

CITY OF PAINTSVILLE, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2021



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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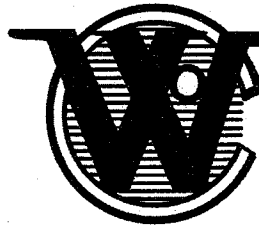
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INDEPENDENT AUDITOR'S REPORT

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, 2021, 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, 2021, 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 46-51 and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 52 and 53, respectively, and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net OPEB Liability and Contributions, on pages 55 and 56, 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 January 10, 2022 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
January 10, 2022

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2021

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ASSETS

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 4,087,310	\$ 5,441,059	\$ 9,528,369
Certificates of deposit	104,443	746,559	851,002
Taxes receivable	92,203	-	92,203
Accounts receivable	139,137	750,477	889,614
Grants receivable	74,794	371,192	445,986
Other receivable	15,552	121,383	136,935
Due from Paintsville Utilities	66,648	-	66,648
Unbilled revenues	-	320,548	320,548
Inventory	-	260,346	260,346
Prepaid items	-	34,020	34,020
Capital assets:			
Land and construction-in-progress	2,712,227	3,400,388	6,112,615
Other capital assets, net of accumulated depreciation	6,876,298	77,422,531	84,298,829
Total Assets	14,168,612	88,868,503	103,037,115

DEFERRED OUTFLOW OF RESOURCES

Deferred outflows related to pensions & OPEB	2,311,726	1,661,042	3,972,768
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LIABILITIES

Accounts payable	88,152	797,389	885,541
Retainage payable	-	204,212	204,212
Accrued payroll taxes	39,216	11,862	51,078
Accrued vacation	61,202	55,939	117,141
Other accrued liabilities	114,067	456,129	570,196
Interim loan payable	-	1,502,508	1,502,508
Customer meter deposits payable	-	536,430	536,430
Interest payable on customer meter deposits	-	226,372	226,372
Long-term liabilities:			
Net pension liability	7,954,241	4,988,898	12,943,139
Net OPEB liability	2,503,484	1,570,180	4,073,664
Due within one year	181,788	880,436	1,062,224
Due in more than one year	1,068,414	24,870,963	25,939,377
Total Liabilities	12,010,564	36,101,318	48,111,882

DEFERRED INFLOW OF RESOURCES

Deferred inflows related to pensions & OPEB	546,029	288,295	834,324
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NET POSITION

Net investment in capital assets	8,338,323	53,569,012	61,907,335
Restricted for:			
Public safety	1,666	-	1,666
Streets	216,376	-	216,376
Tourism	512,856	-	512,856
Debt service	39,929	53,335	93,264
Equipment replacement	-	184,489	184,489
Depreciation	-	1,197,140	1,197,140
Other purposes	48,358	1,603,149	1,651,507
Unrestricted (deficit)	(5,233,763)	(2,467,193)	(7,700,956)
Total Net Position	\$ 3,923,745	\$ 54,139,932	\$ 58,063,677

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

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	\$ 1,309,155	\$ 192,435	\$ -	\$ 397,963	\$ (718,757)	\$ -	\$ (718,757)
Public safety	3,891,139	1,724,629	408,451	20,000	(1,738,059)	-	(1,738,059)
Recreation	857,461	195,297	-	87,871	(574,293)	-	(574,293)
Streets	604,573	-	-	187,440	(417,133)	-	(417,133)
Sanitation	759,140	794,638	-	-	35,498	-	35,498
Tourism	467,908	22,991	-	-	(444,917)	-	(444,917)
Interest on long-term debt	79,736	-	-	-	(79,736)	-	(79,736)
Total governmental activities	<u>7,969,112</u>	<u>2,929,990</u>	<u>408,451</u>	<u>693,274</u>	<u>(3,937,397)</u>	<u>-</u>	<u>(3,937,397)</u>
Business-type activities:							
Water, gas, and sewer	<u>9,860,295</u>	<u>9,011,837</u>	<u>-</u>	<u>371,192</u>	<u>-</u>	<u>(477,266)</u>	<u>(477,266)</u>
Total business-type activities	<u>9,860,295</u>	<u>9,011,837</u>	<u>-</u>	<u>371,192</u>	<u>-</u>	<u>(477,266)</u>	<u>(477,266)</u>
Total primary government	<u>\$ 17,829,407</u>	<u>\$ 11,941,827</u>	<u>\$ 408,451</u>	<u>\$ 1,064,466</u>	<u>(3,937,397)</u>	<u>(477,266)</u>	<u>(4,414,663)</u>
General revenues:							
Property taxes					616,009	-	616,009
Occupational taxes					1,900,560	-	1,900,560
Insurance premium taxes					552,797	-	552,797
Motor vehicle taxes					29,166	-	29,166
Restaurant taxes					790,517	-	790,517
Room occupancy taxes					60,943	-	60,943
Franchise fees and taxes					182,101	-	182,101
Payments in lieu of taxes					35,373	-	35,373
ABC fees					190,202	-	190,202
Licenses and permits					1,558	-	1,558
Intergovernmental revenue					283,269	-	283,269
Interest income					2,504	16,901	19,405
Gain/(Loss) on sale of capital assets					27,622	-	27,622
Donation/contributions					64,227	-	64,227
Miscellaneous					291,572	-	291,572
Total general revenues and transfers					<u>5,028,420</u>	<u>16,901</u>	<u>5,045,321</u>
Change in net position					1,091,023	(460,365)	630,658
Net position - beginning					<u>2,832,722</u>	<u>54,600,297</u>	<u>57,433,019</u>
Net position - ending					<u>\$ 3,923,745</u>	<u>\$ 54,139,932</u>	<u>\$ 58,063,677</u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

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	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 3,132,761	\$ 419,029	\$ 535,520	\$ 4,087,310
Certificate of deposit	-	104,443	-	104,443
Receivables:				
Property taxes	3,317	-	-	3,317
Accounts	139,137	-	-	139,137
Grants	74,794	-	-	74,794
Other	15,314	238	-	15,552
Due from Paintsville Utilities	66,648	-	-	66,648
Due from 911 Fund	240,822	-	-	240,822
Due from Tourism	5,491	-	-	5,491
Total Assets	<u><u>\$ 3,678,284</u></u>	<u><u>\$ 523,710</u></u>	<u><u>\$ 535,520</u></u>	<u><u>\$ 4,737,514</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 58,900	\$ 2,841	\$ 26,411	\$ 88,152
Accrued payroll taxes	36,911	2,305	-	39,216
Accrued vacation	57,649	-	3,553	61,202
Accrued retirement	61,748	-	-	61,748
Other accrued liabilities	-	217	-	217
Due to General Fund	-	5,491	240,822	246,313
Total Liabilities	<u>215,208</u>	<u>10,854</u>	<u>270,786</u>	<u>496,848</u>
Fund Balances:				
Restricted for:				
Public Safety	1,666	-	-	1,666
Streets	-	-	216,376	216,376
Tourism	-	512,856	-	512,856
Debt Service	39,929	-	-	39,929
Other	-	-	48,358	48,358
Unassigned	3,421,481	-	-	3,421,481
Total Fund Balances	<u>3,463,076</u>	<u>512,856</u>	<u>264,734</u>	<u>4,240,666</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,678,284</u></u>	<u><u>\$ 523,710</u></u>	<u><u>\$ 535,520</u></u>	<u><u>\$ 4,737,514</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, 2021

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Fund Balances - Total Governmental Funds \$ 4,240,666

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	20,173,896
Less: accumulated depreciation	(10,585,371)

Pension & OPEB contributions after measurement date are reported as a deferred outflow of resources:	618,386
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Other OPEB related accruals	(52,102)
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Net pension & net OPEB liability is not due and payable in the current period and, therefore, is not reported in governmental funds:	(10,457,725)
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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 & OEPB outflows of resources	1,693,340
Deferred pension & OPEB inflows of resources	(546,029)

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

Bond payable	(780,000)
Bond premium	(54,609)
Loans payable	(344,425)
Leases payable	(71,168)

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

Delinquent property taxes	88,886
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Net Position of Governmental Activities	\$ 3,923,745
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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, 2021

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	General Fund	Paintsville Tourism	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 619,059	\$ -	\$ -	\$ 619,059
Occupational	1,900,560	-	-	1,900,560
Insurance premium	552,797	-	-	552,797
Motor vehicle	29,166	-	-	29,166
Franchise	143,279	-	-	143,279
Restaurant	-	790,517	-	790,517
Room occupancy	-	60,943	-	60,943
Payments in lieu of taxes	35,373	-	-	35,373
ABC fees	190,202	-	-	190,202
Franchise fees	38,822	-	-	38,822
Licenses and permits	1,558	-	-	1,558
Intergovernmental revenues	199,029	-	84,240	283,269
Grants	1,101,725	-	-	1,101,725
Charges for services	2,490,673	22,991	416,326	2,929,990
Interest income	2,214	288	2	2,504
Contributions	64,227	-	-	64,227
Miscellaneous revenues	35,329	15,552	-	50,881
Total revenues	<u>7,404,013</u>	<u>890,291</u>	<u>500,568</u>	<u>8,794,872</u>
Expenditures:				
Current:				
General government	1,145,294	-	-	1,145,294
Public safety	2,679,638	-	459,833	3,139,471
Recreation	718,227	-	8,403	726,630
Streets	399,116	-	14,463	413,579
Sanitation	653,862	-	3,905	657,767
Tourism	-	317,090	-	317,090
Debt service:				
Principal	963,641	10,890	-	974,531
Interest	59,599	5,559	-	65,158
Capital outlay	<u>795,087</u>	<u>98,526</u>	<u>193,049</u>	<u>1,086,662</u>
Total expenditures	<u>7,414,464</u>	<u>432,065</u>	<u>679,653</u>	<u>8,526,182</u>
Excess of revenues over (under) expenditures	(10,451)	458,226	(179,085)	268,690
Other financing sources (uses):				
Operating transfers in	270,193	-	204,881	475,074
Operating transfers out	(204,881)	(270,193)	-	(475,074)
Intragovernmental forgiveness of debt	(43,506)	-	43,506	-
Proceeds from sale of capital assets	61,364	-	-	61,364
Proceeds from insurance	240,691	-	-	240,691
Proceeds from borrowing	948,027	-	-	948,027
Total other financing sources (uses)	<u>1,271,888</u>	<u>(270,193)</u>	<u>248,387</u>	<u>1,250,082</u>
Net change in fund balances	1,261,437	188,033	69,302	1,518,772
Fund balances - beginning	<u>2,201,639</u>	<u>324,823</u>	<u>195,432</u>	<u>2,721,894</u>
Fund balances - ending	<u>\$ 3,463,076</u>	<u>\$ 512,856</u>	<u>\$ 264,734</u>	<u>\$ 4,240,666</u>
See accompanying notes to basic financial statements.				

CITY OF PAINTSVILLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

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Net Change in Fund Balances - Total Governmental Funds **\$ 1,518,772**

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	1,086,662
Depreciation expense	(585,088)

The net effect of various miscellaneous transactions involving capital assets:	(33,742)
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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	(3,050)
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Changes in pension & OPEB expense are reported only in the statement of activities	(904,457)
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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	974,531
Loan proceeds	(948,027)
Amortization of bond discount	(15,236)
Amortization of bond premium	658
	658

Change in Net Position of Governmental Activities	\$ 1,091,023
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See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND - PAINTSVILLE UTILITIES
JUNE 30, 2021

9

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,960,267
Accounts receivable, net	750,477
Grant receivable	371,192
Other receivable	121,383
Unbilled revenues	320,548
Inventory	260,346
Prepaid items	34,020

Total current assets	3,818,233
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Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	479,771
Depreciation reserve fund	1,197,140
Equipment replacement fund	184,489
Operations and maintenance	1,619,392
Investments:	
Operations and maintenance	746,559

Total restricted assets	4,227,351
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Capital assets:

Land and land improvements	816,089
Construction work in progress	2,584,299
Capital assets, net of depreciation	77,422,531

Total capital assets	80,822,919
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Total assets	88,868,503
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DEFERRED OUTFLOWS

Deferred outflows related to pensions	931,351
Deferred outflows related to OPEB	729,691

Total deferred outflows of resources	1,661,042
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See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION (Continued)
PROPRIETARY FUND - PAINTSVILLE UTILITIES
JUNE 30, 2021

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LIABILITIES

Current liabilities:

Accounts payable	797,389
Retainage payable	204,212
Compensated absences	55,939
Accrued interest payable	269,148
Other accrued liabilities	198,843
Interim loan payable	1,502,508
Current portion of long-term liabilities	426,436

Total current liabilities 3,454,475

Payable from restricted assets:

Current portion of bonds	454,000
Customer meter deposits	536,430
Interest payable on customer meter deposits	226,372

Total liabilities payable from restricted assets 1,216,802

Long-term liabilities:

Net pension liability	4,988,898
Net OPEB liability	1,570,180
Bonds payable, net of premium	19,692,000
Notes payable	5,875,374
Unamortized bond premium	184,025
	<u>32,310,477</u>
Less current portion	(880,436)

Total long-term liabilities 31,430,041

Total liabilities 36,101,318

DEFERRED INFLOWS

Deferred inflows related to pensions	11,517
Deferred inflows related to OPEB	276,778

Total deferred inflows of resources 288,295

NET POSITION:

Net investment in capital assets	53,569,012
Restricted	
Debt service	53,335
Depreciation	1,197,140
Equipment replacement	184,489
Operations and maintenance	1,603,149
Unrestricted	<u>(2,467,193)</u>

Total net position \$ 54,139,932

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, 2021**

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Operating revenues:	
Gas revenues	\$ 1,957,051
Water revenues	4,385,475
Wastewater revenues	2,215,579
Other operating revenues	<u>453,732</u>
Total operating revenues	9,011,837
Cost of sales	<u>673,345</u>
Net operating revenues	<u>8,338,492</u>
Operating expenses:	
Salaries and wages	1,767,085
Payroll taxes	142,036
Employee pension and benefits	1,856,453
Materials and supplies	288,477
Legal and professional	102,382
Miscellaneous general expense	279,203
Telephone and utilities	813,632
Insurance	122,642
Motor vehicle expenses	268,528
Repairs and maintenance	291,281
Depreciation	<u>2,623,522</u>
Total operating expenses	<u>8,555,241</u>
Utility operating income (loss)	<u>(216,749)</u>
Non-operating revenues (expenses):	
Interest income	16,901
Interest expense	<u>(567,482)</u>
Total non-operating revenues (expenses)	<u>(550,581)</u>
Net income (loss) before contributions from (to)	(767,330)
Contributions in aid of construction	371,192
Contribution to the City of Paintsville	<u>(64,227)</u>
Change in net position	(460,365)
Net position, beginning of year	<u>54,600,297</u>
Net position, end of year	<u>\$ 54,139,932</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, 2021**

12

Cash flows from operating activities:

Cash inflows:

Payments received from customers	<u>\$ 8,816,079</u>
----------------------------------	---------------------

Total cash provided	<u>8,816,079</u>
----------------------------	------------------

Cash outflows:

Payments for salaries and benefits	3,314,278
------------------------------------	-----------

Payments to suppliers for goods and services	<u>2,930,293</u>
--	------------------

Total cash used	<u>6,244,571</u>
------------------------	------------------

Net cash provided (used) by operating activities	<u>2,571,508</u>
---	------------------

Cash flows from noncapital financing activities:

Interest paid on customer deposits	<u>(39,818)</u>
------------------------------------	-----------------

Net cash provided (used) by noncapital financing activities	<u>(39,818)</u>
--	-----------------

Cash flows from capital and related financing activities:

Purchase and construction of utility plant	(2,404,745)
--	-------------

Proceeds from loans and bonds	1,502,508
-------------------------------	-----------

Principal payments on long-term debt	(806,519)
--------------------------------------	-----------

Payments on capital leases	(15,000)
----------------------------	----------

Interest paid on long-term debt and capital leases	<u>(496,851)</u>
--	------------------

Net cash provided (used) by capital and related financing activities	<u>(2,220,607)</u>
---	--------------------

Cash flows from investing activities:

Investments matured	1102708
---------------------	---------

Interest received	<u>10,067</u>
-------------------	---------------

Net cash provided (used) by investing activities	<u>1,112,775</u>
---	------------------

Net cash inflow (outflow) from all activities

1,423,858

Cash and cash equivalents at beginning of period

4,017,201

Cash and cash equivalents at end of period

\$ 5,441,059

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
FOR THE YEAR ENDED JUNE 30, 2021

13

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

Utility operating income	\$ (216,749)
Depreciation and amortization	2,623,522
Contribution of utility services	(64,227)
(Increase) decrease in:	
Accounts receivable	(123,925)
Unbilled revenue	(7,606)
Inventory	(46,049)
Other assets and deferred outflows	(329,922)
Increase (decrease) in:	
Accounts payable	(33,007)
Accrued liabilities and other liabilities	769,471

Net cash provided (used) by operating activities

\$ 2,571,508

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 1,756,709
Restricted cash and cash equivalents	2,260,492
	<u><u>\$ 4,017,201</u></u>

End of period:

Unrestricted cash and cash equivalents	\$ 1,960,267
Restricted cash and cash equivalents	3,480,792
	<u><u>\$ 5,441,059</u></u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2021

14

	<u>Custodial Fund</u>
ASSETS	
Due from General Fund	\$ -
Total Assets	<u>-</u>
LIABILITIES	
Due to Paintsville Independent School District	<u>-</u>
Total Liabilities	<u>-</u>
NET POSITION	
Restricted for:	
Paintsville Independent School District	<u>-</u>
Total Net Position	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2021**

15

	<u>Custodial Fund</u>
Additions:	
Property and franchise taxes collected for Paintsville Independent School District	<u>\$ 2,394,324</u>
Total additions	<u>2,394,324</u>
Deductions:	
Payments of property and franchise taxes to Paintsville Independent School District	<u>2,394,324</u>
Total deductions	<u>2,394,324</u>
Change in net position	-
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

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 for individuals, private organizations, and other governments. The City has one Fiduciary Fund for the Paintsville Independent School District's property and franchise tax collection deposits. Taxes are collected by the City and subsequently transmitted to the school district.

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, 2021, are net of allowance for uncollectable. The allowance for uncollectable was \$193,002 at June 30, 2021.

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, 2021, 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, 2020 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$10,640,880</u>	<u>\$1,819,021</u>	<u>\$8,292,131</u>	<u>\$529,728</u>	<u>\$10,379,371</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.

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, 2021, consisted of the following:

Primary Government

Governmental Activities	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Capital assets, not being depreciated:				
Land and land improvements	\$ 2,220,551	\$ 451,881	\$ -	\$ 2,672,432
Construction in progress	<u>36,997</u>	<u>2,798</u>	<u>-</u>	<u>39,795</u>
Total capital assets, not being depreciated	<u>2,257,548</u>	<u>454,679</u>	<u>-</u>	<u>2,712,227</u>
Capital assets, being depreciated:				
Buildings and improvements	8,245,533	81,590	-	8,327,123
Improvements other than buildings	808,058	232,007	-	1,040,065
Automobiles and trucks	2,773,969	107,488	120,485	2,760,972
Infrastructure	918,442	193,049	-	1,111,491
Machinery and equipment	<u>4,204,169</u>	<u>17,849</u>	<u>-</u>	<u>4,222,018</u>
Total capital assets being depreciated	<u>16,950,171</u>	<u>631,983</u>	<u>120,485</u>	<u>17,461,669</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,390,935)	(203,935)	-	(3,594,870)
Improvements other than buildings	(797,864)	(11,133)	-	(808,997)
Automobiles and trucks	(2,062,548)	(109,593)	(86,743)	(2,085,398)
Infrastructure	(463,930)	(84,403)	-	(548,333)
Machinery and equipment	<u>(3,371,749)</u>	<u>(176,024)</u>	<u>-</u>	<u>(3,547,773)</u>
Total accumulated depreciation	<u>(10,087,026)</u>	<u>(585,088)</u>	<u>(86,743)</u>	<u>(10,585,371)</u>
Total capital assets being depreciated, net	<u>6,863,145</u>	<u>46,895</u>	<u>33,742</u>	<u>6,876,298</u>
Governmental activities capital assets, net	<u>\$ 9,120,693</u>	<u>\$ 501,574</u>	<u>\$ 33,742</u>	<u>\$ 9,588,525</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 90,961
Public safety	160,959
Recreation	54,632
Streets	115,823
Sanitation	36,861
Tourism	<u>125,468</u>
Total	<u>\$ 585,088</u>

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Capital assets, not being depreciated:				
Land and land improvements	\$ 816,089	\$ -	\$ -	\$ 816,089
Construction in progress	<u>626,532</u>	<u>2,275,190</u>	<u>317,423</u>	<u>2,584,299</u>
Total capital assets, not being depreciated	<u>1,442,621</u>	<u>2,275,190</u>	<u>317,423</u>	<u>3,400,388</u>
Capital assets, being depreciated:				
Buildings and improvements	1,104,107	2,006	-	1,106,113
Utility plants	113,401,587	1,272,111	-	114,673,698
Automobiles and trucks	798,539	9,367	169,694	638,212
Machinery and equipment	<u>347,391</u>	<u>4,064</u>	<u>-</u>	<u>351,455</u>
Total capital assets being depreciated	<u>115,651,624</u>	<u>1,287,548</u>	<u>169,694</u>	<u>116,769,478</u>
Less accumulated depreciation for:				
Buildings and improvements	(370,350)	(25,576)	-	(395,926)
Utility plants	(35,649,631)	(2,523,778)	-	(38,173,409)
Automobiles and trucks	(600,828)	(54,329)	(169,694)	(485,463)
Machinery and equipment	<u>(272,310)</u>	<u>(19,839)</u>	<u>-</u>	<u>(292,149)</u>
Total accumulated depreciation	<u>(36,893,119)</u>	<u>(2,623,522)</u>	<u>(169,694)</u>	<u>(39,346,947)</u>
Total capital assets being depreciated, net	<u>78,758,505</u>	<u>(1,335,974)</u>	<u>-</u>	<u>77,422,531</u>
Total capital assets, net	<u>\$ 80,201,126</u>	<u>\$ 939,216</u>	<u>\$ 317,423</u>	<u>\$ 80,822,919</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 2,623,522</u>
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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.

NOTE 6. CAPITAL LEASES (Continued)

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2021, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2021	\$ 31,940	\$ -
2022	31,940	-
2023	10,646	-
2024	-	-
2025	-	-
Total minimum lease payments	74,526	-
Less amount representing interest	(3,358)	-
Present value of net minimum lease payments	<u>\$ 71,168</u>	<u>\$ -</u>

Following is a summary of property held by the City under capital leases at June 30, 2021:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 145,057	\$ -
Less accumulated depreciation	(36,264)	-
	<u>\$ 108,793</u>	<u>\$ -</u>

	<u>Amount Outstanding 6/30/2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2021</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 99,767	\$ -	\$ (28,599)	\$ 71,168	\$ 29,721
Business-type activities leases	\$ 15,000	\$ -	\$ (15,000)	\$ -	\$ -

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2021 consists of the following:

Governmental Activities

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 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%.

NOTE 7. LONG-TERM DEBT (Continued)

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%.

On September 24, 2019, 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 \$441 to be made beginning October 24, 2019 with final payment due on September 24, 2022. The loan bears interest at 3.63%.

On November 19, 2020, the City entered into a lease agreement for \$785,000 with the Kentucky Bond Corporation in conjunction with the Series 2020F bond issue for the refunding of called Series 2011 bond issue. The term of the lease is 11 years with monthly payments of principal and interest made into a sinking fund with the Bank of New York. Principal payments from the sinking fund are due February 1 and interest payments from the sinking fund are due semi-annually on February 1, and August 1.

On August 4, 2020, the City borrowed \$107,760 from Peoples Bank to fund the purchase of a 2020 Isuzu garbage packer. The loan agreement provides for 60 monthly payments of \$1,933 to be made beginning September 4, 2020 with final payment due on August 4, 2025. The loan bears interest at 2.88%.

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Revenue Bonds, Series 2020 Issue. Principal due in February of each year, interest payable semi-annually in February and August of each year.	\$780,000	Variable	01/2031
Add:			
Unamortized premium	<u>54,609</u>		
	<u>\$ 834,609</u>		

Changes in long-term obligations for the year ended June 30, 2021, are as follows:

Governmental Activities	<u>Balance</u> <u>6/30/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2021</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bond – Series 2011	\$ 860,000	\$ -	\$ (860,000)	\$ -	\$ -
Revenue Bond – Series 2020	-	785,000	(5,000)	780,000	70,000
Garbage truck loan payable	-	107,760	(16,886)	90,874	20,813
Ambulances loan payable	57,328	-	(15,769)	41,559	16,314
Police cruiser loan payable	872	-	(872)	-	-

NOTE 7. LONG-TERM DEBT (Continued)

Governmental Activities	Balance 6/30/2020	Additions	Reductions	Balance 6/30/2021	Due Within One Year
Police cruiser loan payable	11,408	-	(4,951)	6,457	5,141
Stafford House loan payable	145,112	-	(10,890)	134,222	11,523
MACED loan payable	80,484	-	(18,263)	62,221	19,185
Workman cart loan payable	462	-	(462)	-	-
Greens mower loan payable	1,076	-	(1,076)	-	-
Golf carts loan payable	20,854	-	(11,762)	9,092	9,091
Compensated absences	76,004	61,202	(76,004)	61,202	61,202
Net pension liability	7,337,083	617,158	-	7,954,241	-
Net OPEB liability	1,754,212	749,272	-	2,503,484	-
	10,344,895	2,320,392	(1,021,935)	11,643,352	213,269
Unamortized bond premium	-	55,267	(658)	54,609	-
Unamortized bond discount	(15,236)	-	15,236	-	-
Total governmental activities	<u>\$ 10,329,659</u>	<u>\$ 2,375,659</u>	<u>\$ (1,007,357)</u>	<u>\$ 11,697,961</u>	<u>\$ 213,269</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, 2021, for each of the next five years and thereafter are as follows:

Year Ending June 30	Bonds	Notes	Total Principal	Total Interest	Total
2022	\$ 70,000	\$ 82,067	\$ 152,067	\$ 35,018	\$ 187,085
2023	70,000	71,974	141,974	30,008	171,982
2024	70,000	64,307	134,307	25,226	159,533
2025	75,000	37,578	112,578	21,223	133,801
2026	75,000	17,573	92,573	17,974	110,547
2027-2031	420,000	70,926	490,926	45,353	536,279
	<u>\$ 780,000</u>	<u>\$ 344,425</u>	<u>\$ 1,124,425</u>	<u>\$ 174,802</u>	<u>\$ 1,299,227</u>

NOTE 7. LONG-TERM DEBT (Continued)

Business-Type Activities

	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Bonds:			
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.	\$ 202,000	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.	11,685,000	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.	4,740,000	2.00%	01/2057
City of Paintsville, Kentucky Public Projects Bond, Series 2020D. Principal installments due in January of each year, and interest payable semi-annually in January and July of each year. (Paintsville Lake Water Storage Space – Dept of Army)	3,065,000	variable	07/2040
Add:			
Unamortized premium	<u>184,025</u>		
	19,876,025		
Notes:			
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest. (B98-02)	731,189	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)	4,698,356	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)	334,580	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>111,249</u>	1.00%	06/2026
	<u>5,875,374</u>		
	<u>\$25,751,399</u>		

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 1.62 at June 30, 2021.

NOTE 7. LONG-TERM DEBT (Continued)

Changes in long-term obligations for the year ended June 30, 2021, are as follows:

Business-Type Activities	Balance 6/30/2020	Additions	Reductions	Balance 6/30/2021	Due Within One Year
Water Revenue Bond – Series 2006	\$ 206,500	\$ -	\$ (4,500)	\$ 202,000	\$ 5,000
Combined Utility Revenue Bonds – Series 2011	11,934,500	-	(249,000)	11,685,000	256,000
Combined Utility Revenue Bond – Series 2018	4,821,000	-	(81,000)	4,740,000	83,000
Public Projects Bonds – 2020D	3,115,000	-	(50,000)	3,065,000	110,000
Add: Unamortized Bond Premium	204,404	-	(20,379)	184,025	-
KIA Loan Payable (Honey Branch)	792,637	-	(61,448)	731,189	62,249
KIA Loan Payable (Paintsville Lake water plant)	5,009,511	-	(311,155)	4,698,356	314,274
KIA Loan Payable (wastewater treatment plant)	357,043	-	(26,954)	330,089	27,224
KIA Loan Payable (wastewater treatment plant)	138,203	-	(22,463)	115,740	22,689
Compensated Absences	62,249	-	(6,310)	55,939	55,939
Net Pension Liability	4,370,545	618,353	-	4,988,898	-
Net OPEB Liability	1,044,948	525,232	-	1,570,180	-
	<u>\$32,056,040</u>	<u>\$ 1,143,585</u>	<u>\$ (833,209)</u>	<u>\$32,366,416</u>	<u>\$ 936,375</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, 2021, for each of the next five years and thereafter are as follows:

Year Ending June 30	Bonds	Notes	Total Principal	Total Interest	Total
2022	\$ 454,000	\$ 426,436	\$ 880,436	\$ 538,192	\$ 1,418,628
2023	467,500	430,898	898,398	520,373	1,418,771
2024	482,000	435,409	917,409	502,053	1,419,462
2025	497,000	439,966	936,966	483,225	1,420,191
2026	511,500	444,572	956,072	463,865	1,419,937
2027-2031	2,821,500	2,172,014	4,993,514	2,016,415	7,009,929
2032-2036	3,268,500	1,526,079	4,794,579	1,519,583	6,314,162
2037-2041	3,522,500	-	3,522,500	1,062,508	4,585,008
2042-2046	3,095,000	-	3,095,000	685,334	3,780,334
2047-2051	3,465,500	-	3,465,500	335,615	3,801,115
2052-2056	913,000	-	913,000	93,850	1,006,850
2057	194,500	-	194,000	4,850	198,850
	<u>\$19,692,000</u>	<u>\$ 5,875,374</u>	<u>\$25,567,374</u>	<u>\$ 8,225,863</u>	<u>\$33,793,237</u>

Advances for Construction

On December 5, 2020, the Commission entered into a loan agreement with Kentucky Rural Water Finance Corporation for interim financing on the Powell Addition Sewer project. The loan is for \$2,062,000 at 2.65% interest and matured on November 1, 2021. The balance of the loan at June 30, 2021 was \$1,502,508. Permanent financing for the loan is a City of Paintsville Utilities Revenue Bond, Series 2020 in the amount of \$2,062,000.

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>
Road Aid Fund	General Fund	Operating	\$ 204,881
General Fund	Tourism Fund	Operating	270,193
Subtotal – Fund Financial Statements			475,074
Less: Fund Eliminations			(475,074)
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 January 10, 2022 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, 2021, was 19.30 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 \$832,484 for the year ended June 30, 2021.

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, 2021, the City reported a liability of \$12,943,139 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the City's proportion was 0.169 percent, which was an increase of 0.003 from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City recognized pension expense of \$2,060,666. At June 30, 2021, 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	\$ 322,761	\$ -
Changes of assumptions	505,408	-
Net difference between projected and actual earnings on pension plan investments	323,886	-
Changes in proportion and differences between City contributions and proportionate share of contributions	173,363	80,748
City contributions subsequent to the measurement date	<u>832,484</u>	<u>-</u>
Total	<u>\$ 2,157,902</u>	<u>\$ 80,748</u>

\$832,484 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, 2022. 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:

2022	\$ 570,079
2023	379,981
2024	164,527
2025	130,083
2026	-
Thereafter	-

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, 2020 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS non-hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table used on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Rate	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

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 assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). 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	\$15,961,706	\$12,943,139	\$10,443,649

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2020 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2021, the City reported a payable of \$100,840 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021. 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, 2021, was 4.76 percent of covered payroll. Contributions to the OPEB plan from the City were \$205,318 for the year ended June 30, 2021.

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, 2021, the City reported a liability of \$4,073,664 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, 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, 2020, the City's proportion was 0.169 percent, which was an increase of 0.003 from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City recognized OPEB expense of \$558,803. At June 30, 2021, 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	\$ 680,624	\$ 681,155
Changes of assumptions	708,577	4,309
Net difference between projected and actual earnings On OPEB plan investments	135,399	-
Changes in proportion and differences between City contributions and proportionate share of contributions	84,948	68,112
City contributions subsequent to the measurement date	205,318	-
Total	<u>\$ 1,814,866</u>	<u>\$ 753,576</u>

\$205,318 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, 2022.

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:

2022	\$ 230,326
2023	270,395
2024	193,615
2025	174,637
2026	(13,001)
Thereafter	-

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, 2020 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous
Salary Increase	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS non-hazardous
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post - 65	Initial trend starting at 2.90% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

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>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%

NOTE 13. OPEB PLAN (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Rate	100.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

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	\$3,154,035	\$4,073,664	\$5,189,657

Single discount rates of 5.34% for CERS non-hazardous system was used to measure the total OPEB liability as of June 30, 2020. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. Based on the stated assumptions and the projected of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the CAFR.

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

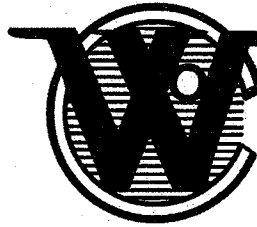
The following presents the City's proportionate share of the Net OPEB Liability using the discount rate of (5.34%), as well as what the City's proportionate share of the Net OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower (4.34%) or one percentage-point higher (6.34%) than the current rate:

	<u>1.0% Decrease (4.34%)</u>	<u>Current Discount Rate (5.34%)</u>	<u>1.0% Increase (6.34%)</u>
City's proportionate share of the net OPEB liability	\$5,233,463	\$4,073,664	\$3,121,083

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS 2020 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
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 2021, 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 January 10, 2022, 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 2021-001 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.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 10, 2022



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
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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, 2021. 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, 2021.

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.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 10, 2022

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

43

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

21.019

Coronavirus Relief Fund

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, 2021

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SECTION II - FINANCIAL STATEMENT FINDINGS

2021 – 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, 2021**

45

There were no findings and recommendations for the year ended June 30, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021**

46

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 624,354	\$ 624,354	\$ 619,059	\$ (5,295)
Payments in lieu of taxes	-	-	35,373	35,373
Franchise fees and taxes	163,000	163,000	182,101	19,101
Police court revenue	10,000	10,000	5,458	(4,542)
Police services	5,000	5,000	2,698	(2,302)
Building permits	5,000	5,000	1,406	(3,594)
Licenses	5,000	5,000	152	(4,848)
ABC fees	160,000	160,000	190,202	30,202
Garbage collection fees	795,000	795,000	794,638	(362)
Taxes on insurance premiums	540,000	540,000	552,797	12,797
Occupational taxes	1,690,000	1,690,000	1,900,560	210,560
Motor vehicle tax	29,600	29,600	29,166	(434)
Ambulance receipts	1,392,000	1,392,000	1,305,605	(86,395)
Firefighter and police incentive pay	120,000	120,000	127,574	7,574
Rental/Lease revenue	155,560	155,560	192,435	36,875
Golf course revenue	164,500	164,500	195,297	30,797
Miscellaneous intergovernmental revenue	68,000	68,000	65,997	(2,003)
Grants	1,535,000	1,535,000	1,101,725	(433,275)
Contributions	-	-	64,227	64,227
Other receipts	55,500	55,500	37,543	(17,957)
Total revenues	<u>7,517,514</u>	<u>7,517,514</u>	<u>7,404,013</u>	<u>(113,501)</u>
Expenditures:				
General government:				
Administrative salaries	348,100	348,100	348,493	(393)
Payroll tax expense	27,406	27,406	34,778	(7,372)
Employee benefits	148,300	148,300	123,162	25,138
City attorney's fees	35,000	35,000	32,806	2,194
Mayor's expense	1,000	1,000	-	1,000
Postage	4,000	4,000	2,674	1,326
Advertising	6,500	6,500	9,115	(2,615)
Office expenses	23,500	23,500	21,643	1,857
Telephone	13,200	13,200	12,885	315
Workmen's compensation insurance	1,888	1,888	2,868	(980)
Audit and accounting fees	15,000	15,000	2,700	12,300
Insurance and bonding	15,721	15,721	15,111	610
Utilities	215,000	215,000	240,083	(25,083)
Preparation of property tax bills	16,000	16,000	2,861	13,139
Senior Citizens	64,240	64,240	66,516	(2,276)
Big Sandy ADD dues	1,500	1,500	1,500	-
Main Street Program	15,000	15,000	13,750	1,250
Capital expenditures	1,500,000	1,500,000	454,679	1,045,321
Other general expenses	100,315	100,315	213,985	(113,670)

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

47

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Debt service:				
Interest expense	51,226	51,226	51,226	-
Principal retirement	76,270	76,270	883,263	(806,993)
Building inspector expense	1,200	1,200	364	836
Total general government	<u>2,680,366</u>	<u>2,680,366</u>	<u>2,534,462</u>	<u>145,904</u>
Police:				
Salaries and wages	379,000	379,000	317,673	61,327
Payroll tax expense	29,656	29,656	22,948	6,708
Employee benefits	190,000	190,000	131,290	58,710
Gasoline and oil	25,000	25,000	17,861	7,139
Repairs and maintenance	5,000	5,000	6,706	(1,706)
Workmen's compensation insurance	10,452	10,452	12,300	(1,848)
Insurance and bonding	32,400	32,400	39,169	(6,769)
Utilities	-	-	4,875	(4,875)
Training	6,000	6,000	445	5,555
Telephone	13,000	13,000	11,557	1,443
Uniforms and uniforms cleaning	5,000	5,000	2,709	2,291
Debt service:				
Interest expense	350	350	350	-
Principal retirement	21,650	21,650	5,823	15,827
Capital expenditures	-	-	-	-
Other expenditures	7,300	7,300	18,207	(10,907)
Total police	<u>724,808</u>	<u>724,808</u>	<u>591,913</u>	<u>132,895</u>
Fire/EMS:				
Salaries and wages	1,215,000	1,215,000	1,163,086	51,914
Payroll tax expense	94,992	94,992	84,112	10,880
Employee benefits	592,000	592,000	480,411	111,589
Gasoline and oil	45,000	45,000	36,008	8,992
Repairs and maintenance	26,000	26,000	10,674	15,326
Insurance	32,000	32,000	36,668	(4,668)
Telephone	12,000	12,000	10,304	1,696
Utilities	17,000	17,000	22,258	(5,258)
Uniforms and uniforms cleaning	24,500	24,500	15,003	9,497
Training	1,500	1,500	575	925
Training center expenses	6,000	6,000	8,205	(2,205)
Workmen's compensation insurance	97,320	97,320	85,704	11,616
Billing service	90,480	90,480	71,959	18,521
Medical supplies	33,000	33,000	32,643	357
Debt service:				
Interest expense	1,705	1,705	1,705	-
Principal retirement	15,770	15,770	15,769	1
Other expenses	16,850	16,850	36,288	(19,438)
Total fire/ems	<u>2,321,117</u>	<u>2,321,117</u>	<u>2,111,372</u>	<u>209,745</u>

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

48

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Recreation:				
Recreation salaries	132,200	132,200	101,943	30,257
Payroll tax expense	10,430	10,430	8,150	2,280
Employee benefits	58,000	58,000	48,642	9,358
Insurance	18,995	18,995	22,883	(3,888)
Supplies	12,500	12,500	4,036	8,464
Recreational programs	8,000	8,000	6,326	1,674
Workmen's compensation insurance	5,665	5,665	7,299	(1,634)
Utilities	30,000	30,000	43,615	(13,615)
Capital expenditures	48,000	48,000	215,071	(167,071)
Other expenses	31,700	31,700	17,732	13,968
Total recreation	355,490	355,490	475,697	(120,207)
Streets:				
Salaries and wages	220,000	220,000	185,198	34,802
Payroll tax expense	17,581	17,581	14,771	2,810
Employee benefits	150,100	150,100	90,475	59,625
Uniforms	2,000	2,000	2,096	(96)
Gasoline and oil	24,000	24,000	17,542	6,458
Insurance	39,050	39,050	39,248	(198)
Supplies and parts	16,500	16,500	16,628	(128)
Workmen's compensation insurance	16,650	16,650	19,536	(2,886)
Other expenses	19,200	19,200	13,622	5,578
Total streets	505,081	505,081	399,116	105,965
Sanitation:				
Salaries and wages	230,550	230,550	228,406	2,144
Payroll tax expense	18,481	18,481	18,203	278
Employee benefits	145,000	145,000	127,504	17,496
Gasoline and oil	23,000	23,000	22,332	668
Truck repairs and maintenance	12,000	12,000	19,697	(7,697)
Workmen's compensation insurance	20,780	20,780	25,440	(4,660)
Hauling and dumping expense	215,000	215,000	184,913	30,087
Insurance	16,764	16,764	12,600	4,164
Uniforms	1,500	1,500	1,675	(175)
Utilities	-	-	3,857	(3,857)
Garage expenses	8,000	8,000	4,371	3,629
Debt service:				
Interest expense	5,779	5,779	5,779	-
Principal retirement	50,221	50,221	45,486	4,735
Capital expenditures	-	-	107,488	(107,488)
Other expenses	6,500	6,500	4,864	1,636
Total sanitation	753,575	753,575	812,615	(59,040)

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

49

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Golf Course:				
Salaries and wages	156,000	156,000	162,137	(6,137)
Payroll tax expense	12,730	12,730	12,980	(250)
Employee benefits	54,000	54,000	47,803	6,197
Workmen's compensation insurance	4,260	4,260	5,352	(1,092)
Maintenance and repairs	62,000	62,000	133,719	(71,719)
Gasoline and oil	10,000	10,000	10,633	(633)
Insurance	9,320	9,320	9,558	(238)
Utilities and telephone	15,000	15,000	28,034	(13,034)
Debt service:				
Interest expense	539	539	539	-
Principal retirement	17,061	17,061	13,300	3,761
Capital expenditures	30,000	30,000	17,849	12,151
Other expenses	28,500	28,500	47,385	(18,885)
Total golf course	399,410	399,410	489,289	(89,879)
 Total Expenditures	 7,739,847	 7,739,847	 7,414,464	 325,383
 Excess of revenues over (under) expenditures	 (222,333)	 (222,333)	 (10,451)	 211,882
Other Financing Sources/(Uses):				
Transfer in from Tourism	215,000	215,000	270,193	55,193
Transfer out to Road Aid	-	-	(204,881)	(204,881)
Intragovernmental forgiveness of debt	-	-	(43,506)	(43,506)
Proceeds from sale of capital assets	-	-	61,364	61,364
Proceeds from insurance	-	-	240,691	240,691
Proceeds from borrowing	-	-	948,027	948,027
Total other financing sources (uses)	215,000	215,000	1,271,888	1,056,888
Net change in fund balance	\$ (7,333)	\$ (7,333)	1,261,437	\$ 1,268,770
Fund balance - beginning			2,201,639	
Fund balance - ending			<u>\$ 3,463,076</u>	

**CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
PAINTSVILLE TOURISM COMMISSION
FOR THE YEAR ENDED JUNE 30, 2021**

50

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
Restaurant tax	\$ 600,000	\$ 600,000	\$ 790,517	\$ 190,517
Room occupancy tax	40,000	40,000	60,943	20,943
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	47,400	47,400	22,991	(24,409)
Interest	-	-	288	288
Miscellaneous revenues	37,677	37,677	15,552	(22,125)
Total revenues	<u>725,077</u>	<u>725,077</u>	<u>890,291</u>	<u>165,214</u>
Expenditures:				
Salaries and wages	84,000	84,000	62,206	21,794
Payroll tax expense	14,000	14,000	7,065	6,935
Employee benefits	20,000	20,000	18,051	1,949
Contract labor	9,416	9,416	2,195	7,221
Administration	10,000	10,000	12,665	(2,665)
Telephone and utilities	31,500	31,500	28,882	2,618
Donations	48,000	48,000	12,216	35,784
Postage	1,500	1,500	329	1,171
General office expense	4,000	4,000	6,244	(2,244)
Gift shop expense	7,000	7,000	4,052	2,948
Advertising and promotional	79,300	79,300	44,912	34,388
Membership dues	3,525	3,525	3,224	301
Van and bus expense	4,500	4,500	4,491	9
Legal and professional expense	13,500	13,500	11,215	2,285
Taxes and licenses	1,200	1,200	281	919
Maintenance and repairs	10,275	10,275	9,244	1,031
Mountain Homeplace	37,500	37,500	37,500	-
Insurance	22,200	22,200	19,477	2,723
Security	760	760	759	1
Sipp expenses	8,000	8,000	6,085	1,915
Stafford house expenses	6,000	6,000	1,015	4,985
Other expense	87,651	87,651	24,982	62,669
Debt service:				
Interest expense	-	-	5,559	(5,559)
Principal retirement	16,450	16,450	10,890	5,560
Capital outlay	-	-	98,526	(98,526)
Total expenditures	<u>520,277</u>	<u>520,277</u>	<u>432,065</u>	<u>88,212</u>
Excess of revenues over (under) expenditures	<u>204,800</u>	<u>204,800</u>	<u>458,226</u>	<u>253,426</u>

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2021

51

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing sources (uses):				
Transfer out to General Fund	<u>(204,800)</u>	<u>(204,800)</u>	<u>(270,193)</u>	<u>(65,393)</u>
Total other financing sources (uses)	<u>(204,800)</u>	<u>(204,800)</u>	<u>(270,193)</u>	<u>(65,393)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	188,033	<u>\$ 188,033</u>
Fund balance - beginning			<u>324,823</u>	
Fund balance - ending			<u>\$ 512,856</u>	

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2021

52

	<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>	<u>6/30/2020</u>
City's proportion of the net pension liability (asset)	0.163673%	0.169953%	0.166466%
City's proportionate share of the net pension liability (asset)	\$ 9,580,284	\$ 10,351,021	\$ 11,707,628
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198	\$ 4,323,980
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	226.81%	246.73%	270.76%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	53.54%	50.45%
	<u>6/30/2021</u>		
City's proportion of the net pension liability (asset)	0.168752%		
City's proportionate share of the net pension liability (asset)	\$ 12,943,139		
City's covered-employee payroll	\$ 4,313,388		
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	300.07%		
Plan fiduciary net position as a percentage of the total pension liability	47.81%		

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, 2021

53

	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	6/30/2020
Contractually required contribution	\$ 611,636	\$ 680,461	\$ 834,528
Contributions in relation to the contractually required contribution	611,636	680,461	834,528
Contribution deficiency (excess)	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198	\$ 4,323,980
Contributions as a percentage of covered-employee payroll	14.48%	16.22%	19.30%
	6/30/2021		
Contractually required contribution	\$ 832,484		
Contributions in relation to the contractually required contribution	832,484		
Contribution deficiency (excess)	\$ -		
City's covered-employee payroll	\$ 4,313,388		
Contributions as a percentage of covered-employee payroll	19.30%		

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, 2021

54

NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

There have been no assumption changes since June 30, 2019. Senate Bill 249 passed during the 2020 Legislative Session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2020

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.00% for CERS non-hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25% for CERS non-hazardous

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY (CERS)
JUNE 30, 2021

55

	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
City's proportion of the net OPEB liability (asset)	0.163673%	0.169953%	0.166466%
City's proportionate share of the net OPEB liability (asset)	\$ 3,290,387	\$ 3,017,482	\$ 2,799,160
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198	\$ 4,323,980
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	77.90%	71.92%	64.74%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%	60.44%
	<u>6/30/2021</u>		
City's proportion of the net OPEB liability (asset)	0.168703%		
City's proportionate share of the net OPEB liability (asset)	\$ 4,073,664		
City's covered-employee payroll	\$ 4,313,388		
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	94.44%		
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%		

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, 2021

56

	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
Contractually required contribution	\$ 198,529	\$ 220,668	\$ 205,821
Contributions in relation to the contractually required contribution	<u>198,529</u>	<u>220,668</u>	<u>205,821</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,224,008	\$ 4,195,198	\$ 4,323,980
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%

	<u>6/30/2021</u>
Contractually required contribution	\$ 205,318
Contributions in relation to the contractually required contribution	<u>205,318</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 4,313,388
Contributions as a percentage of covered-employee payroll	4.76%

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, 2021

57

NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34% for the Non-Hazardous Fund. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 GASB No. 75 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2020

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.00% for CERS non-hazardous
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25% for CERS non-hazardous
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. The 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement for CERS non-hazardous.
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 2019 premiums were known at the time of the valuation and were incorporated into the liability measurement for CERS non-hazardous.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous.

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
JUNE 30, 2021

58

	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	\$ 42,392	\$ 217,415	\$ 275,713	\$ 535,520
Due from General Fund	-	-	-	-
Total Assets	<u>\$ 42,392</u>	<u>\$ 217,415</u>	<u>\$ 275,713</u>	<u>\$ 535,520</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,005	\$ 1,039	\$ 21,367	\$ 26,411
Accrued vacation	-	-	3,553	3,553
Due to General Fund	-	-	240,822	240,822
Total Liabilities	<u>4,005</u>	<u>1,039</u>	<u>265,742</u>	<u>270,786</u>
Fund Balances:				
Restricted for:				
Streets	-	216,376	-	216,376
Other	38,387	-	9,971	48,358
Unassigned	-	-	-	-
Total Fund Balances	<u>38,387</u>	<u>216,376</u>	<u>9,971</u>	<u>264,734</u>
Total Liabilities and Fund Balances	<u>\$ 42,392</u>	<u>\$ 217,415</u>	<u>\$ 275,713</u>	<u>\$ 535,520</u>

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2021

59

	Special Revenue Funds			
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	Total Non-Major Governmental Funds
Revenues:				
Intergovernmental revenues	\$ 20,499	\$ 63,741	\$ -	\$ 84,240
Charges for services	-	-	416,326	416,326
Interest	-	1	1	2
Total revenues	20,499	63,742	416,327	500,568
Expenditures:				
Current:				
Public safety	-	-	459,833	459,833
Streets	13,384	1,079	-	14,463
Sanitation	3,905	-	-	3,905
Recreation	8,403	-	-	8,403
Capital outlay	-	193,049	-	193,049
Total expenditures	25,692	194,128	459,833	679,653
Excess of revenues over (under) expenditures	(5,193)	(130,386)	(43,506)	(179,085)
Other financing sources (uses):				
Transfer in from General Fund	-	204,881	-	204,881
Intragovernmental forgiveness of debt	-	-	43,506	43,506
Total other financing sources (uses)	-	204,881	43,506	248,387
Net change in fund balances	(5,193)	74,495	-	69,302
Fund balances - beginning	43,580	141,881	9,971	195,432
Fund balances - ending	<u>\$ 38,387</u>	<u>\$ 216,376</u>	<u>\$ 9,971</u>	<u>\$ 264,734</u>

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

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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>				
USDA Rural Utility Services				
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ -	\$ 660,457
Pass-through from Kentucky Rural Water Finance Corporation				
Water and Waste Disposal Systems for Rural Communities	10.760	E-2020-1	-	1,502,508
Total Water and Waste Disposal Systems for Rural Communities				2,162,965
Total U.S. Department of Agriculture			-	2,162,965
<u>U.S. DEPARTMENT OF THE TREASURY</u>				
Pass-through program from Kentucky Dept for Local Government				
Coronavirus Relief Fund	21.019	C299	-	290,286
Coronavirus Relief Fund	21.019	C2-273	-	89,832
Total Coronavirus Relief Fund				380,118
Total U.S. Department of the Treasury			-	380,118
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Health Resources and Services Administration				
Provider Relief Fund	93.498	N/A	-	52,631
Total U.S. Department of Health and Human Services			-	52,631
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-through program from Kentucky Dept of Military Affairs				
Disaster Grants - Public Assistance	97.036	FEMA-DR-4428-KY	-	297,343
Disaster Grants - Public Assistance	97.036	FEMA-DR-4595-KY	-	139,500
Total Disaster Grants - Public Assistance			-	436,843
Pass-through program from Kentucky Dept of Military Affairs				
Hazard Mitigation Grant Program	97.039	DR-4218-0003	-	343,040
Pass-through program from Johnson County Fiscal Court				
Emergency Management Performance Grants	97.042	EMPG-3	-	14,277
Total U.S. Department of Homeland Security			-	794,160
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 3,389,874

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED June 30, 2021

61

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, 2021. 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.

NOTE D – FEDERAL LOANS AND LOAN GUARANTEE PROGRAMS OUTSTANDING:

The City received funding from the U. S. Department of Agriculture passed through Kentucky Rural Water Finance Corporation for CFDA #10.760 Water and Waste Disposal Systems for Rural Communities. Loan proceeds received during fiscal year ended June 30, 2021 have been included in the schedule of expenditures of federal awards. The balance of the loan outstanding at June 30, 2021 is \$1,502,508.