget</u>    | <u>Actual</u>    | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---|------------------|------------------|---|
| <b>Revenues:</b>                        |                  |                  |   |
| Property taxes                          | \$ 485,000       | \$ 469,724       | \$ (15,276)                                     |
| Franchise fees and taxes                | 55,000           | 68,503           | 13,503  |
| Police court revenue                    | 11,000           | 34,195           | 23,195  |
| Police services                         | 12,500           | 14,016           | 1,516   |
| Building permits                        | 10,000           | 11,940           | 1,940   |
| Licenses                                | 2,400            | 2,399            | (1)   |
| Interest earned on investments          | -                | 247              | 247   |
| Garbage collection fees                 | 600,000          | 647,672          | 47,672  |
| Taxes on insurance premiums             | 470,000          | 487,653          | 17,653  |
| Occupational taxes                      | 1,259,000        | 1,186,136        | (72,864)  |
| Motor vehicle tax                       | 21,000           | 24,220           | 3,220   |
| Ambulance receipts                      | 1,300,000        | 974,001          | (325,999)                                       |
| Firefighter and police incentive pay    | 120,900          | 104,601          | (16,299)  |
| Rental/Lease revenue                    | 51,000           | 58,280           | 7,280   |
| City pool and concession revenue        | 43,000           | 29,551           | (13,449)  |
| Country Club revenue                    | 243,200          | 274,193          | 30,993  |
| Advertising                             | 50,000           | 17,270           | (32,730)  |
| Miscellaneous intergovernmental revenue | -                | 43,214           | 43,214  |
| Grants                                  | 99,000           | 163,050          | 64,050  |
| Contributions                           | 60,000           | 606,405          | 546,405   |
| Other receipts                          | 27,000           | 96,550           | 69,550  |
| <b>Total Revenues</b>                   | <u>4,920,000</u> | <u>5,313,820</u> | <u>393,820</u>                                  |
| <b>Expenditures:</b>                    |                  |                  |   |
| General government:                     |                  |                  |   |
| Administrative salaries                 | 266,172          | 269,151          | (2,979)   |
| Payroll tax expense                     | 21,420           | 20,247           | 1,173   |
| Employee benefits                       | 72,200           | 78,445           | (6,245)   |
| City attorney's fees                    | 24,450           | 31,055           | (6,605)   |
| Mayor's expense                         | 10,000           | 10,222           | (222)   |
| Postage                                 | 5,000            | 4,833            | 167   |
| Advertising                             | 8,500            | 6,070            | 2,430   |
| Office supplies and printing            | 18,000           | 15,759           | 2,241   |
| Telephone                               | 13,000           | 12,450           | 550   |
| Workmen's compensation insurance        | 18,300           | 3,073            | 15,227  |
| Audit and accounting fees               | 12,550           | 3,350            | 9,200   |
| Insurance and bonding                   | 29,700           | 15,088           | 14,612  |
| Utilities                               | 163,000          | 137,174          | 25,826  |
| Preparation of property tax bills       | 12,000           | 13,175           | (1,175)   |
| Garden Club                             | 3,000            | 3,000            | -   |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2008

|                                  | <u>Budget</u>  | <u>Actual</u>    | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|----------------------------------|----------------|------------------|---|
| Senior Citizens                  | 43,000         | 43,432           | (432)   |
| Big Sandy ADD dues               | 1,500          | 1,500            | -   |
| Equipment lease expense          | 6,000          | 7,010            | (1,010)   |
| Main Street Program              | 12,000         | 12,538           | (538)   |
| Capital expenditures             | -              | 512,518          | (512,518)                                       |
| Grant expenditures               | 5,000          | 9,359            | (4,359)   |
| Debt service:                    |                |                  |   |
| Interest expense                 | -              | 2,611            | (2,611)   |
| Principal retirement             | 12,000         | 80,955           | (68,955)  |
| Other general expenses           | 69,000         | 57,193           | 11,807  |
| Building inspector expense       | 3,000          | 2,991            | 9   |
| Total General Government         | <u>828,792</u> | <u>1,353,199</u> | <u>(524,407)</u>                                |
| <b>Police:</b>                   |                |                  |   |
| Salaries and wages               | 332,724        | 299,694          | 33,030  |
| Payroll tax expense              | 23,868         | 24,049           | (181)   |
| Employee benefits                | 109,000        | 98,203           | 10,797  |
| Gasoline and oil                 | 34,900         | 30,182           | 4,718   |
| Vehicle repairs and maintenance  | 10,300         | 11,605           | (1,305)   |
| Workmen's compensation insurance | 17,700         | 24,280           | (6,580)   |
| Insurance and bonding            | 36,100         | 38,338           | (2,238)   |
| Utilities                        | -              | 6,814            | (6,814)   |
| Training                         | 7,000          | 10,165           | (3,165)   |
| Telephone                        | 10,500         | 7,220            | 3,280   |
| Supplies expense                 | -              | 8,241            | (8,241)   |
| Uniforms and uniforms cleaning   | 9,000          | 6,573            | 2,427   |
| Grant expenditures               | -              | 2,085            | (2,085)   |
| Debt service:                    |                |                  |   |
| Interest expense                 | -              | 2,986            | (2,986)   |
| Principal retirement             | 22,000         | 88,120           | (66,120)  |
| Other expenditures               | 2,500          | 6,397            | (3,897)   |
| Total Police                     | <u>615,592</u> | <u>664,952</u>   | <u>(49,360)</u>                                 |
| <b>Fire:</b>                     |                |                  |   |
| Salaries and wages               | 319,260        | 262,276          | 56,984  |
| Payroll tax expense              | 21,420         | 20,049           | 1,371   |
| Employee benefits                | 106,000        | 88,956           | 17,044  |
| Gasoline and oil                 | 8,000          | 8,116            | (116)   |
| Repairs and maintenance          | 21,700         | 4,350            | 17,350  |
| Supplies                         | 6,000          | 2,981            | 3,019   |
| Insurance                        | 27,900         | 19,615           | 8,285   |
| Telephone                        | 14,000         | 10,617           | 3,383   |
| Utilities                        | -              | 9,061            | (9,061)   |
| Uniforms and uniforms cleaning   | 4,000          | 1,668            | 2,332   |
| Training                         | 1,500          | 516              | 984   |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2008

|                                  | <u>Budget</u>  | <u>Actual</u>    | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|----------------------------------|----------------|------------------|---|
| Training center expenses         | 4,500          | 4,817            | (317)   |
| Workmen's compensation insurance | 21,700         | 21,648           | 52  |
| Capital expenditures             | 10,000         | -                | 10,000  |
| Other expenses                   | 7,300          | 15,854           | (8,554)   |
| Debt service:                    |                |                  |   |
| Interest expense                 | -              | 4,177            | (4,177)   |
| Principal retirement             | 17,000         | 68,838           | (51,838)  |
| Total Fire                       | <u>590,280</u> | <u>543,539</u>   | <u>46,741</u>                                   |
| <b>Ambulance:</b>                |                |                  |   |
| Salaries and wages               | 456,414        | 504,288          | (47,874)  |
| Payroll tax expense              | 36,720         | 41,261           | (4,541)   |
| Employee benefits                | 146,000        | 128,738          | 17,262  |
| Medical supplies                 | 27,500         | 20,576           | 6,924   |
| Vehicle repairs and maintenance  | 10,800         | 13,618           | (2,818)   |
| Gasoline and oil                 | 40,800         | 37,343           | 3,457   |
| Uniforms                         | 4,500          | 5,318            | (818)   |
| Telephone                        | 3,500          | 1,698            | 1,802   |
| Training                         | 4,000          | 3,355            | 645   |
| Insurance/bonding                | 30,000         | 28,485           | 1,515   |
| Billing service                  | 117,000        | 49,859           | 67,141  |
| Debt service:                    |                |                  |   |
| Interest expense                 | -              | 8,162            | (8,162)   |
| Principal retirement             | 41,100         | 139,664          | (98,564)  |
| Workmen's compensation insurance | 45,500         | 58,083           | (12,583)  |
| Grant expenditures               | -              | 5,416            | (5,416)   |
| Capital expenditures             | 30,000         | 104,879          | (74,879)  |
| Other expenses                   | 2,700          | 7,480            | (4,780)   |
| Total Ambulance                  | <u>996,534</u> | <u>1,158,223</u> | <u>(161,689)</u>                                |
| <b>Recreation:</b>               |                |                  |   |
| Recreation salaries              | 145,656        | 177,867          | (32,211)  |
| Payroll tax expense              | 17,136         | 15,584           | 1,552   |
| Employee benefits                | 51,000         | 51,907           | (907)   |
| Repairs and maintenance          | 25,400         | 5,760            | 19,640  |
| Insurance                        | 14,100         | 13,767           | 333   |
| Supplies                         | 30,000         | 21,854           | 8,146   |
| Pool concessions                 | 5,000          | 7,027            | (2,027)   |
| Recreational programs            | 2,000          | 1,719            | 281   |
| Workmen's compensation insurance | 16,000         | 16,303           | (303)   |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2008

|                                  | <u>Budget</u>  | <u>Actual</u>  | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|----------------------------------|----------------|----------------|---|
| <b>Debt service:</b>             |                |                |   |
| Interest expense                 | -              | 3,289          | (3,289)   |
| Principal retirement             | 27,700         | 57,837         | (30,137)  |
| Utilities                        | -              | 22,447         | (22,447)  |
| Other expenses                   | 16,000         | 23,003         | (7,003)   |
| Total Recreation                 | <u>349,992</u> | <u>418,364</u> | <u>(68,372)</u>                                 |
| <b>Streets:</b>                  |                |                |   |
| Salaries and wages               | 172,278        | 174,459        | (2,181)   |
| Payroll tax expense              | 16,422         | 14,230         | 2,192   |
| Employee benefits                | 78,000         | 53,451         | 24,549  |
| Uniforms                         | 9,300          | 6,904          | 2,396   |
| Gasoline and oil                 | 33,600         | 22,238         | 11,362  |
| Insurance                        | 29,700         | 17,265         | 12,435  |
| Supplies and parts               | 18,000         | 13,562         | 4,438   |
| Workmen's compensation insurance | 27,400         | 36,033         | (8,633)   |
| <b>Debt service:</b>             |                |                |   |
| Interest expense                 | -              | 6,663          | (6,663)   |
| Principal retirement             | 52,000         | 125,418        | (73,418)  |
| Other expenses                   | 21,600         | 8,470          | 13,130  |
| Total Streets                    | <u>458,300</u> | <u>478,693</u> | <u>(20,393)</u>                                 |
| <b>Sanitation:</b>               |                |                |   |
| Salaries and wages               | 206,958        | 212,279        | (5,321)   |
| Payroll tax expense              | 18,564         | 17,449         | 1,115   |
| Employee benefits                | 86,000         | 80,487         | 5,513   |
| Gasoline and oil                 | 23,400         | 23,023         | 377   |
| Truck repairs and maintenance    | 13,500         | 11,587         | 1,913   |
| Workmen's compensation insurance | 27,800         | 35,803         | (8,003)   |
| Hauling and dumping expense      | 190,000        | 198,155        | (8,155)   |
| Insurance                        | 25,000         | 32,109         | (7,109)   |
| Uniforms                         | 7,000          | 9,955          | (2,955)   |
| Utilities                        | -              | 7,453          | (7,453)   |
| Garage expenses                  | 6,000          | 4,037          | 1,963   |
| <b>Debt service:</b>             |                |                |   |
| Interest expense                 | -              | 4,957          | (4,957)   |
| Principal retirement             | 36,000         | 93,825         | (57,825)  |
| Other expenses                   | 13,600         | 10,792         | 2,808   |
| Total Sanitation                 | <u>653,822</u> | <u>741,911</u> | <u>(88,089)</u>                                 |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2008

|  | <u>Budget</u>    | <u>Actual</u>     | Variance<br>Favorable<br>(Unfavorable) |
|--|------------------|-------------------|--|
| <b>Country Club:</b>   |                  |                   |  |
| Salaries and wages   | 138,414          | 132,364           | 6,050                                  |
| Payroll tax expense  | 13,974           | 11,585            | 2,389                                  |
| Employee benefits  | 26,000           | 22,346            | 3,654                                  |
| Workmen's compensation insurance   | 8,400            | 10,084            | (1,684)                                |
| Maintenance and repairs  | 10,000           | 14,987            | (4,987)                                |
| Gasoline and oil   | 13,500           | 16,786            | (3,286)                                |
| Insurance  | 14,200           | 11,798            | 2,402                                  |
| Utilities and telephone  | 15,200           | 55,359            | (40,159)                               |
| Equipment rental   | -                | 11,305            | (11,305)                               |
| Debt service:  |                  |                   |  |
| Interest expense   | -                | 3,470             | (3,470)                                |
| Principal retirement   | 22,500           | 46,808            | (24,308)                               |
| Other expenses   | 10,100           | 32,099            | (21,999)                               |
| Total Country Club   | <u>272,288</u>   | <u>368,991</u>    | <u>(96,703)</u>                        |
| <b>Entrepreneur Center:</b>  |                  |                   |  |
| Marketing  | 4,703            | 5,000             | (297)                                  |
| Travel   | 777              | 2,139             | (1,362)                                |
| Office expense   | 9,308            | 4,918             | 4,390                                  |
| Equipment lease expense  | 1,611            | 1,092             | 519                                    |
| Insurance  | 1,037            | 1,219             | (182)                                  |
| Utilities and telephone  | 49,094           | 49,414            | (320)                                  |
| Capital expenditures   | 2,912            | -                 | 2,912                                  |
| Debt service:  |                  |                   |  |
| Interest expense   | -                | 29,333            | (29,333)                               |
| Principal retirement   | 46,000           | 22,192            | 23,808                                 |
| Other expenses   | 1,510            | 7,864             | (6,354)                                |
| Total Entrepreneur Center  | <u>116,952</u>   | <u>123,171</u>    | <u>(6,219)</u>                         |
| <b>Total Expenditures</b>  | <u>4,882,552</u> | <u>5,851,043</u>  | <u>(968,491)</u>                       |
| <b>Revenues over (under) expenditures</b>  | <u>37,448</u>    | <u>(537,223)</u>  | <u>(574,671)</u>                       |
| <b>Other Financing Sources/(Uses):</b>   |                  |                   |  |
| Operating transfers  | -                | 34,199            | 34,199                                 |
| Proceeds from sale of assets   | -                | 55,400            | 55,400                                 |
| Proceeds from borrowing  | -                | 515,889           | 515,889                                |
| Total Other Financing Uses   | <u>-</u>         | <u>605,488</u>    | <u>605,488</u>                         |
| <b>Revenues Over/(Under) Expenditures and<br/>Other Financing Sources/(Uses)</b> | <u>\$ 37,448</u> | 68,265            | <u>\$ 30,817</u>                       |
| <b>Fund Balance at Beginning of Year</b>   |                  | <u>350,506</u>    |  |
| <b>Fund Balance at End of Year</b>   |                  | <u>\$ 418,771</u> |  |

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 PAINTSVILLE TOURISM COMMISSION  
 FOR THE YEAR ENDED JUNE 30, 2008

|                                | <u>Budget</u>  | <u>Actual</u>  | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|--------------------------------|----------------|----------------|---|
| <b>Revenues:</b>               |                |                |   |
| Taxes:                         |                |                |   |
| Restaurant tax                 | \$ 620,000     | \$ 643,478     | \$ 23,478                                       |
| Room occupancy tax             | 55,000         | 69,542         | 14,542  |
| Country Music Museum:          |                |                |   |
| Gift Shop/Rental/Ticket Sales  | 40,000         | 39,417         | (583)   |
| Interest earned on investments | -              | 3,453          | 3,453   |
| Miscellaneous revenues         | -              | 8,182          | 8,182   |
|                                | <u>715,000</u> | <u>764,072</u> | <u>49,072</u>                                   |
| <b>Expenditures:</b>           |                |                |   |
| Salaries and wages             | 266,625        | 209,119        | 57,506  |
| Payroll tax expense            | -              | 17,507         | (17,507)  |
| Employee benefits              | -              | 48,166         | (48,166)  |
| Administration                 | 17,125         | 17,396         | (271)   |
| Travel                         | 8,000          | 1,720          | 6,280   |
| Telephone and utilities        | 47,000         | 43,058         | 3,942   |
| Donations                      | 150,000        | 111,897        | 38,103  |
| Entertainment                  | 2,000          | 575            | 1,425   |
| Equipment lease                | 2,000          | 1,691          | 309   |
| Postage                        | -              | 2,980          | (2,980)   |
| General office expense         | 5,000          | 5,303          | (303)   |
| Janitorial                     | 4,000          | 2,186          | 1,814   |
| Gift shop expense              | 27,000         | 15,579         | 11,421  |
| Advertising and promotional    | 25,000         | 12,963         | 12,037  |
| Membership dues                | 5,000          | 2,345          | 2,655   |
| Van and bus expense            | 5,000          | 2,244          | 2,756   |
| Legal and professional expense | 33,000         | 14,063         | 18,937  |
| Taxes and licenses             | 2,000          | 1,555          | 445   |
| Maintenance and repairs        | 20,000         | 14,239         | 5,761   |
| Mountain Homeplace             | 70,000         | 80,000         | (10,000)  |
| Bank charges                   | -              | 334            | (334)   |
| Insurance                      | 25,000         | 40,469         | (15,469)  |
| Security                       | 2,000          | 1,038          | 962   |
| Special events expense         | -              | 861            | (861)   |
| Other expense                  | 24,250         | 29,530         | (5,280)   |
| Capital outlay                 | 25,000         | 24,105         | 895   |
|                                | <u>765,000</u> | <u>700,923</u> | <u>64,077</u>                                   |
| Total expenditures             |                |                |   |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
BUDGETARY COMPARISON SCHEDULE (Continued)  
PAINTSVILLE TOURISM COMMISSION  
FOR THE YEAR ENDED JUNE 30, 2008

|   |                 |                   |                   |
|---|-----------------|-------------------|-------------------|
| Excess (deficiency) of revenues over expenditures | <u>(50,000)</u> | <u>63,149</u>     | <u>113,149</u>    |
| <b>Other financing sources (uses):</b>            |                 |                   |                   |
| Operating transfers                               | <u>-</u>        | <u>-</u>          | <u>-</u>          |
| Total other financing sources (uses)              | <u>-</u>        | <u>-</u>          | <u>-</u>          |
| Net change in fund balances                       | (50,000)        | 63,149            | <u>\$ 113,149</u> |
| Fund balances - beginning                         | <u>50,000</u>   | <u>230,549</u>    |                   |
| <b>Fund balances - ending</b>                     | <u>\$ -</u>     | <u>\$ 293,698</u> |                   |

See accompanying notes to basic financial statements.

**SUPPLEMENTARY  
AND  
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY  
 COMBINING BALANCE SHEET  
 NON-MAJOR FUNDS  
 JUNE 30, 2008

|  | Special Revenue Funds                           |                               |                 | Total<br>Non-Major<br>Governmental<br>Funds |
|--|---|-------------------------------|-----------------|---|
|  | Coal and<br>Mineral<br>Tax<br>Severance<br>Fund | Municipal<br>Road Aid<br>Fund | 911<br>Fund     |   |
| <b>ASSETS</b>                              |   |                               |                 |   |
| Cash and cash equivalents                  | \$ 7,565  | \$ 919                        | \$ 7,767        | \$ 16,251                                   |
| Total Assets                               | <u>\$ 7,565</u>                                 | <u>\$ 919</u>                 | <u>\$ 7,767</u> | <u>\$ 16,251</u>                            |
| <b>LIABILITIES AND FUND BALANCES</b>       |   |                               |                 |   |
| <b>Liabilities:</b>                        |   |                               |                 |   |
| Accounts payable                           | \$ 7,295  | \$ 1,089                      | \$ 8,811        | \$ 17,195                                   |
| Accrued vacation                           | -   | -                             | 2,718           | 2,718                                       |
| Total Liabilities                          | <u>7,295</u>                                    | <u>1,089</u>                  | <u>11,529</u>   | <u>19,913</u>                               |
| <b>Fund Balances:</b>                      |   |                               |                 |   |
| Unreserved                                 | <u>270</u>                                      | <u>(170)</u>                  | <u>(3,762)</u>  | <u>(3,662)</u>                              |
| Total Fund Balances                        | <u>270</u>                                      | <u>(170)</u>                  | <u>(3,762)</u>  | <u>(3,662)</u>                              |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 7,565</u>                                 | <u>\$ 919</u>                 | <u>\$ 7,767</u> | <u>\$ 16,251</u>                            |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 NON-MAJOR FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

|  | Special Revenue Funds                           |                               |                   | Total<br>Non-Major<br>Governmental<br>Funds |
|--|---|-------------------------------|-------------------|---|
|  | Coal and<br>Mineral<br>Tax<br>Severance<br>Fund | Municipal<br>Road Aid<br>Fund | 911<br>Fund       |   |
| <b>Revenues:</b>                                     |   |                               |                   |   |
| Intergovernmental revenues                           | \$ 67,951                                       | \$ 75,900                     | \$ -              | \$ 143,851                                  |
| Charges for services                                 | -   | -                             | 324,387           | 324,387                                     |
| Investment income                                    | 34  | 50                            | 10                | 94  |
| <b>Total revenues</b>                                | <b>67,985</b>                                   | <b>75,950</b>                 | <b>324,397</b>    | <b>468,332</b>                              |
| <b>Expenditures:</b>                                 |   |                               |                   |   |
| Public safety  | -   | -                             | 305,839           | 305,839                                     |
| Streets  | 57,638  | 93,589                        | -                 | 151,227                                     |
| Debt service:  |   |                               |                   |   |
| Interest expense                                     | -   | -                             | 4,355             | 4,355                                       |
| Principal retirement                                 | -   | -                             | 32,869            | 32,869                                      |
| Capital outlay                                       | 32,120  | -                             | -                 | 32,120                                      |
| <b>Total expenditures</b>                            | <b>89,758</b>                                   | <b>93,589</b>                 | <b>343,063</b>    | <b>526,410</b>                              |
| Excess (deficiency) of revenues<br>over expenditures | (21,773)  | (17,639)                      | (18,666)          | (58,078)                                    |
| <b>Other financing sources (uses):</b>               |   |                               |                   |   |
| Operating transfers                                  | (33,000)  | (1,199)                       | -                 | (34,199)                                    |
| <b>Total other financing sources (uses)</b>          | <b>(33,000)</b>                                 | <b>(1,199)</b>                | <b>-</b>          | <b>(34,199)</b>                             |
| Net change in fund balances                          | (54,773)  | (18,838)                      | (18,666)          | (92,277)                                    |
| Fund balances - beginning as restated                | 55,043  | 18,668                        | 14,904            | 88,615                                      |
| <b>Fund balances - ending</b>                        | <b>\$ 270</b>                                   | <b>\$ (170)</b>               | <b>\$ (3,762)</b> | <b>\$ (3,662)</b>                           |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 SCHEDULE OF SAVINGS ACCOUNT INVESTMENTS  
 FOR THE YEAR ENDED JUNE 30, 2008

|                               | TOTAL<br>INVESTED<br>FUNDS | GENERAL<br>FUND  | 911<br>FUND     | COAL AND<br>MINERAL<br>SEVERANCE<br>TAX | MUNICIPAL<br>ROAD AID<br>FUND |
|-------------------------------|----------------------------|------------------|-----------------|---|-------------------------------|
| <b>BALANCE, JUNE 30, 2007</b> | \$ 93,032                  | \$ 77,757        | \$ 999          | \$ 5,728                                | \$ 8,548                      |
| <b>RECEIPTS:</b>              |                            |                  |                 |   |                               |
| Interest earned               | 341                        | 247              | 10              | 34                                      | 50                            |
| Other                         | -                          | -                | -               | -                                       | -                             |
| Transfers                     | -                          | -                | -               | -                                       | -                             |
|                               | <u>341</u>                 | <u>247</u>       | <u>10</u>       | <u>34</u>                               | <u>50</u>                     |
| <b>TOTAL AVAILABLE FUNDS</b>  | 93,373                     | 78,004           | 1,009           | 5,762                                   | 8,598                         |
| <b>DISBURSEMENTS:</b>         |                            |                  |                 |   |                               |
| Transfers                     | 73,235                     | 65,235           | -               | -                                       | 8,000                         |
|                               | <u>73,235</u>              | <u>65,235</u>    | <u>-</u>        | <u>-</u>                                | <u>8,000</u>                  |
| <b>BALANCE, JUNE 30, 2008</b> | <u>\$ 20,138</u>           | <u>\$ 12,769</u> | <u>\$ 1,009</u> | <u>\$ 5,762</u>                         | <u>\$ 598</u>                 |

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL  
JUNE 30, 2008

CITY COUNCIL

NAME

John Bland  
Fran Jarrell  
Mark McKenzie  
David Trimble  
Bill Mike Runyon  
Jim Meek

ADMINISTRATIVE PERSONNEL

NAME

Bob Porter  
Virgie Castle  
Donna Wiete  
Jackie Miller  
Jeffrey M. Baldwin

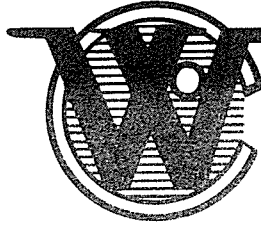
Mayor  
City Clerk  
Finance Officer  
City Treasurer  
City Attorney

**CITY OF PAINTSVILLE, KENTUCKY**  
**SCHEDULE OF INSURANCE**  
**JUNE 30, 2008**

| <u>Insurance Company</u> | <u>Coverage</u>                               | <u>Amount of Coverage</u> | <u>Policy Expiration</u> |
|--------------------------|---|---------------------------|--------------------------|
| KLC Insurance Agency     | Commercial Property Coverage                  | \$10,892,158              | 7/1/09                   |
| KLC Insurance Agency     | Workers Compensation                          | 4,000,000                 | 7/1/09                   |
| KLC Insurance Agency     | Automobile Property and Liability             | 1,000,000                 | 7/1/09                   |
| KLC Insurance Agency     | Public Officials Liability                    | 1,000,000                 | 7/1/09                   |
| KLC Insurance Agency     | Law Enforcement Liability                     | 1,000,000                 | 7/1/09                   |
| KLC Insurance Agency     | General Liability                             | 1,000,000                 | 7/1/09                   |
| The Hartford             | Flood Damage                                  |                           |                          |
|                          | Community Center                              | 171,400                   | 1/19/09                  |
|                          | City Hall                                     | 300,000                   | 12/5/09                  |
| Wells Insurance          | Surety Bonds                                  |                           |                          |
|                          | City Clerk, Treasurer, and<br>Finance Officer | 25,000                    | 4/14/09<br>8/20/08       |
| Elite Insurance          | Surety Bonds                                  |                           |                          |
|                          | Assistant Clerk                               | 25,000                    | 7/10/08                  |



**MANAGEMENT LETTER**



**WELLS & COMPANY, P.S.C.**

*Certified Public Accountants*

865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

(606) 789-3588  
Fax (606) 789-3326

October 14, 2008

**HONORABLE MAYOR AND CITY COUNCIL**  
Paintsville, Kentucky

In planning and performing our audit of the financial statements of the City of Paintsville, Kentucky ("City") for the year ended June 30, 2008, we considered the City's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. Our objective was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operations. The comments accompanying this letter summarize our findings and suggestions regarding those matters. A separate report dated October 14, 2008 contains our 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. This letter does not affect our report dated October 14, 2008 on the financial statements of the City of Paintsville, Kentucky.

We have already discussed these comments and suggestions with City's personnel, and we will be pleased to discuss them in further detail at your convenience, or to perform any additional study of these matters, or to assist you in implementing any of the recommendations.

Also, we would like to thank management and the City's team members for the cooperation and courtesy extended to us during our audit.

*Wells & Company, P.S.C.*

Certified Public Accountants  
Paintsville, Kentucky  
October 14, 2008

**2008-1 TRAVEL ADVANCES**

Numerous travel advances to employees did not have receipts supporting the amount of the advances given, and funds were not returned to the City for advances in excess of receipts. City policy requires all personnel to submit within three working days after returning from travel, all receipts backing up the use of the advanced funds. Any advanced funds in excess of receipts are to be returned to the City. The City should discontinue travel advances. All travel should be paid by employees out of their own pocket and submit the receipts for reimbursement. Typically, employees will show more due diligence when they need to be reimbursed for money spent out of their own pocket.

Management Comment: Management of the City has subsequently discontinued travel advances.

**2008-2 MILEAGE REIMBURSEMENT**

City personnel have been charging fuel for their personal vehicles using the City credit card and then claiming mileage reimbursement for the same trips. City personnel can either be reimbursed for mileage for the business use of their personal vehicle or the City can pay actual costs, but not both. It is recommended for the city to adhere to one method for the business use of personal vehicles.

Management Comment: Management of the City concurs.

**2008-3 CREDIT CARD RECEIPTS**

Several credit card transactions did not have the required receipts attached. All credit card transactions are to have receipts in support of the purchases. It is recommended for credit card receipts to be turned into the city treasurer as soon as possible; credit card transactions without supporting receipts should be the personal responsibility of the user.

Management Comment: Management of the City concurs

**2008-04 ACCOUNTS PAYABLE**

It was noted during the audit that loan payments due were recorded in accounts payable. The liability for the loan payments is already on the balance sheet. The treasurer was putting the loan payment in accounts payable to remind her to pay it by the due date. However, this overstates the accounts payable. It is okay to make the loan payment through the accounts payable function, but it is recommended not to load the loan payment in accounts payable until the day it is to be paid.

**Management Response:**

Management of the City of Paintsville, Kentucky concurs.

**2008-05 FLEET ONE FUEL ACCOUNTS**

It is recommended that internal controls be strengthened over Fleet One fuel card usage. Periodic reviews of odometer readings from Fleet One reports should be compared to actual vehicle odometers to check for consistency. Also, one could compare gallons purchased from Fleet One reports to number of gallons a particular vehicle could actually hold to be sure that only the city vehicle is being filled up.

Management Response:

Management of the City of Paintsville, Kentucky concurs and will strengthen internal controls.

**2008-06 BONDING OF MAYOR**

It was noted during the audit that the mayor had not been bonded. It is recommended that the mayor be bonded.

Management Response:

Management of the City of Paintsville, Kentucky concurs with the finding and will obtain bonding for the mayor.

**2008-07 EMPLOYEE PAID HEALTH INSURANCE**

There was a liability on the balance sheet for health insurance which was actually the employee paid portion accumulating throughout the year. When the health insurance bill was paid, it was all expensed to the various departments which overstated the city's share of the health insurance cost because part of the bill was for the employee paid portion. It is recommended that the employee paid portion of the health insurance not be recorded in expense but adjusted through the health insurance liability account.

Management Response:

Management of the City of Paintsville, Kentucky concurs and will make the adjustments.

**2008-08 SAVINGS ACCOUNTS**

The savings accounts that the City maintains are not being reconciled to the ledger. It is recommended that the savings accounts be reconciled monthly or quarterly when needed to the general ledger.

Management Response:

Management of the City of Paintsville, Kentucky will begin reconciling the savings to the ledger.

**2008-09 MAYOR EXPENSES**

It is recommended the city council and the office of the mayor and finance officer work together towards updating the city policy manual defining how budgeted funds for mayoral expenses can be utilized. Currently, there is no policy on how these funds can be used. Specifically, travel and meals should be addressed in order to eliminate any doubt over what expenses are allowed or non-allowed. The policy should also address any other areas of expenditures for allowableness and reasonableness.

Management Response:

Management of the City of Paintsville, Kentucky concurs.