

CITY OF PAINTSVILLE, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

(606) 789-3588

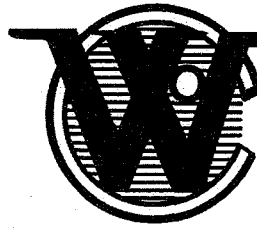
TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
AUDITED FINANCIAL STATEMENTS	
Statement Of Net Position.....	3
Statement Of Activities.....	4
Balance Sheet.....	5
Reconciliation Of The Balance Sheet Of Governmental Funds To The Statement Of Net Position	6
Statement Of Revenues, Expenditures, And Changes In Fund Balances.....	7
Reconciliation Of The Statement Of Revenues, Expenditures, And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities	8
Statement Of Net Position – Proprietary Fund	9
Statement Of Revenues, Expenses And Changes In Net Position – Proprietary Fund	11
Statement Of Cash Flows – Proprietary Fund.....	12
Notes To Financial Statements	14-36
AUDITOR'S REPORTS	
Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	37
Independent Auditor's Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance Required By The Uniform Guidance.....	39
Schedule Of Findings And Questioned Costs.....	41
Schedule Of Prior Audit Findings.....	43
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund.....	44
Budgetary Comparison Schedule – Tourism Fund	48

Schedule Of The City's Proportionate Share Of The Net Pension Liability (CERS).....	50
Schedule Of City Pension Contributions (CERS).....	51
Notes To Required Pension Supplementary Information (CERS).....	52
Schedule Of The City's Proportionate Share Of The Net OPEB Liability (CERS).....	53
Schedule Of City OPEB Contributions (CERS).....	54
Notes To Required OPEB Supplementary Information (CERS).....	55

SUPPLEMENTARY AND OTHER INFORMATION

Combining Balance Sheet – Non-Major Funds	56
Combining Statement Of Revenues, Expenditures, And Changes In Fund Balances – Non-Major Funds.....	57
Schedule of Expenditures Of Federal Awards.....	58
Notes To Schedule Of Expenditures Of Federal Awards.....	59



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

INDEPENDENT AUDITOR'S REPORT

The Honorable Bill Mike Runyon, Mayor
Members of the City Council
City of Paintsville, Kentucky

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the City of Paintsville, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 44-49 and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 50 and 51, respectively, and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net OPEB Liability and Contributions, on pages 53 and 54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2019 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 solely 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 effectiveness of the City of Paintsville, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Paintsville, Kentucky's internal control over financial reporting and compliance.

Wells & Company, PSC
Certified Public Accountants
Paintsville, Kentucky
December 27, 2019

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019

3

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,188,209	\$ 3,902,315	\$ 6,090,524
Certificates of deposit	101,640	1,819,501	1,921,141
Taxes receivable	91,921	-	91,921
Accounts receivable	120,265	797,824	918,089
Grants receivable	101,230	26,832	128,062
Other receivable	66,699	-	66,699
Due from Paintsville Utilities	65,279	-	65,279
Unbilled revenues	-	287,570	287,570
Inventory	-	200,155	200,155
Prepaid items	-	136,957	136,957
Capital assets:			
Land and construction-in-progress	1,858,113	8,742,886	10,600,999
Other capital assets, net of accumulated depreciation	7,128,362	73,253,577	80,381,939
Total Assets	11,721,718	89,167,617	100,889,335
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pensions & OPEB	1,957,427	1,190,789	3,148,216
LIABILITIES			
Accounts payable	144,412	201,082	345,494
Retainage payable	-	127,473	127,473
Accrued payroll taxes	43,191	9,375	52,566
Accrued vacation	57,856	45,972	103,828
Other accrued liabilities	79,105	338,949	418,054
Customer meter deposits payable	-	678,059	678,059
Interest payable on customer meter deposits	-	271,009	271,009
Long-term liabilities:			
Net pension liability	6,524,239	3,826,782	10,351,021
Net OPEB liability	1,901,912	1,115,570	3,017,482
Due within one year	212,671	4,169,766	4,382,437
Due in more than one year	1,249,633	23,653,815	24,903,448
Total Liabilities	10,213,019	34,437,852	44,650,871
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pensions & OPEB	576,520	370,127	946,647
NET POSITION			
Net investment in capital assets	7,524,171	54,172,882	61,697,053
Restricted for:			
Public safety	1,334	-	1,334
Streets	143,353	-	143,353
Tourism	204,918	-	204,918
Debt service	46,029	554,126	600,155
Equipment replacement	-	152,367	152,367
Depreciation	-	1,118,540	1,118,540
Other purposes	27,437	621,019	648,456
Unrestricted (deficit)	(5,057,636)	(1,068,507)	(6,126,143)
Total Net Position	\$ 2,889,606	\$ 55,550,427	\$ 58,440,033

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,138,341	\$ 151,300	\$ -	\$ 104,222	\$ (882,819)	\$ -	\$ (882,819)
Public safety	3,879,524	1,724,158	26,502	128,943	(1,999,921)	-	(1,999,921)
Recreation	803,790	209,364	-	-	(594,426)	-	(594,426)
Streets	613,387	-	-	25,500	(587,887)	-	(587,887)
Sanitation	745,862	786,456	-	-	40,594	-	40,594
Tourism	643,886	34,637	-	-	(609,249)	-	(609,249)
Interest on long-term debt	70,258	-	-	-	(70,258)	-	(70,258)
Total governmental activities	<u>7,895,048</u>	<u>2,905,915</u>	<u>26,502</u>	<u>258,665</u>	<u>(4,703,966)</u>	<u>-</u>	<u>(4,703,966)</u>
Business-type activities:							
Water, gas, and sewer	9,613,239	8,824,262	-	1,964,621	-	1,175,644	1,175,644
Total business-type activities	<u>9,613,239</u>	<u>8,824,262</u>	<u>-</u>	<u>1,964,621</u>	<u>-</u>	<u>1,175,644</u>	<u>1,175,644</u>
Total primary government	<u>\$ 17,508,287</u>	<u>\$ 11,730,177</u>	<u>\$ 26,502</u>	<u>\$ 2,223,286</u>	<u>(4,703,966)</u>	<u>1,175,644</u>	<u>(3,528,322)</u>
General revenues:							
Property taxes					583,073	-	583,073
Occupational taxes					1,662,568	-	1,662,568
Insurance premium taxes					503,118	-	503,118
Motor vehicle taxes					28,367	-	28,367
Restaurant taxes					720,568	-	720,568
Room occupancy taxes					62,006	-	62,006
Franchise fees and taxes					152,404	-	152,404
Payments in lieu of taxes					28,904	-	28,904
ABC fees					152,405	-	152,405
Licenses and permits					5,778	-	5,778
Intergovernmental revenue					374,731	-	374,731
Interest income					3,779	30,049	33,828
Gain/(Loss) on sale of capital assets					11,278	-	11,278
Net increase (decrease) in fair value of investments					-	12,764	12,764
Donation/contributions					82,261	-	82,261
Miscellaneous					152,553	-	152,553
Total general revenues and transfers					<u>4,523,793</u>	<u>42,813</u>	<u>4,566,606</u>
Change in net position					(180,173)	1,218,457	1,038,284
Net position - beginning					<u>3,069,779</u>	<u>54,331,970</u>	<u>57,401,749</u>
Net position - ending					<u>\$ 2,889,606</u>	<u>\$ 55,550,427</u>	<u>\$ 58,440,033</u>

**CITY OF PAINTSVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

5

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,643,031	\$ 114,712	\$ 430,466	\$ 2,188,209
Certificate of deposit	-	101,640	-	101,640
Receivables:				
Property taxes	2,096	-	-	2,096
Accounts	120,265	-	-	120,265
Grants	101,230	-	-	101,230
Other	66,699	-	-	66,699
Due from Paintsville Utilities	65,279	-	-	65,279
Due from 911 Fund	244,092	-	-	244,092
Due from Tourism	4,733	-	-	4,733
Due from General Fund	-	-	7,521	7,521
Total Assets	<u><u>\$ 2,247,425</u></u>	<u><u>\$ 216,352</u></u>	<u><u>\$ 437,987</u></u>	<u><u>\$ 2,901,764</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 122,052	\$ 2,769	\$ 19,591	\$ 144,412
Accrued payroll taxes	39,259	3,932	-	43,191
Accrued vacation	54,342	-	3,514	57,856
Accrued retirement	56,406	-	-	56,406
Due to General Fund	-	4,733	244,092	248,825
Due to Coal & Mineral Fund	7,521	-	-	7,521
Total Liabilities	<u>279,580</u>	<u>11,434</u>	<u>267,197</u>	<u>558,211</u>
Fund Balances:				
Restricted for:				
Public Safety	1,334	-	-	1,334
Streets	-	-	143,353	143,353
Tourism	-	204,918	-	204,918
Debt Service	46,029	-	-	46,029
Other	-	-	27,437	27,437
Unassigned	1,920,482	-	-	1,920,482
Total Fund Balances	<u>1,967,845</u>	<u>204,918</u>	<u>170,790</u>	<u>2,343,553</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,247,425</u></u>	<u><u>\$ 216,352</u></u>	<u><u>\$ 437,987</u></u>	<u><u>\$ 2,901,764</u></u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

6

Fund Balances - Total Governmental Funds \$ 2,343,553

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds

Governmental capital assets	18,608,247
Less: accumulated depreciation	(9,621,772)

Pension & OPEB contributions after measurement date are reported as a deferred outflow of resources:	565,241
--	---------

Other OPEB related accruals	(22,699)
-----------------------------	----------

Net pension & net OPEB liability is not due and payable in the current period and, therefore, is not reported in governmental funds:	(8,426,151)
--	-------------

Pension & OPEB related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore are not reported in the governmental funds, as follows:

Deferred pension & OPEB outflows of resources	1,392,186
Deferred pension & OPEB inflows of resources	(576,520)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Bond payable	(920,000)
Bond discount	16,287
Loans payable	(402,435)
Leases payable	(156,156)

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Delinquent property taxes	89,825
---------------------------	--------

Net Position of Governmental Activities	\$ 2,889,606
--	---------------------

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

7

	General Fund	Paintsville Tourism	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 570,657	\$ -	\$ -	\$ 570,657
Occupational	1,662,568	-	-	1,662,568
Insurance premium	503,118	-	-	503,118
Motor vehicle	28,367	-	-	28,367
Franchise	114,191	-	-	114,191
Restaurant	-	720,568	-	720,568
Room occupancy	-	62,006	-	62,006
Payments in lieu of taxes	28,904	-	-	28,904
ABC fees	152,405	-	-	152,405
Franchise fees	38,213	-	-	38,213
Licenses and permits	5,778	-	-	5,778
Intergovernmental revenues	229,080	-	145,651	374,731
Grants	180,167	-	105,000	285,167
Charges for services	2,532,934	34,637	338,344	2,905,915
Interest income	2,705	1,073	1	3,779
Contributions	82,261	-	-	82,261
Miscellaneous revenues	74,246	52,131	-	126,377
Total revenues	6,205,594	870,415	588,996	7,665,005
Expenditures:				
Current:				
General government	983,964	-	-	983,964
Public safety	2,779,857	-	453,964	3,233,821
Recreation	702,415	-	709	703,124
Streets	436,060	-	20,147	456,207
Sanitation	645,325	-	3,905	649,230
Tourism	-	508,704	-	508,704
Debt service:				
Principal	165,445	26,042	-	191,487
Interest	63,508	5,744	-	69,252
Capital outlay	433,995	35,988	160,762	630,745
Total expenditures	6,210,569	576,478	639,487	7,426,534
Excess of revenues over (under) expenditures	(4,975)	293,937	(50,491)	238,471
Other financing sources (uses):				
Operating transfers in	277,770	-	-	277,770
Operating transfers out	(118,839)	(277,770)	118,839	(277,770)
Intragovernmental forgiveness of debt	(532,643)	-	532,643	-
Proceeds from sale of capital assets	30,685	-	-	30,685
Proceeds from insurance	14,259	11,917	-	26,176
Proceeds from borrowing	260,057	-	-	260,057
Total other financing sources (uses)	(68,711)	(265,853)	651,482	316,918
Net change in fund balances	(73,686)	28,084	600,991	555,389
Fund balances - beginning	2,041,531	176,834	(430,201)	1,788,164
Fund balances - ending	\$ 1,967,845	\$ 204,918	\$ 170,790	\$ 2,343,553
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, 2019

8

Net Change in Fund Balances - Total Governmental Funds **\$ 555,389**

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	630,745
Depreciation expense	(607,367)

The net effect of various miscellaneous transactions involving capital assets:	(19,407)
--	----------

Revenues on the statement of activities that do not provide current
financial resources are not reported as revenues in governmental funds:

Increase/(decrease) in property taxes	12,416
---------------------------------------	--------

Changes in pension & OPEB expense are reported only in the statement of activities	(682,373)
--	-----------

Debt proceeds provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the Statement
of Net Position. Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities in
the Statement of Net Position. Also governmental funds report the
effect of issuance costs, premiums, discounts, and similar items when
debt is first issued, whereas these amounts are deferred and amortized
in the Statement of Activities. The details of these differences in the
treatment of long-term debt and related items are as follows:

Principal paid	191,487
Loan proceeds	(260,057)
Amortization of bond discount	(1,006)

Change in Net Position of Governmental Activities	<u>\$ (180,173)</u>
--	----------------------------

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND - PAINTSVILLE UTILITIES
JUNE 30, 2019**

9

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,000,696
Accounts receivable, net	797,824
Grants receivable	26,832
Unbilled revenues	287,570
Inventory	200,155
Prepaid items	136,957

Total current assets	3,450,034
-----------------------------	------------------

Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	335,825
Depreciation reserve fund	574,239
Equipment replacement fund	152,367
Operations and maintenance	839,188
Investments:	
Operations and maintenance	730,899
Debt service reserve fund	544,301
Depreciation reserve fund	544,301

Total restricted assets	3,721,120
--------------------------------	------------------

Capital assets:

Land and land improvements	816,089
Construction work in progress	7,926,797
Capital assets, net of depreciation	73,253,577

Total capital assets	81,996,463
-----------------------------	-------------------

Total assets	89,167,617
---------------------	-------------------

DEFERRED OUTFLOWS

Deferred outflows related to pensions	850,517
Deferred outflows related to OPEB	340,272

Total deferred outflows of resources	1,190,789
---	------------------

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION (Continued)
PROPRIETARY FUND - PAINTSVILLE UTILITIES
JUNE 30, 2019

LIABILITIES

Current liabilities:

Accounts payable	201,082
Retainage payable	127,473
Compensated absences	45,972
Accrued interest payable	193,176
Other accrued liabilities	155,148
Current portion of long-term liabilities	3,783,766
Current portion of capital lease obligations	60,000

Total current liabilities	4,566,617
----------------------------------	------------------

Payable from restricted assets:

Current portion of bonds	326,000
Customer meter deposits	678,059
Interest payable on customer meter deposits	271,009

Total liabilities payable from restricted assets	1,275,068
---	------------------

Long-term liabilities:

Net pension liability	3,826,782
Net OPEB liability	1,115,570
Bonds payable, net of premium	17,287,500
Notes payable	10,461,081
Capital lease obligations	75,000
	32,765,933
Less current portion	(4,169,766)

Total long-term liabilities	28,596,167
------------------------------------	-------------------

Total liabilities	34,437,852
--------------------------	-------------------

DEFERRED INFLOWS

Deferred inflows related to pensions	158,434
Deferred inflows related to OPEB	211,693

Total deferred inflows of resources	370,127
--	----------------

NET POSITION:

Net investment in capital assets	54,172,882
Restricted	
Debt service	554,126
Depreciation	1,118,540
Equipment replacement	152,367
Operations and maintenance	621,019
Unrestricted	(1,068,507)
Total net position	\$ 55,550,427

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND - PAINTSVILLE UTILITIES
FOR THE YEAR ENDED JUNE 30, 2019

Operating revenues:

Gas revenues	\$ 2,112,646
Water revenues	4,125,418
Wastewater revenues	2,129,032
Other operating revenues	<u>457,166</u>

Total operating revenues	8,824,262
Cost of sales	<u>816,977</u>

Net operating revenues	<u>8,007,285</u>
-------------------------------	-------------------------

Operating expenses:

Salaries and wages	1,655,964
Payroll taxes	131,550
Employee pension and benefits	1,636,129
Materials and supplies	346,703
Legal and professional	107,729
Miscellaneous general expense	344,154
Telephone and utilities	830,400
Insurance	125,874
Motor vehicle expenses	217,315
Repairs and maintenance	315,823
Depreciation	<u>2,507,587</u>

Total operating expenses	<u>8,219,228</u>
---------------------------------	-------------------------

Utility operating income (loss)	<u>(211,943)</u>
--	-------------------------

Non-operating revenues (expenses):

Interest income	30,049
Interest expense	(510,900)
Net increase (decrease) in fair value of investments	<u>12,764</u>

Total non-operating revenues (expenses)	<u>(468,087)</u>
--	-------------------------

Net income (loss) before contributions from (to)	(680,030)
---	------------------

Contributions in aid of construction	1,964,621
Contribution to the City of Paintsville	<u>(66,134)</u>

Change in net position	1,218,457
Net position, beginning of year	<u>54,331,970</u>

Net position, end of year	<u>\$ 55,550,427</u>
----------------------------------	-----------------------------

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - PAINTSVILLE UTILITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Cash flows from operating activities:

Cash inflows:

Payments received from customers	<u>\$ 8,772,411</u>
----------------------------------	---------------------

Total cash provided	<u>8,772,411</u>
----------------------------	------------------

Cash outflows:

Payments for salaries and benefits	3,002,819
------------------------------------	-----------

Payments to suppliers for goods and services	<u>3,312,640</u>
--	------------------

Total cash used	<u>6,315,459</u>
------------------------	------------------

Net cash provided (used) by operating activities	<u>2,456,952</u>
---	------------------

Cash flows from noncapital financing activities:

Interest paid on customer deposits	<u>(8,879)</u>
------------------------------------	----------------

Net cash provided (used) by noncapital financing activities	<u>(8,879)</u>
--	----------------

Cash flows from capital and related financing activities:

Purchase and construction of utility plant	(4,259,928)
--	-------------

Proceeds from loans and bonds	6,240,460
-------------------------------	-----------

Principal payments on long-term debt	(6,279,401)
--------------------------------------	-------------

Payments on capital leases	(60,000)
----------------------------	----------

Interest paid on long-term debt and capital leases	(511,095)
--	-----------

Contributions-in-aid of construction	<u>1,969,898</u>
--------------------------------------	------------------

Net cash provided (used) by capital and related financing activities	<u>(2,900,066)</u>
---	--------------------

Cash flows from investing activities:

Interest received	<u>13,534</u>
-------------------	---------------

Net cash provided (used) by investing activities	<u>13,534</u>
---	---------------

Net cash inflow (outflow) from all activities

(438,459)

Cash and cash equivalents at beginning of period	<u>4,340,774</u>
--	------------------

Cash and cash equivalents at end of period	<u><u>\$ 3,902,315</u></u>
---	----------------------------

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

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

Utility operating income	\$ (211,943)
Depreciation and amortization	2,507,587
Contribution of utility services	(66,134)
(Increase) decrease in:	
Accounts receivable	(5,275)
Unbilled revenue	19,558
Inventory	(36,733)
Other assets and deferred outflows	92,856
Increase (decrease) in:	
Accounts payable	(128,672)
Accrued liabilities and other liabilities	285,708

Net cash provided (used) by operating activities

\$ 2,456,952

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 2,329,159
Restricted cash and cash equivalents	<u>2,011,615</u>

\$ 4,340,774

End of period:

Unrestricted cash and cash equivalents	\$ 2,000,696
Restricted cash and cash equivalents	<u>1,901,619</u>

\$ 3,902,315

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 Utilities
137 Main Street
Paintsville, Kentucky 41240

Paintsville Tourism Commission

Created to promote tourism in Paintsville and Johnson County, Kentucky. The governing body is composed of commissioners appointed by the Mayor. 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Position, 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 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. As permitted by generally accepted accounting principals, the City's Proprietary Funds has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 one Agency Fund for the Paintsville Independent School District's property and franchise tax collection deposits. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. Taxes are collected by the City and subsequently transmitted to the school district. The Agency Fund had no assets and no liabilities at June 30, 2019.

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 position 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 position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statements of net position, 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

F. Allowance for Uncollectible Accounts

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

Utility receivables at June 30, 2019, are net of allowance for uncollectable. The allowance for uncollectable was \$242,241 at June 30, 2019.

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	3-40 years
Equipment	3-20 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2019, 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 Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has deferred outflows of resources that relate to pension plan and OPEB reporting, see Notes 12 and 13.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The City has deferred inflows of resources that relate to pension plan and OPEB reporting, see Notes 12 and 13.

P. Fund Equity

In the fund financial statements, governmental fund balance is presented in five possible categories:

Nonspendable – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

Restricted – resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – resources which are subject to limitations the City imposes upon itself at its highest level of decision making, and that remain binding unless removed in the same manner.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned – resources neither restricted nor committed for which the City has a stated intended use as established by the City Council.

Unassigned – resources which cannot be properly classified in one of the other four categories.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Likewise, fund balances that are committed or assigned would be used first for their approved purposes. Unassigned fund balances would be used as needed.

NOTE 2. DEPOSITS AND INVESTMENTS

Under Kentucky Revised Statutes the City is allowed to invest in obligations of the U. S. Treasury and U. S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

The City invests surplus cash at local banks in the form of certificates of deposit, savings accounts, and money market accounts. This investment call subjects the City to custodial credit risk; however, the City considers this risk immaterial, and as such, the City does not have a formal investment policy to deal with such risk.

The City of Paintsville, Kentucky, categorizes deposits at local financial institutions to give an indication of the level of risk assumed by the City at fiscal year end. The categories are described as follows:

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

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

Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2018 are as follows:

Account	Bank Balance	Category			Carrying Amount
		1	2	3	
Cash	<u>\$8,702,709</u>	<u>\$2,504,152</u>	<u>\$5,793,141</u>	<u>\$405,416</u>	<u>\$8,011,665</u>

The City's deposits and investments are also subject to risks such as interest rate risk and concentration of credit risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a deposit or investment. Deposits and investments held for longer periods are subject to increased risk of adverse interest rate changes. The City has attempted to address this risk by maintaining its deposits in accounts that continually adjust the interest rate to the market. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City has addressed this risk by maintaining its deposits at financial institutions that are insured by the FDIC and by requiring additional collateral to cover deposits in excess of that amount.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

22

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.

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, consisted of the following:

Primary Government

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2019</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,744,049	\$ 101,596	\$ 19,407	\$ 1,826,238
Construction in progress	-	31,875	-	31,875
Total capital assets, not being depreciated	<u>1,744,049</u>	<u>133,471</u>	<u>19,407</u>	<u>1,858,113</u>
Capital assets, being depreciated:				
Buildings and improvements	8,099,873	26,475	-	8,126,348
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,873,026	243,057	269,709	2,846,374
Infrastructure	764,335	39,470	-	803,805
Machinery and equipment	4,028,902	188,272	94,133	4,123,041
Total capital assets being depreciated	<u>16,616,702</u>	<u>497,274</u>	<u>363,842</u>	<u>16,750,134</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,989,265)	(199,825)	-	(3,189,090)
Improvements other than buildings	(822,272)	(12,113)	-	(834,385)
Automobiles and trucks	(2,150,972)	(141,294)	(269,709)	(2,022,557)
Infrastructure	(331,973)	(62,996)	-	(394,969)
Machinery and equipment	(3,083,765)	(191,139)	(94,133)	(3,180,771)
Total accumulated depreciation	<u>(9,378,247)</u>	<u>(607,367)</u>	<u>(363,842)</u>	<u>(9,621,772)</u>
Total capital assets being depreciated, net	<u>7,238,455</u>	<u>(110,093)</u>	<u>-</u>	<u>7,128,362</u>
Governmental activities capital assets, net	<u>\$ 8,982,504</u>	<u>\$ 23,378</u>	<u>\$ 19,407</u>	<u>\$ 8,986,475</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 91,715
Public safety	197,322
Recreation	48,994
Streets	104,604
Sanitation	39,814
Tourism	124,918
Total	<u>\$ 607,367</u>

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

23

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Balance July 1, 2018	Additions	Retirements	Balance June 30, 2019
Capital assets, not being depreciated:				
Land and land improvements	\$ 816,089	\$ -	\$ -	\$ 816,089
Construction in progress	<u>5,713,223</u>	<u>3,247,876</u>	<u>1,034,302</u>	<u>7,926,797</u>
Total capital assets, not being depreciated	<u>6,529,312</u>	<u>3,247,876</u>	<u>1,034,302</u>	<u>8,742,886</u>
Capital assets, being depreciated:				
Buildings and improvements	1,098,416	11,739	13,285	1,096,870
Utility plants	104,270,072	1,559,797	432,718	105,397,151
Automobiles and trucks	1,215,574	-	415,473	800,101
Machinery and equipment	<u>447,910</u>	<u>18,477</u>	<u>147,876</u>	<u>318,511</u>
Total capital assets being depreciated	<u>107,031,972</u>	<u>1,590,013</u>	<u>1,009,352</u>	<u>107,612,633</u>
Less accumulated depreciation for:				
Buildings and improvements	(333,830)	(24,691)	(13,285)	(345,236)
Utility plants	(31,263,729)	(2,374,417)	(432,718)	(33,205,428)
Automobiles and trucks	(883,209)	(85,750)	(415,473)	(553,486)
Machinery and equipment	<u>(380,053)</u>	<u>(22,729)</u>	<u>(147,876)</u>	<u>(254,906)</u>
Total accumulated depreciation	<u>(32,860,821)</u>	<u>(2,507,587)</u>	<u>(1,009,352)</u>	<u>(34,359,056)</u>
Total capital assets being depreciated, net	<u>74,171,151</u>	<u>(917,574)</u>	<u>-</u>	<u>73,253,577</u>
Total capital assets, net	<u>\$ 80,700,463</u>	<u>\$ 2,330,302</u>	<u>\$ 1,034,302</u>	<u>\$ 81,996,463</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 2,507,587</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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

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 the leases have been recorded at the present value of their future minimum lease payments as of the inception date.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

24

NOTE 6. CAPITAL LEASES (Continued)

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2019, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2020	\$ 61,436	\$ 61,108
2021	31,940	15,032
2022	31,940	-
2023	31,940	-
2024	10,646	-
Total minimum lease payments	167,902	76,140
Less amount representing interest	(11,746)	(1,140)
Present value of net minimum lease payments	<u>\$ 156,156</u>	<u>\$ 75,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2019:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 284,830	\$1,070,990
Less accumulated depreciation	(70,151)	(837,157)
	<u>\$ 214,679</u>	<u>\$ 233,833</u>

	<u>Amount Outstanding 6/30/2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2019</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 57,118	\$ 145,057	\$ (46,019)	\$ 156,156	\$ 56,389
Business-type activities leases	\$ 135,000	\$ -	\$ (60,000)	\$ 75,000	\$ 60,000

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2019 consists of the following:

Governmental Activities

On July 15, 2010, the City purchased the Sipp Theatre from Charles and Olga Belhasen, Franklen and Loretta Belhasen, and Mark and Anita Colvin for the principal amount of \$150,000. The \$150,000 will be paid to the sellers in ten annual installments of \$15,000 of principal and the accrued interest beginning December 31, 2010 with final payment due on December 31, 2019. The loan bears interest at 4.00%.

On April 14, 2011, the City issued \$1,295,000 in Revenue Bonds (Series 2011 A) with variable interest. The proceeds were to be used for improvements to land that were set forth in an Agreement dated February 7, 2011 between the City and Midway College, Inc. and the refinancing of a loan with Citizens National Bank in Paintsville, Kentucky, the proceeds of which were used to finance the Entrepreneur Center.

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

25

NOTE 7. LONG-TERM DEBT (Continued)

On July 8, 2014, the City borrowed \$160,000 from Mountain Association for Community Economic Development, Inc. to upgrade city properties. The loan agreement provides for 120 monthly payments of \$1,821 to be made beginning August 8, 2014 with final payment due on July 7, 2024. The loan bears interest at 5.00%.

On December 18, 2015, Tourism borrowed \$200,000 from Peoples Bank to fund the purchase of the historic Stafford House. The loan agreement provides for 180 monthly payments of \$1,260 to be made beginning January 18, 2016 with final payment due on December 18, 2030. The loan bears interest at 2.05%.

On June 8, 2017, the City borrowed \$15,000 from Peoples Bank to fund the purchase of a police cruiser. The loan agreement provides for 36 monthly payments of \$438 to be made beginning July 8, 2017 with final payment due on June 8, 2020. The loan bears interest at 3.19%.

On May 9, 2017, the City borrowed \$39,900 from Peoples Bank to fund the purchase of an ambulance and police cruiser. The loan agreement provides for 36 monthly payments of \$1,165 to be made beginning June 9, 2017 with final payment due on May 9, 2020. The loan bears interest at 3.19%.

On August 24, 2017, the City borrowed \$7,939 from Peoples Bank to fund the purchase of a golf course Workman GTX cart. The loan agreement provides for 36 monthly payments of \$232 to be made beginning September 24, 2017 with final payment due on August 24, 2020. The loan bears interest at 3.19%.

On August 2, 2017, the City borrowed \$15,000 from Peoples Bank to fund the purchase of a police cruiser. The loan agreement provides for 36 monthly payments of \$438 to be made beginning September 2, 2017 with final payment due on September 2, 2020. The loan bears interest at 3.19%.

On August 24, 2017, the City borrowed \$18,505 from Peoples Bank to fund the purchase of a golf course greens mower. The loan agreement provides for 36 monthly payments of \$540 to be made beginning September 24, 2017 with final payment due on August 24, 2020. The loan bears interest at 3.19%.

On December 14, 2018, the City borrowed \$80,000 from Citizens Bank of Kentucky to fund the purchase of three Freightliner ambulances. The loan agreement provides for 60 monthly payments of \$1,456 to be made beginning January 20, 2019 with final payment due on December 20, 2023. The loan bears interest at 3.45%.

On March 14, 2019, the City borrowed \$35,000 from Peoples Bank to partially fund the purchase of 30 golf carts. The loan agreement provides for 36 monthly payments of \$1,025 to be made beginning April 14, 2019 with final payment due on March 14, 2022. The loan bears interest at 3.387%.

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Revenue Bonds, Series 2011 Issue. Principal due in February of each year, interest payable semi-annually in February and August of each year.	\$920,000	Variable	01/2031
Less:			
Unamortized discount	<u>16,287</u>		
	<u>\$ 903,713</u>		

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

26

NOTE 7. LONG-TERM DEBT (Continued)

Changes in long-term obligations for the year ended June 30, 2019, are as follows:

Governmental Activities	Balance 6/30/2018	Additions	Reductions	Balance 6/30/2019	Due Within One Year
Revenue Bond – Series 2011	\$ 975,000	\$ -	\$ (55,000)	\$ 920,000	\$ 60,000
Sipp Theatre loan payable	25,000	-	(15,000)	10,000	10,000
Ambulance/police cruiser loan payable	25,936	-	(13,331)	12,605	12,605
Ambulances loan payable	-	80,000	(7,430)	72,570	15,243
Police cruiser loan payable	10,161	-	(4,998)	5,163	5,163
Police cruiser loan payable	10,570	-	(4,563)	6,007	5,135
Street sweeper loan payable	6,040	-	(6,040)	-	-
Stafford House loan payable	166,480	-	(11,043)	155,437	10,359
MACED loan payable	114,362	-	(16,517)	97,845	17,361
Workman cart loan payable	5,810	-	(2,631)	3,179	2,717
Greens mower loan payable	13,543	-	(6,133)	7,410	6,334
Golf carts loan payable	-	35,000	(2,781)	32,219	11,365
Compensated absences	68,014	57,856	(68,014)	57,856	57,856
Net pension liability	6,066,836	457,403	-	6,524,239	-
Net OPEB liability	2,083,679	-	(181,767)	1,901,912	-
	9,571,431	630,259	(395,248)	9,806,442	214,138
Unamortized bond discount	(17,293)	-	1,006	(16,287)	-
Total governmental activities	<u>\$ 9,554,138</u>	<u>\$ 630,259</u>	<u>\$ (394,242)</u>	<u>\$ 9,790,155</u>	<u>\$ 214,138</u>

Repayment of principal and interest maturities is principally made from various taxes and service fees collected. Also, for governmental activities, the pension obligations and other post-employment benefit obligations are generally liquidated by the general fund.

Principal and interest payments to be made on all long-term debt at June 30, 2019, for each of the next five years and thereafter are as follows:

Year Ending June 30	Bonds	Notes	Total Principal	Total Interest	Total
2020	\$ 60,000	\$ 96,282	\$ 156,282	\$ 57,834	\$ 214,116
2021	60,000	58,967	118,967	53,269	172,236
2022	65,000	81,043	146,043	48,513	194,556
2023	65,000	31,837	96,837	44,927	141,764
2024	70,000	33,340	103,340	41,002	144,342
2025-2029	405,000	70,388	475,388	144,079	619,467
2030-2031	195,000	30,578	225,578	32,429	258,007
	<u>\$ 920,000</u>	<u>\$ 402,435</u>	<u>\$ 1,322,435</u>	<u>\$ 422,053</u>	<u>\$ 1,744,488</u>

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

27

NOTE 7. LONG-TERM DEBT (Continued)

Business-Type Activities

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments due in January of each year, and interest payable semi-annually in January and July of each year.	\$ 211,000	4.125%	07/2046
City of Paintsville Combined Utility Revenue Bonds, Series 2011 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	12,176,500	2.00%	01/2051
City of Paintsville Combined Utility Revenue Bond, Series 2018 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	<u>4,900,000</u> 17,287,500	2.00%	01/2057
Notes:			
Note payable to Citizens National Bank, due in 120 monthly installments of principal and interest of \$5,734. (sewer plant upgrade)	437,139	2.73%	06/2026
Note Payable to Citizens National Bank, due in 59 monthly installments of principal and interest of \$18,704 and one final payment of \$3,710,145. (Paintsville Lake water storage space-Dept of Army)	3,308,899	1.988%	04/2020
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest. (B98-02)	853,293	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. (F08-10)	5,317,577	1.00%	06/2035
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year. (A209-34)	383,730	1.00%	12/2032
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year. (A05-04)	<u>160,443</u> <u>10,461,081</u> <u>\$27,748,581</u>	1.00%	06/2026

The Utility 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 1.49 at June 30, 2019.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

28

NOTE 7. LONG-TERM DEBT (Continued)

The Commission defeased Public Projects Revenue Bond Series 2011(B) to reduce debt in order to mitigate rate increases required for additional financing for the I & I sewer system improvement project. The amount of the defeased debt was \$670,000. There was \$165,126 in escrow at June 30, 2019. The amount of cash flows required to service the defeased debt at June 30, 2019 was \$143,903.

Changes in long-term obligations for the year ended June 30, 2019, are as follows:

Business-Type Activities	Balance 6/30/2018	Additions	Reductions	Balance 6/30/2019	Due Within One Year
Water Revenue Bond – Series 2006	\$ 215,500	\$ -	\$ (4,500)	\$ 211,000	\$ 4,500
Combined Utility Revenue Bonds – Series 2011	12,412,000	-	(235,500)	12,176,500	242,500
Public Projects Revenue Bond – Series 2018	-	4,900,000	-	4,900,000	79,000
Citizens National Bank (sewer plant upgrade)	493,000	-	(55,861)	437,139	57,218
Citizens National Bank (Dept of the Army loan)	3,961,117	-	(652,218)	3,308,899	3,308,899
First Commonwealth Bank (vac truck)	17,997	-	(17,997)	-	-
KIA Loan Payable (Honey Branch)	913,169	-	(59,876)	853,293	60,657
KIA Loan Payable (Paintsville Lake water plant)	5,622,585	-	(305,008)	5,317,577	308,066
KIA Loan Payable (wastewater treatment plant)	410,151	-	(26,421)	383,730	26,686
KIA Loan Payable (wastewater treatment plant)	182,463	-	(22,020)	160,443	22,240
Compensated Absences	61,892	45,972	(61,892)	45,972	45,972
Net Pension Liability	3,513,448	313,334	-	3,826,782	-
Net OPEB Liability	<u>1,206,708</u>	<u>-</u>	<u>(91,138)</u>	<u>1,115,570</u>	<u>-</u>
Total business-type activities	<u>\$29,010,030</u>	<u>\$ 5,259,306</u>	<u>\$ (1,532,431)</u>	<u>\$32,736,905</u>	<u>\$4,155,738</u>

The Commission's future water, sewer, and gas revenues, net of specified operating expenses, will repay these revenue bonds and loans payable.

Principal and interest payments to be made on all long-term debt at June 30, 2019, for each of the next five years and thereafter are as follows:

Year Ending June 30	Bonds	Notes	Total Principal	Total Interest	Total
2020	\$ 326,000	\$ 3,783,766	\$ 4,109,766	\$ 509,072	\$ 4,618,838
2021	334,500	481,044	815,544	440,325	1,255,869
2022	344,000	487,115	831,115	427,586	1,258,701
2023	352,500	493,281	845,781	413,784	1,259,565
2024	362,000	499,530	861,530	399,706	1,261,236
2025-2029	1,963,000	2,307,827	4,270,827	1,785,833	6,056,660
2030-2034	2,245,000	2,050,729	4,295,729	1,440,531	5,736,260
2035-2039	2,566,000	357,789	2,923,789	1,112,055	4,035,844
2040-2044	2,935,000	-	2,935,000	814,746	3,749,746
2045-2049	3,311,500	-	3,311,500	479,510	3,791,010
2050-2054	1,414,500	-	1,414,500	154,475	1,568,975
2055-2057	<u>1,133,500</u>	<u>-</u>	<u>1,133,500</u>	<u>34,430</u>	<u>1,167,930</u>
	<u>\$17,287,500</u>	<u>\$10,461,081</u>	<u>\$27,748,581</u>	<u>\$ 8,012,053</u>	<u>\$35,760,634</u>

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

29

NOTE 8. INTERFUND TRANSFERS

The following is a schedule of interfund transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Tourism Fund	Operating	\$ 277,770
911 Fund	General Fund	Operating	118,839
Subtotal – Fund Financial Statements			396,609
Less: Fund Eliminations			(396,609)
Total Transfers – Government-wide Statement of Activities			<u>\$ -</u>

NOTE 9. 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 10. 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 11. SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through December 27, 2019, the date the financial statements were available to be issued.

NOTE 12. DEFINED PENSION

General Information about the Pension Plan

Plan Description

Employees of the City of Paintsville, Kentucky are provided with pensions through a cost-sharing multiple-employer defined benefit plan administered by the County Employee's Retirement System. Section 61.645 of the Kentucky Revised Statutes grants to CERS Board of Trustees and the Kentucky Legislature the authority to review administration, benefit terms, investments, and funding of the plan. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability, and death benefits to plan members. CERS issues a publicly available financial report that can be obtained at kyret.ky.gov.

NOTE 12. DEFINED PENSION (Continued)

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's spouse will receive the higher of the normal death benefit or \$10,000 plus 75% of the decedent's monthly average pay until the spouse's death or remarriage. If surviving spouse remarries, the monthly payment shall be recalculated to 25% of the deceased member's monthly average pay. Each eligible dependent child will receive a monthly benefit equal to 50% of the decedent's monthly average pay. The amount increases to 65% if the decedent has two (2) dependent children; and 75% if three (3) or more children. Payments will be divided equally among all the dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions

Per State Statutes, contribution requirements of the active employees are established and may be amended by the CERS Board. Employees hired before 9/1/08 are required to contribute 5.00 percent of their annual pay and employees hired after 9/1/08 are required to contribute 6.00 percent of their annual pay. The City's contractually required contribution rate for the year ended June 30, 2019, was 16.22 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$680,461 for the year ended June 30, 2019.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

31

NOTE 12. DEFINED PENSION (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a liability of \$10,351,021 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the City's proportion was 0.170 percent, which was an increase of 0.006 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$1,651,896. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 337,621	\$ 151,517
Changes of assumptions	1,011,596	-
Net difference between projected and actual earnings on pension plan investments	-	124,114
Changes in proportion and differences between City contributions and proportionate share of contributions	218,437	98,363
City contributions subsequent to the measurement date	<u>680,461</u>	<u>-</u>
Total	<u>\$ 2,248,115</u>	<u>\$ 373,994</u>

\$680,461 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ 848,185
2021	480,532
2022	(79,501)
2023	(55,556)
2024	-
Thereafter	-

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

32

NOTE 12. DEFINED PENSION (Continued)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2018 are as follows:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Amortization Period	27 years, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap Equity	5.00%	4.50%
US Mid Cap Equity	6.00%	4.50%
US Small Cap Equity	6.50%	5.50%
International Developed Equity	12.50%	6.50%
Emerging Markets Equity	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	<u>1.50%</u>
Total	100.00%	6.09%

NOTE 12. DEFINED PENSION (Continued)

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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

The following presents the City's proportionate share of the Net Pension Liability using the discount rate of 6.25%, as well as what the City's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is one percentage-point lower (5.25%) or one percentage-point higher (7.25%) than the current rate:

	<u>1.0% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1.0% Increase (7.25%)</u>
City's proportionate share of the net pension liability	\$13,030,863	\$10,351,021	\$8,105,783

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2018 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2019, the City reported a payable of \$86,170 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019. The payable includes both the pension and insurance contribution allocation.

NOTE 13. OPEB PLAN

General Information about the OPEB plan

Plan Description and Benefits Provided

The City of Paintsville, Kentucky participates in the County Employees Retirement System (CERS) Insurance Fund, a multiple-employer defined benefit Other Post-Employment Benefits (OPEB) plan for members that cover all regular full-time members employed by the City. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Contributions

The City's contractually required contribution rate for the year ended June 30, 2019, was 5.26 percent of covered payroll. Contributions to the OPEB plan from the City were \$220,668 for the year ended June 30, 2019.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

34

NOTE 13. OPEB PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the City reported a liability of \$3,017,482 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the City's proportion was 0.170 percent, which was an increase of 0.006 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized OPEB expense of \$398,005. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 351,648
Changes of assumptions	602,636	6,971
Net difference between projected and actual earnings On OPEB plan investments	-	207,845
Changes in proportion and differences between City contributions and proportionate share of contributions	76,797	6,189
City contributions subsequent to the measurement date	<u>220,668</u>	<u>-</u>
Total	<u>\$ 900,101</u>	<u>\$ 572,653</u>

\$220,668 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended June 30:

2020	\$23,784
2021	23,784
2022	23,784
2023	64,151
2024	(13,207)
Thereafter	(15,516)

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

35

NOTE 13. OPEB PLAN (Continued)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total OPEB liability as of June 30, 2018 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap Equity	5.00%	4.50%
US Mid Cap Equity	6.00%	4.50%
US Small Cap Equity	6.50%	5.50%
International Developed Equity	12.50%	6.50%
Emerging Markets Equity	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	<u>1.50%</u>
Total	100.00%	6.09%

NOTE 13. OPEB PLAN (Continued)

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend

	<u>1.0% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1.0% Increase</u>
City's proportionate share of the net OPEB liability	\$2,246,546	\$3,017,482	\$3,926,195

Discount Rate

The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 - Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the Net OPEB Liability using the discount rate of 5.85%, as well as what the City's proportionate share of the Net OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower (4.85%) or one percentage-point higher (6.85%) than the current rate:

	<u>1.0% Decrease (4.85%)</u>	<u>Current Discount Rate (5.85%)</u>	<u>1.0% Increase (6.85%)</u>
City's proportionate share of the net OPEB liability	\$3,919,226	\$3,017,482	\$2,249,362

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS 2018 Comprehensive Annual Financial Report at kyret.ky.gov

AUDITOR'S REPORTS



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

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

The Honorable Bill Mike Runyon, Mayor
Members of the City Council
City of Paintsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated December 27, 2019, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Paintsville, Kentucky's Response to Findings

The City of Paintsville, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Paintsville, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Welch & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
December 27, 2019



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

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

The Honorable Bill Mike Runyon, Mayor
Members of the City Council
City of Paintsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Paintsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Paintsville, Kentucky's major federal programs for the year ended June 30, 2019. The City of Paintsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and condition of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Paintsville, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Welch & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
December 27, 2019

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

41

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ yes ☐ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major federal programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ yes ☒ no

Identification of major federal programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems
for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2019**

42

SECTION II - FINANCIAL STATEMENT FINDINGS

2019 - 001 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: Due to its small size and budget restrictions the City has limited options for establishing an adequate segregation of duties.

Effect: An improper segregation of duties can subject the City to intentional or unintentional losses due to errors or irregularities.

Views of Responsible Officials: The City should continue to review the internal control structure and segregate duties where possible.

Management Comment: Management of the City concurs with the finding and will continue strong oversight.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None .

**CITY OF PAINTSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

43

There were no findings and recommendations for the year ended June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

44

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 644,800	\$ 644,800	\$ 570,657	\$ (74,143)
Payments in lieu of taxes	-	-	28,904	28,904
Franchise fees and taxes	138,000	138,000	152,404	14,404
Police court revenue	8,500	8,500	9,082	582
Police services	6,000	6,000	5,218	(782)
Building permits	8,000	8,000	5,108	(2,892)
Licenses	750	750	670	(80)
ABC fees	145,000	145,000	152,405	7,405
Garbage collection fees	820,000	820,000	786,456	(33,544)
Taxes on insurance premiums	530,000	530,000	503,118	(26,882)
Occupational taxes	1,670,000	1,670,000	1,662,568	(7,432)
Motor vehicle tax	25,000	25,000	28,367	3,367
Ambulance receipts	1,350,000	1,350,000	1,380,596	30,596
Firefighter and police incentive pay	127,000	127,000	143,426	16,426
Rental/Lease revenue	141,000	141,000	151,300	10,300
City pool and concession revenue	8,000	8,000	11,040	3,040
Golf course revenue	209,500	209,500	198,324	(11,176)
Miscellaneous intergovernmental revenue	81,050	81,050	76,572	(4,478)
Grants	43,000	43,000	180,167	137,167
Contributions	-	-	82,261	82,261
Other receipts	25,000	25,000	76,951	51,951
Total revenues	<u>5,980,600</u>	<u>5,980,600</u>	<u>6,205,594</u>	<u>224,994</u>
Expenditures:				
General government:				
Administrative salaries	328,000	328,000	313,849	14,151
Payroll tax expense	27,400	27,400	34,189	(6,789)
Employee benefits	139,000	139,000	111,574	27,426
City attorney's fees	30,000	30,000	28,995	1,005
Mayor's expense	2,000	2,000	160	1,840
Postage	4,000	4,000	3,178	822
Advertising	6,500	6,500	7,367	(867)
Office expenses	22,500	22,500	22,032	468
Telephone	13,200	13,200	13,938	(738)
Workmen's compensation insurance	1,400	1,400	1,260	140
Audit and accounting fees	13,500	13,500	2,700	10,800
Insurance and bonding	11,000	11,000	19,358	(8,358)
Utilities	215,000	215,000	211,595	3,405
Preparation of property tax bills	16,000	16,000	13,808	2,192
Senior Citizens	62,240	62,240	65,175	(2,935)
Big Sandy ADD dues	1,500	1,500	1,500	-
Main Street Program	15,000	15,000	16,250	(1,250)
Capital expenditures	-	-	133,471	(133,471)
Other general expenses	93,100	96,100	115,903	(19,803)

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

45

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Debt service:				
Interest expense	-	-	54,906	(54,906)
Principal retirement	127,672	127,672	71,518	56,154
Building inspector expense	1,000	1,000	1,133	(133)
Total general government	<u>1,130,012</u>	<u>1,133,012</u>	<u>1,243,859</u>	<u>(110,847)</u>
Police:				
Salaries and wages	342,000	342,000	339,277	2,723
Payroll tax expense	27,900	27,900	23,650	4,250
Employee benefits	178,750	178,750	155,409	23,341
Gasoline and oil	22,500	22,500	25,785	(3,285)
Repairs and maintenance	5,000	5,000	7,830	(2,830)
Workmen's compensation insurance	6,500	6,500	6,732	(232)
Insurance and bonding	28,000	28,000	26,658	1,342
Utilities	-	-	5,020	(5,020)
Training	2,000	2,000	649	1,351
Telephone	12,500	12,500	11,692	808
Uniforms and uniforms cleaning	5,000	5,000	4,504	496
Debt service:				
Interest expense	-	-	808	(808)
Principal retirement	16,000	16,000	14,573	1,427
Capital expenditures	-	-	14,500	(14,500)
Other expenditures	5,900	5,900	13,060	(7,160)
Total police	<u>652,050</u>	<u>652,050</u>	<u>650,147</u>	<u>1,903</u>
Fire/EMS:				
Salaries and wages	1,160,000	1,160,000	1,172,506	(12,506)
Payroll tax expense	90,700	90,700	83,982	6,718
Employee benefits	542,000	542,000	469,575	72,425
Gasoline and oil	42,000	42,000	46,289	(4,289)
Repairs and maintenance	28,000	28,000	24,560	3,440
Insurance	34,000	34,000	34,709	(709)
Telephone	15,000	15,000	12,831	2,169
Utilities	14,500	14,500	28,939	(14,439)
Uniforms and uniforms cleaning	10,000	10,000	5,567	4,433
Training	2,000	2,000	1,259	741
Training center expenses	6,000	6,000	5,778	222
Workmen's compensation insurance	78,000	78,000	76,896	1,104
Billing service	91,000	91,000	90,292	708
Medical supplies	36,000	36,000	48,444	(12,444)
Capital expenditures	-	-	84,897	(84,897)
Debt service:				
Interest expense	-	-	1,767	(1,767)
Principal retirement	9,000	9,000	15,749	(6,749)
Other expenses	14,900	14,900	57,964	(43,064)
Total fire/ems	<u>2,173,100</u>	<u>2,173,100</u>	<u>2,262,004</u>	<u>(88,904)</u>

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

46

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Recreation:				
Recreation salaries	151,200	151,200	129,896	21,304
Payroll tax expense	13,100	13,100	10,419	2,681
Employee benefits	54,500	54,500	46,126	8,374
Insurance	17,000	17,000	19,231	(2,231)
Supplies	17,000	17,000	22,862	(5,862)
Recreational programs	10,000	10,000	4,707	5,293
Workmen's compensation insurance	4,000	4,000	3,924	76
Utilities	35,000	35,000	45,549	(10,549)
Other expenses	59,900	59,900	41,210	18,690
Total recreation	<u>361,700</u>	<u>361,700</u>	<u>323,924</u>	<u>37,776</u>
Streets:				
Salaries and wages	250,000	250,000	214,108	35,892
Payroll tax expense	19,650	19,650	16,905	2,745
Employee benefits	148,500	148,500	103,749	44,751
Uniforms	6,075	6,075	2,027	4,048
Gasoline and oil	20,000	20,000	25,557	(5,557)
Insurance	32,500	32,500	32,969	(469)
Supplies and parts	20,000	20,000	15,064	4,936
Workmen's compensation insurance	11,500	11,500	11,280	220
Debt service:				
Interest expense	-	-	52	(52)
Principal retirement	6,100	6,100	6,040	60
Other expenses	19,000	19,000	14,401	4,599
Total streets	<u>533,325</u>	<u>533,325</u>	<u>442,152</u>	<u>91,173</u>
Sanitation:				
Salaries and wages	197,500	197,500	199,773	(2,273)
Payroll tax expense	16,175	16,175	15,726	449
Employee benefits	122,800	122,800	120,366	2,434
Gasoline and oil	20,000	20,000	22,456	(2,456)
Truck repairs and maintenance	15,000	15,000	14,648	352
Workmen's compensation insurance	12,500	12,500	12,756	(256)
Hauling and dumping expense	200,000	200,000	225,166	(25,166)
Insurance	17,000	17,000	13,553	3,447
Uniforms	4,800	4,800	1,652	3,148
Utilities	-	-	3,971	(3,971)
Garage expenses	7,000	7,000	9,509	(2,509)
Debt service:				
Interest expense	-	-	4,770	(4,770)
Principal retirement	61,500	61,500	46,020	15,480
Capital expenditures	-	-	145,057	(145,057)
Other expenses	6,500	6,500	5,749	751
Total sanitation	<u>680,775</u>	<u>680,775</u>	<u>841,172</u>	<u>(160,397)</u>

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

47

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Golf Course:				
Salaries and wages	168,500	168,500	153,935	14,565
Payroll tax expense	14,400	14,400	12,677	1,723
Employee benefits	50,000	50,000	33,128	16,872
Workmen's compensation insurance	2,750	2,750	2,712	38
Maintenance and repairs	56,000	56,000	54,186	1,814
Gasoline and oil	10,000	10,000	9,283	717
Insurance	13,000	13,000	14,538	(1,538)
Utilities and telephone	14,000	14,000	27,868	(13,868)
Debt service:				
Interest expense	-	-	1,205	(1,205)
Principal retirement	9,300	9,300	11,545	(2,245)
Capital expenditures	30,000	30,000	56,070	(26,070)
Other expenses	36,750	36,750	70,164	(33,414)
Total golf course	<u>404,700</u>	<u>404,700</u>	<u>447,311</u>	<u>(42,611)</u>
 Total Expenditures	 <u>5,935,662</u>	 <u>5,938,662</u>	 <u>6,210,569</u>	 <u>(271,907)</u>
 Excess of revenues over (under) expenditures	 <u>44,938</u>	 <u>41,938</u>	 <u>(4,975)</u>	 <u>(46,913)</u>
Other Financing Sources/(Uses):				
Transfer in from Tourism	250,000	250,000	277,770	27,770
Transfer out to 911	(110,175)	(110,175)	(118,839)	(8,664)
Intragovernmental forgiveness of debt	-	-	(532,643)	(532,643)
Proceeds from sale of capital assets	-	-	30,685	30,685
Proceeds from insurance	-	-	14,259	14,259
Proceeds from borrowing	-	-	260,057	260,057
Total other financing sources (uses)	<u>139,825</u>	<u>139,825</u>	<u>(68,711)</u>	<u>(208,536)</u>
Net change in fund balance	<u>\$ 184,763</u>	<u>\$ 181,763</u>	<u>(73,686)</u>	<u>\$ (255,449)</u>
Fund balance - beginning			<u>2,041,531</u>	
Fund balance - ending			<u>\$ 1,967,845</u>	

**CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
PAINTSVILLE TOURISM COMMISSION
FOR THE YEAR ENDED JUNE 30, 2019**

48

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
Restaurant tax	\$ 686,550	\$ 686,550	\$ 720,568	\$ 34,018
Room occupancy tax	60,000	60,000	62,006	2,006
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	66,000	66,000	34,637	(31,363)
Interest	-	-	1,073	1,073
Miscellaneous revenues	30,594	30,594	52,131	21,537
Total revenues	<u>843,144</u>	<u>843,144</u>	<u>870,415</u>	<u>27,271</u>
Expenditures:				
Salaries and wages	147,000	147,000	137,890	9,110
Payroll tax expense	19,000	19,000	12,417	6,583
Employee benefits	37,000	37,000	36,550	450
Contract labor	5,000	5,000	7,331	(2,331)
Administration	12,000	12,000	11,580	420
Telephone and utilities	42,600	42,600	39,059	3,541
Donations	51,500	51,500	46,608	4,892
Postage	1,800	1,800	1,321	479
General office expense	8,000	8,000	8,891	(891)
Gift shop expense	10,000	10,000	5,677	4,323
Advertising and promotional	93,450	93,450	89,504	3,946
Membership dues	4,325	4,325	4,347	(22)
Van and bus expense	3,673	3,673	4,216	(543)
Legal and professional expense	13,000	13,000	11,260	1,740
Taxes and licenses	800	800	1,965	(1,165)
Maintenance and repairs	27,750	27,750	13,458	14,292
Mountain Homeplace	-	-	411	(411)
Bank charges	600	600	1,036	(436)
Insurance	20,000	20,000	20,510	(510)
Security	1,310	1,310	1,212	98
Sipp expenses	31,750	31,750	11,993	19,757
Stafford house expenses	3,500	3,500	3,315	185
Other expense	35,015	35,015	38,153	(3,138)
Debt service:				
Interest expense	-	-	5,744	(5,744)
Principal retirement	31,325	31,325	26,042	5,283
Capital outlay	3,850	3,850	35,988	(32,138)
Total expenditures	<u>604,248</u>	<u>604,248</u>	<u>576,478</u>	<u>27,770</u>
Excess of revenues over (under) expenditures	<u>238,896</u>	<u>238,896</u>	<u>293,937</u>	<u>55,041</u>

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
PAINTSVILLE TOURISM COMMISSION
FOR THE YEAR ENDED JUNE 30, 2019

49

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing sources (uses):				
Proceeds from insurance	-	-	11,917	11,917
Transfer out to General Fund	<u>(238,896)</u>	<u>(238,896)</u>	<u>(277,770)</u>	<u>(38,874)</u>
Total other financing sources (uses)	<u>(238,896)</u>	<u>(238,896)</u>	<u>(265,853)</u>	<u>(26,957)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	28,084	<u>\$ 28,084</u>
Fund balance - beginning			<u>176,834</u>	
Fund balance - ending			<u>\$ 204,918</u>	

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2019

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
City's proportion of the net pension liability (asset)	0.169852%	0.173853%	0.167811%
City's proportionate share of the net pension liability (asset)	\$ 5,510,000	\$ 7,474,872	\$ 8,262,404
City's covered-employee payroll	\$ 4,078,483	\$ 4,030,252	\$ 4,006,221
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	135.10%	185.47%	206.24%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%
	<u>6/30/2018</u>	<u>6/30/2019</u>	
City's proportion of the net pension liability (asset)	0.163673%	0.169953%	
City's proportionate share of the net pension liability (asset)	\$ 9,580,284	\$ 10,351,021	
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198	
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	226.81%	246.73%	
Plan fiduciary net position as a percentage of the total pension liability	53.30%	53.54%	

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF CITY PENSION CONTRIBUTIONS (CERS)
JUNE 30, 2019

51

	6/30/2015	6/30/2016	6/30/2017
Contractually required contribution	\$ 520,007	\$ 500,557	\$ 558,868
Contributions in relation to the contractually required contribution	520,007	500,557	558,868
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 4,078,483	\$ 4,030,252	\$ 4,006,221
Contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%

	6/30/2018	6/30/2019
Contractually required contribution	\$ 611,636	\$ 680,461
Contributions in relation to the contractually required contribution	611,636	680,461
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198
Contributions as a percentage of covered-employee payroll	14.48%	16.23%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO REQUIRED PENSION SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2019

52

NOTE A – CHANGES OF BENEFIT TERMS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

NOTE B – CHANGES OF ASSUMPTIONS

There have been no changes in actuarial assumptions since June 30, 2017. The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2018

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50% for CERS non-hazardous

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY (CERS)
JUNE 30, 2019

53

	<u>6/30/2018</u>	<u>6/30/2019</u>
City's proportion of the net OPEB liability (asset)	0.163673%	0.169953%
City's proportionate share of the net OPEB liability (asset)	\$ 3,290,387	\$ 3,017,482
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	77.90%	71.92%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF CITY OPEB CONTRIBUTIONS (CERS)
JUNE 30, 2019

54

	<u>6/30/2018</u>	<u>6/30/2019</u>
Contractually required contribution	\$ 198,529	\$ 220,668
Contributions in relation to the contractually required contribution	<u>198,529</u>	<u>220,668</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198
Contributions as a percentage of covered-employee payroll	4.70%	5.26%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO REQUIRED OPEB SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2019**

55

NOTE A – CHANGES OF BENEFIT TERMS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

NOTE B – CHANGES OF ASSUMPTIONS

The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles. There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability).

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2018

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

**SUPPLEMENTARY
AND
OTHER INFORMATION**

**CITY OF PAINTSVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
JUNE 30, 2019**

56

	Special Revenue Funds			
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 18,190	\$ 144,229	\$ 268,047	\$ 430,466
Due from General Fund	7,521	-	-	7,521
Total Assets	<u>\$ 25,711</u>	<u>\$ 144,229</u>	<u>\$ 268,047</u>	<u>\$ 437,987</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,245	\$ 876	\$ 10,470	\$ 19,591
Accrued vacation	-	-	3,514	3,514
Due to General Fund	-	-	244,092	244,092
Total Liabilities	<u>8,245</u>	<u>876</u>	<u>258,076</u>	<u>267,197</u>
Fund Balances:				
Restricted for:				
Streets	-	143,353	-	143,353
Other	17,466	-	9,971	27,437
Unassigned	-	-	-	-
Total Fund Balances	<u>17,466</u>	<u>143,353</u>	<u>9,971</u>	<u>170,790</u>
Total Liabilities and Fund Balances	<u>\$ 25,711</u>	<u>\$ 144,229</u>	<u>\$ 268,047</u>	<u>\$ 437,987</u>

CITY OF PAINTSVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

57

	Special Revenue Funds			
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	Total Non-Major Governmental Funds
Revenues:				
Intergovernmental revenues	\$ 22,012	\$ 123,639	\$ 105,000	\$ 250,651
Charges for services	-	-	338,344	338,344
Interest	-	-	1	1
Total revenues	22,012	123,639	443,345	588,996
Expenditures:				
Current:				
Public safety	-	-	453,964	453,964
Streets	6,574	13,573	-	20,147
Sanitation	3,905	-	-	3,905
Recreation	709	-	-	709
Capital outlay	13,072	39,470	108,220	160,762
Total expenditures	24,260	53,043	562,184	639,487
Excess of revenues over (under) expenditures	(2,248)	70,596	(118,839)	(50,491)
Other financing sources (uses):				
Transfer in from General Fund	-	-	118,839	118,839
Intragovernmental forgiveness of debt	-	-	532,643	532,643
Total other financing sources (uses)	-	-	651,482	651,482
Net change in fund balances	(2,248)	70,596	532,643	600,991
Fund balances - beginning	19,714	72,757	(522,672)	(430,201)
Fund balances - ending	\$ 17,466	\$ 143,353	\$ 9,971	\$ 170,790

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

58

FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	PASSED THROUGH TO SUBRECIPIENTS	TOTAL FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct funding:				
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ -	\$ 2,768,799
Total U.S. Department of Agriculture			-	2,768,799
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-through program from Kentucky Transportation Cabinet State and Community Highway Safety	20.600	PT-2018-HY-36	-	2,881
Pass-through program from Kentucky Transportation Cabinet Highway Planning & Construction	20.205	1800000553	-	25,500
Total U.S. Department of Transportation			-	28,381
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Direct funding:				
Assistance to Firefighters Grant	97.044	EMW-2015-FV-01888	-	13,943
Pass-through program from Kentucky Dept of Military Affairs Hazard Mitigation Grant Program	97.039	DR-4218-0003	-	89,840
Pass-through program from Johnson County Fiscal Court Emergency Management Performance Grants	97.042	EMPG-3	-	12,492
Total U.S. Department of Homeland Security			-	116,275
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 2,913,455

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED June 30, 2019

59

NOTE A. – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Paintsville, Kentucky under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Paintsville, Kentucky, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Paintsville, Kentucky.

NOTE B. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE C – INDIRECT COST RATE

The City of Paintsville, Kentucky has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.