

CITY OF PAINTSVILLE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2011



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paintsville, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paintsville, Kentucky's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2012, on our consideration of the City of Paintsville, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 40 through 46 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paintsville, Kentucky's financial statements as a whole. The accompanying supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The accompanying supplemental information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 10, 2012

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 400,054	\$ 6,932,419	\$ 7,332,473
Investments	-	630,049	630,049
Taxes receivable	69,721	-	69,721
Accounts receivable	60,290	645,409	705,699
Grants receivable	153,424	209,630	363,054
Other receivable	13,574	-	13,574
Due from Paintsville Utilities	60,873	-	60,873
Unbilled revenues	-	338,958	338,958
Inventory	-	123,443	123,443
Prepaid and other assets	21,260	194,328	215,588
Capital assets:			
Land and construction-in-progress	664,448	14,346,986	15,011,434
Other capital assets, net of accumulated depreciation	6,340,378	38,880,922	45,221,300
Total Assets	7,784,022	62,302,144	70,086,166
LIABILITIES			
Accounts payable	433,628	1,780,635	2,214,263
Accrued payroll taxes	16,313	7,056	23,369
Accrued vacation	50,688	40,049	90,737
Other accrued liabilities	34,464	166,968	201,432
Customer meter deposits payable	-	881,242	881,242
Interest payable on customer meter deposits	-	290,834	290,834
Long-term liabilities:			
Due within one year	128,480	439,205	567,685
Due in more than one year	1,505,088	10,771,589	12,276,677
Total Liabilities	2,168,661	14,377,578	16,546,239
NET ASSETS			
Invested in capital assets, net of related debt	6,638,752	42,017,114	48,655,866
Restricted for:			
Other purposes	455,140	4,074,214	4,529,354
Unrestricted (deficit)	(1,478,531)	1,833,238	354,707
Total Net Assets	\$ 5,615,361	\$ 47,924,566	\$ 53,539,927

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,483,276	\$ 70,144	\$ 2,101	\$ 15,000	\$ (1,396,031)	\$ -	\$ (1,396,031)
Public safety	2,497,572	934,803	139,679	294,529	(1,128,561)	-	(1,128,561)
Recreation	701,427	243,386	-	-	(458,041)	-	(458,041)
Streets	624,579	-	-	-	(624,579)	-	(624,579)
Sanitation	688,370	744,249	-	-	55,879	-	55,879
Tourism	964,284	57,827	-	-	(906,457)	-	(906,457)
Interest on long-term debt	43,127	-	-	-	(43,127)	-	(43,127)
Total governmental activities	7,002,635	2,050,409	141,780	309,529	(4,500,917)	-	(4,500,917)
Business-type activities:							
Water, gas, and sewer	7,353,814	8,125,858	-	3,397,430	-	4,169,474	4,169,474
Total business-type activities	7,353,814	8,125,858	-	3,397,430	-	4,169,474	4,169,474
Total primary government	\$ 14,356,449	\$ 10,176,267	\$ 141,780	\$ 3,706,959	(4,500,917)	4,169,474	(331,443)
General revenues:							
Property taxes					511,732	-	511,732
Occupational taxes					1,298,127	-	1,298,127
Insurance premium taxes					449,015	-	449,015
Motor vehicle taxes					24,115	-	24,115
Restaurant taxes					675,956	-	675,956
Room occupancy taxes					62,600	-	62,600
Franchise fees and taxes					79,097	-	79,097
Payments in lieu of taxes					59,824	-	59,824
ABC fees					149,448	-	149,448
Licenses and permits					2,603	-	2,603
Intergovernmental revenue					409,901	-	409,901
Investment income					1,405	28,998	30,403
Gain/(Loss) on sale of capital assets					(1,818,339)	2,173	(1,816,166)
Donation/contributions					117,942	-	117,942
Miscellaneous					58,492	-	58,492
Total general revenues and transfers					2,081,918	31,171	2,113,089
Change in net assets					(2,418,999)	4,200,645	1,781,646
Net assets - beginning					8,034,360	43,723,921	51,758,281
Net assets - ending					\$ 5,615,361	\$ 47,924,566	\$ 53,539,927

CITY OF PAINTSVILLE, KENTUCKY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2011

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 42,616	\$ 332,273	\$ 25,165	\$ 400,054
Receivables:				
Property taxes	1,881	-	-	1,881
Accounts	60,290	-	-	60,290
Grants	118,424	-	35,000	153,424
Other	13,574	-	-	13,574
Due from Paintsville Utilities	60,873	-	-	60,873
Due from 911 Fund	79,221	-	-	79,221
Due from General Fund	-	-	130,000	130,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 376,879</u>	<u>\$ 332,273</u>	<u>\$ 190,165</u>	<u>\$ 899,317</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 370,668	\$ 11,980	\$ 50,980	\$ 433,628
Accrued payroll taxes	14,749	1,564	-	16,313
Accrued vacation	42,185	4,007	4,496	50,688
Other accrued liabilities	34,464	-	-	34,464
Due to General Fund	-	-	79,221	79,221
Due to Coal & Mineral	45,000	-	-	45,000
Due to Road Aid	85,000	-	-	85,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>592,066</u>	<u>17,551</u>	<u>134,697</u>	<u>744,314</u>
Fund Balances:				
Restricted for:				
Public Safety	1,586	-	-	1,586
Streets	-	-	91,166	91,166
Tourism	-	314,722	-	314,722
Other	-	-	47,666	47,666
Unassigned	(216,773)	-	(83,364)	(300,137)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>(215,187)</u>	<u>314,722</u>	<u>55,468</u>	<u>155,003</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 376,879</u>	<u>\$ 332,273</u>	<u>\$ 190,165</u>	<u>\$ 899,317</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 ASSETS
JUNE 30, 2011

Fund Balances - Total Governmental Funds \$ 155,003

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

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

Governmental capital assets	12,699,530
Less: accumulated depreciation	(5,694,704)

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

Bond payable	(1,290,556)
Bond discount	23,062
Loans payable	(208,037)
Leases payable	(158,037)

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

Bond issue costs	21,260
Delinquent property taxes	67,840

Net Assets of Governmental Activities \$ 5,615,361

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 504,669	\$ -	\$ -	\$ 504,669
Occupational	1,298,127	-	-	1,298,127
Insurance premium	449,015	-	-	449,015
Motor vehicle	24,115	-	-	24,115
Franchise	40,755	-	-	40,755
Restaurant	-	675,956	-	675,956
Room occupancy	-	62,600	-	62,600
Payments in lieu of taxes	59,824	-	-	59,824
ABC fees	149,448	-	-	149,448
Franchise fees	38,342	-	-	38,342
Licenses and permits	2,603	-	-	2,603
Intergovernmental revenues	252,557	-	155,657	408,214
Grants	405,242	-	47,754	452,996
Charges for services	1,668,766	57,827	323,816	2,050,409
Investment income	6	1,390	9	1,405
Contributions	117,942	-	-	117,942
Miscellaneous revenues	19,580	39,135	-	58,715
Total revenues	<u>5,030,991</u>	<u>836,908</u>	<u>527,236</u>	<u>6,395,135</u>
Expenditures:				
General government	1,433,556	-	-	1,433,556
Public safety	1,950,485	-	355,159	2,305,644
Recreation	618,059	-	16,976	635,035
Streets	515,389	-	42,482	557,871
Sanitation	655,346	-	3,600	658,946
Tourism	-	831,134	-	831,134
Debt service:				
Principal retirement	646,721	-	-	646,721
Interest	43,127	-	-	43,127
Capital outlay	484,218	17,939	58,897	561,054
Total expenditures	<u>6,346,901</u>	<u>849,073</u>	<u>477,114</u>	<u>7,673,088</u>
Excess (deficiency) of revenues over expenditures	(1,315,910)	(12,165)	50,122	(1,277,953)
Other financing sources (uses):				
Proceeds from sale of capital assets	734	-	-	734
Transfers in	-	-	1,000	1,000
Transfers out	-	-	(1,000)	(1,000)
Proceeds from borrowing	1,474,954	-	-	1,474,954
Total other financing sources (uses)	<u>1,475,688</u>	<u>-</u>	<u>-</u>	<u>1,475,688</u>
Net change in fund balances	159,778	(12,165)	50,122	197,735
Fund balances - beginning	<u>(374,965)</u>	<u>326,887</u>	<u>5,346</u>	<u>(42,732)</u>
Fund balances - ending	<u>\$ (215,187)</u>	<u>\$ 314,722</u>	<u>\$ 55,468</u>	<u>\$ 155,003</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, 2011**

Net Change in Fund Balances - Total Governmental Funds \$ 197,735

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	561,054
Depreciation expense	(537,322)

The net effect of various miscellaneous transactions involving capital assets:

Transfer of Entrepreneur Center to Midway College	(1,819,073)
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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 in property taxes	7,063
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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 Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 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	646,721
Loan proceeds	(224,500)
Bond proceeds	(1,250,454)
Amortization of bond issue costs	(223)

Change in Net Assets of Governmental Activities \$ (2,418,999)

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,316,178
Accounts receivable, no allowance considered necessary	645,409
Grant funds receivable	209,630
Unbilled revenues	338,958
Inventory	123,443
Prepaid expenses	116,175

Total current assets	3,749,793
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Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	123,512
Debt service reserve fund	42,397
Depreciation reserve fund	981,640
Operations and maintenance fund	3,468,692
Investments - debt service reserve fund	630,049

Total restricted assets	5,246,290
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Utility Plant:

Plant in service	58,876,562
Less accumulated depreciation	(19,474,051)
	39,402,511
Construction work in progress	13,825,397

Net utility plant	53,227,908
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Other non-current assets:

Bond issuance costs, net	78,153
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Total other non-current assets	78,153
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Total assets	\$ 62,302,144
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CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS (Continued)
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2011

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 1,429,237
Retainage payable	351,398
Deferred grant revenue	-
Compensated absences	40,049
Accrued interest payable	23,943
Other accrued liabilities	150,081
Current portion of long-term liabilities	191,805
Current portion of capital lease obligations	40,000

Total current liabilities 2,226,513

Payable from restricted assets:

Current portion of bonds	207,400
Customer meter deposits	881,242
Interest payable on customer meter deposits	290,834

Total liabilities payable from restricted assets 1,379,476

Long-term liabilities:

Advances for construction	5,605,871
Bonds payable, net of discount	3,331,853
Notes payable	1,823,070
Capital lease obligations	450,000
	<u>11,210,794</u>
Less current portion	<u>(439,205)</u>

Total long-term liabilities 10,771,589

Total liabilities 14,377,578

Net assets:

Investments in capital assets, net of related debt	42,017,114
Restricted	4,074,214
Unrestricted	1,833,238

Total net assets 47,924,566

Total liabilities and net assets \$ 62,302,144

**CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 FOR THE YEAR ENDED JUNE 30, 2011**

Operating revenues:	
Gas revenues	\$ 2,716,264
Water revenues	2,916,458
Wastewater revenues	2,236,717
Other operating revenues	<u>256,419</u>
Total operating revenues	8,125,858
Cost of sales	<u>1,546,457</u>
Net operating revenues	<u>6,579,401</u>
Operating expenses:	
Salaries and wages	1,265,412
Payroll taxes	94,376
Employee pension and benefits	622,472
Materials and supplies	460,234
Legal and professional	111,544
Miscellaneous general expense	333,204
Utilities	1,013,660
Insurance	127,292
Motor vehicle expenses	91,973
Contract labor	13,405
Amortization of debt issuance costs	61,103
Depreciation	<u>1,286,889</u>
Total operating expenses	<u>5,481,564</u>
Utility operating income (loss)	<u>1,097,837</u>
Non-operating revenues (expenses):	
Interest income	28,998
Gain on sale of equipment	2,173
Interest expense	<u>(207,852)</u>
Total non-operating revenues (expenses)	<u>(176,681)</u>
Net income (loss) before contributions from (to)	921,156
Contributions in aid of construction	3,397,430
Contribution to the City of Paintsville	<u>(117,941)</u>
Change in net assets	4,200,645
Net assets, beginning of year	<u>43,723,921</u>
Net assets, end of year	<u><u>\$ 47,924,566</u></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, 2011**

Cash flows from operating activities:

Cash inflows:

Payments received from customers \$ 7,983,552

Total cash provided 7,983,552

Cash outflows:

Payments for salaries and benefits 1,972,149

Payments to suppliers for goods and services 3,674,392

Total cash used 5,646,541

Net cash provided (used) by operating activities 2,337,011

Cash flows from noncapital financing activities:

Interest paid on customer deposits (3,768)

Net cash provided (used) by noncapital financing activities (3,768)

Cash flows from capital and related financing activities:

Purchase and construction of utility plant (8,287,455)

Proceeds from loans and bonds 6,637,371

Principal payments on long-term debt (3,047,138)

Payments on capital leases (40,000)

Interest paid on long-term debt and capital leases (net of interest capitalized) (188,347)

Proceeds from sale of capital assets 2,173

Contributions-in-aid of construction 3,179,915

Net cash provided (used) by capital and related financing activities (1,743,481)

Cash flows from investing activities:

Interest received 10,366

Net cash provided (used) by investing activities 10,366

Net cash inflow (outflow) from all activities 600,128

Cash and cash equivalents at beginning of period 6,332,291

Cash and cash equivalents at end of period \$ 6,932,419

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

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

Utility operating income	\$ 1,097,837
Depreciation and amortization	1,347,992
Contribution of utility services	(117,941)
(Increase) decrease in:	
Accounts receivable	(52,231)
Unbilled revenue	27,866
Inventory	28,862
Prepaid expenses and other assets	(100,147)
Increase (decrease) in:	
Accounts payable	58,952
Accrued liabilities and other liabilities	45,821

Net cash provided (used) by operating activities

\$ 2,337,011

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 1,819,902
Restricted cash and cash equivalents	4,512,389

\$ 6,332,291

End of period:

Unrestricted cash and cash equivalents	\$ 2,316,178
Restricted cash and cash equivalents	4,616,241

\$ 6,932,419

Supplemental disclosure of noncash capital and related financing activities:

The utilities had accounts payable for capital expenditures of \$1,535,309 at June 30, 2011.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

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

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

A. Financial Reporting Entity

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

Blended Component Units:

Paintsville Utilities Commission

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

Paintsville Tourism Commission

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

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

Paintsville Utilities
137 Main Street
Paintsville, Kentucky 41240

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excluded From Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Governmental Funds

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

a. General Fund

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

b. Special Revenue Fund

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. PROPRIETARY FUNDS

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

a. Enterprise Fund or Business Funds

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

b. Internal Service Fund

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

3. Fiduciary Funds

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

C. Basis of Accounting

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Budgets and Budgetary Accounting

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

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

E. Cash and Investments

The City considers all cash, certificates of deposit, and savings to be cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Allowance for Uncollectible Accounts

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

G. Capital Assets

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

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

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

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

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

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

H. Compensated Absences

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

L. Net Assets

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

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

M. Accrued Liabilities and Long-Term Obligations

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

N. Interfund Activity

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

O. Defined Benefit Pension Plan

Substantially all City full-time regular employees participate in the Statewide Kentucky Retirement Systems ("System"), a multiple-employer public employee retirement system. Kentucky Retirement Systems is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the City but are the liability of the State of Kentucky. The payroll for employees covered by the System for the year ended June 30, 2011 was \$1,841,391 the City's total payroll was \$2,492,429.

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

Covered employees are required by State statute to contribute 5 percent, or 6 percent for employees hired after August 31, 2008, of creditable compensation to the System. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service cost per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 16.93% percent for all covered employees. The contribution requirement for the year ended June 30, 2011 was \$407,080, which consisted of \$311,747 from the City and \$95,333 from employees.

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

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.

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.

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, 2011 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	\$8,238,388	\$917,070	\$7,321,318	\$ 0	\$7,962,522

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. Delinquent taxes are considered fully collectible and therefore no allowance for uncollected taxes is provided.

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, consisted of the following:

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 4. CAPITAL ASSETS (Continued)

Primary Government

	<u>Balance</u>			<u>Balance</u>
Governmental Activities	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 858,515	\$ -	\$ 194,067	\$ 664,448
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>858,515</u>	<u>-</u>	<u>194,067</u>	<u>664,448</u>
Capital assets, being depreciated:				
Buildings and improvements	7,565,642	169,980	1,874,561	5,861,061
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,156,485	130,198	19,900	2,266,783
Infrastructure	170,931	-	-	170,931
Machinery and equipment	<u>2,624,865</u>	<u>260,876</u>	<u>-</u>	<u>2,885,741</u>
Total capital assets being depreciated	13,368,489	561,054	1,894,461	12,035,082
Less accumulated depreciation for:				
Buildings and improvements	(1,821,544)	(144,234)	(249,555)	(1,716,223)
Improvements other than buildings	(572,656)	(36,741)	-	(609,397)
Automobiles and trucks	(1,469,525)	(135,813)	(19,900)	(1,585,438)
Infrastructure	(75,867)	(17,094)	-	(92,961)
Machinery and equipment	<u>(1,487,245)</u>	<u>(203,440)</u>	<u>-</u>	<u>(1,690,685)</u>
Total accumulated depreciation	<u>(5,426,837)</u>	<u>(537,322)</u>	<u>(269,455)</u>	<u>(5,694,704)</u>
Total capital assets being depreciated, net	<u>7,941,652</u>	<u>23,732</u>	<u>1,625,006</u>	<u>6,340,378</u>
Governmental activities capital assets, net	<u>\$ 8,800,167</u>	<u>\$ 23,732</u>	<u>\$ 1,819,073</u>	<u>\$ 7,004,826</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 49,720
Public safety	191,928
Recreation	66,392
Streets	66,708
Sanitation	29,424
Tourism	<u>133,150</u>
Total	<u>\$537,322</u>

	<u>Balance</u>			<u>Balance</u>
Business-Type Activities	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 521,589	\$ -	\$ -	\$ 521,589
Construction in progress	<u>4,547,905</u>	<u>9,277,492</u>	<u>-</u>	<u>13,825,397</u>
Total capital assets, not being depreciated	<u>5,069,494</u>	<u>9,277,492</u>	<u>-</u>	<u>14,346,986</u>

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4. CAPITAL ASSETS (Continued)

Capital assets, being depreciated:				
Buildings and improvements	633,933	-	-	633,933
Utility plants	56,480,775	308,523	-	56,789,298
Automobiles and trucks	660,789	72,497	16,287	716,999
Machinery and equipment	<u>208,484</u>	<u>6,259</u>	<u>-</u>	<u>214,743</u>
Total capital assets being depreciated	57,983,981	387,279	16,287	58,354,973
Less accumulated depreciation for:				
Buildings and improvements	(178,959)	(12,605)	-	(191,564)
Utility plants	(17,370,744)	(1,208,676)	-	(18,579,420)
Automobiles and trucks	(510,189)	(47,828)	(16,287)	(541,730)
Machinery and equipment	<u>(143,557)</u>	<u>(17,780)</u>	<u>-</u>	<u>(161,337)</u>
Total accumulated depreciation	(18,203,449)	(1,286,889)	(16,287)	(19,474,051)
Total capital assets being depreciated, net	<u>39,780,532</u>	<u>(889,610)</u>	<u>-</u>	<u>38,880,922</u>
Total utilities capital assets, net	<u>\$44,850,026</u>	<u>\$8,377,882</u>	<u>\$ -</u>	<u>\$53,227,908</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$1,286,889</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.

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

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2012	\$ 64,828	\$ 51,332
2013	60,967	50,253
2014	41,091	49,232

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6. CAPITAL LEASES (Continued)

2015	-	48,192
2016	-	57,132
2017-2020	-	<u>253,262</u>
Total minimum lease payments	166,886	509,403
Less amount representing interest	<u>(8,849)</u>	<u>(59,403)</u>
Present value of net minimum lease payments	<u>\$158,037</u>	<u>\$450,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2011:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Building	\$283,063	\$ -
Equipment	142,000	1,070,990
Less accumulated depreciation	<u>(86,374)</u>	<u>(494,440)</u>
	<u>\$338,689</u>	<u>\$ 576,550</u>

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2011 consists of the following:

Governmental Activities

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

On April 21, 2011, the City borrowed \$74,500 from First Commonwealth Bank to partially fund the purchase of two ambulances. The loan agreement provides for 48 monthly payments of \$1,649 to be made beginning May 21, 2011 with final payment due on April 21, 2015. The loan bears interest at 3.00%.

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

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Revenue Bonds, Series 2011 Issue. Principal and interest is due monthly	\$ 1,290,556	Variable	01/2031

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 7. LONG-TERM DEBT (Continued)

Less:

Current maturities	34,306
Unamortized discount	<u>23,062</u>

City of Paintsville, Kentucky Water Revenue Bond, Series 1994.
 Principal installments and interest payable in July of each year. \$1,233,188

	Amount Outstanding <u>6/30/2010</u>	<u>Additions</u>	<u>Deductions</u>	Amount Outstanding <u>6/30/2011</u>	Amounts Due Within <u>One Year</u>
Entrepreneur Center loan payable (Citizens)	\$ 561,053	\$ -	\$ (561,053)	\$ -	\$ -
Revenue Bond – Series 2011	-	1,295,000	(4,444)	1,290,556	34,306
Sip Theatre loan payable	-	150,000	(15,000)	135,000	15,000
Ambulance loan payable	-	74,500	(1,463)	73,037	19,351
Long-Term Debt	<u>\$ 561,053</u>	<u>\$ 1,519,500</u>	<u>\$ (581,960)</u>	<u>\$ 1,498,593</u>	<u>\$ 68,657</u>

Principal and interest payments to be made on all long-term debt at June 30, 2011, for each of the next five years and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2012	\$ 34,306	\$ 34,351	\$ 68,657	\$ 64,398	\$ 133,055
2013	47,083	33,430	80,513	61,272	141,785
2014	50,000	33,990	83,990	58,699	142,689
2015	50,000	31,266	81,266	56,025	137,291
2016	50,000	15,000	65,000	53,700	118,700
2017-2021	286,250	60,000	346,250	233,146	579,396
2022-2026	356,250	-	356,250	162,595	518,845
2027-2031	416,667	-	416,667	64,943	481,610
	<u>\$ 1,290,556</u>	<u>\$ 208,037</u>	<u>\$ 1,498,593</u>	<u>\$ 754,778</u>	<u>\$ 2,253,371</u>

Business-Type Activities

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville Combined Utility Refunding Bonds, Series 1978 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	\$ 325,000	5.00%	02/2026
City of Paintsville Public Projects Refunding Revenue Bonds, Series 2011 Issue. Principal installments due in February of each year, interest payable semi-annually in February and August of each year.	2,045,000	2.65%	02/2026

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 7. LONG-TERM DEBT (Continued)

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	373,700	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	300,500	4.50%	07/2038
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>241,000</u> 3,285,200	4.125%	07/2046
 Notes:			
Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.	17,966	5.75%	07/2013
Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.	5,349	7.00%	07/2013
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,311,263	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.	157,891	3.00%	06/2012
Note payable to Kentucky Infrastructure Authority, due in semi- annual installments of principal and interest, in June and December of each year.	<u>330,601</u> <u>1,823,070</u> 5,108,270	1.00%	06/2026
 Add:			
Unamortized discount	<u>46,653</u>		
	<u>\$5,154,923</u>		

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 7. LONG-TERM DEBT (Continued)

The Utility Refunding Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 3.34 at June 30, 2011.

	<u>Amount Outstanding 6/30/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2011</u>	<u>Amounts Due Within One Year</u>
Combined Utility Refunding Bond – 1978 Issue	\$ 363,000	\$ -	(\$ 38,000)	\$ 325,000	\$ 40,000
Combined Utility Refunding Bond – 1998 Issue	2,015,000	-	(2,015,000)	-	-
Combined Utility Refunding Bond – 2011 Issue	-	2,045,000	-	2,045,000	150,000
Water Revenue Bond – Series 1989	804,000	-	(804,000)	-	-
Water Revenue Bond – Series 1994	373,700	-	-	373,700	8,400
Water Revenue Bond – Series 1998	300,500	-	-	300,500	6,000
Water Revenue Bond – Series 2006	244,000	-	(3,000)	241,000	3,000
EDA Loans Payable	34,732	-	(11,417)	23,315	12,111
KIA Loan Payable	1,365,243	-	(53,980)	1,311,263	54,684
KIA Loan Payable (water treatment plant)	259,301	-	(101,410)	157,891	104,475
KIA Loan Payable (wastewater treatment plant)	<u>350,932</u>	<u>-</u>	<u>(20,331)</u>	<u>330,601</u>	<u>20,535</u>
Long-Term Debt	<u>\$6,110,408</u>	<u>\$ 2,045,000</u>	<u>(\$3,047,138)</u>	<u>\$5,108,270</u>	<u>\$399,205</u>

Principal and interest payments to be made on all long-term debt at June 30, 2011, for each of the next five years and thereafter are as follows:

<u>Year Ending June 30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2012	\$ 207,400	\$ 191,805	\$ 399,205	\$ 137,784	\$ 536,989
2013	290,300	140,757	431,057	138,837	569,894
2014	298,300	77,068	375,368	127,451	502,819
2015	310,700	78,010	388,710	117,021	505,731
2016	325,200	78,963	404,163	105,558	509,721
2017-2021	1,064,700	409,539	1,474,239	340,504	1,814,743
2022-2026	242,200	435,211	677,411	202,038	879,449
2027-2031	191,000	340,856	531,856	122,958	654,814
2032-2036	213,400	70,861	284,261	57,680	341,941
2037-2041	85,000	-	85,000	20,383	105,383
2042-2046	<u>57,000</u>	<u>-</u>	<u>57,000</u>	<u>7,139</u>	<u>64,139</u>
	<u>\$3,285,200</u>	<u>\$1,823,070</u>	<u>\$5,108,270</u>	<u>\$1,377,353</u>	<u>\$6,485,623</u>

NOTE 7. LONG-TERM DEBT (Continued)

Advances for Construction

On November 1, 2009, the Commission entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the Paintsville Lake Water Treatment Plant. This project is anticipated to be completed in December 2012.

The future loan to the Commission is \$6,519,566 of which \$890,740 was received through June 30, 2011. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

On January 1, 2010, the Commission entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the Package Treatment Plants Replacement Project.

The future loan to the Commission is \$550,850 of which \$462,493 was received through June 30, 2011. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

On April 26, 2011, the Commission entered into a loan agreement with Kentucky Rural Water Finance Corporation to provide interim financing for the construction of the Paintsville Lake Water Treatment Plant. The interim loan is for \$13,500,000 of which \$4,252,638 was drawn through June 30, 2011. The interim loan carries a 2.5% interest rate. The City of Paintsville, Kentucky on April 12, 2011 authorized the issuance of Combined Utilities Revenue Bonds, Series 2011 in the principal amount of \$13,500,000 to be used to repay the interim financing in the future.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 9. GRANTS

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

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10. SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through January 10, 2012, the date the financial statements were available to be issued.

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2011

<u>FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through program from USDA Rural Development Community Facilities Loans and Grants	10.766	20-058-616001892	\$ <u>36,610</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Pass-through program from Kentucky Dept of Natural Resources Division of Abandoned Mine Lands Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-0800004839	<u>1,069,996</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct programs: ARRA - Rural Law Enforcement Assistance: Combating Rural Crime	16.810	2009-SD-B9-0044	<u>110,514</u>
<u>U.S. SMALL BUSINESS ADMINISTRATION</u>			
Pass-through program from TOUR Southern and Eastern Kentucky Small Business Administration Awards	59.000	N/A	<u>15,000</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from Kentucky Infrastructure Authority Capitalization Grants For Clean Water State Revolving Funds	66.458	F08-10	271,227
ARRA - Capitalization Grants For Clean Water State Revolving Funds	66.458	A2 09-34	588,952
Total - Capitalization Grants For Clean Water State Revolving Funds	66.458		<u>860,179</u>
Total U.S. Environmental Protection Agency			<u>860,179</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct programs: Assistance to Firefighters Grant	97.044	EMW-2010-F0-04696	137,878
Pass-through program from Kentucky Office of Homeland Security Homeland Security Grant Program	97.067	P02-094-1100002199	37,733
Homeland Security Grant Program	97.067	P02-094-1000002682	8,739
Pass-through program from Johnson County Fiscal Court Emergency Management Performance Grants	97.042	EMPG-3	<u>16,411</u>
Total U.S. Department of Homeland Security			<u>200,761</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,293,060</u>

See accompanying note to schedule of expenditures of federal awards.

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Paintsville and is presented on the annual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky as of and for the year ended June 30, 2011, which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated January 10, 2012, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2011-1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2011-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paintsville, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Paintsville, Kentucky, in a separate letter dated January 10, 2012.

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

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

Welch & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 10, 2012



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Paintsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Paintsville, Kentucky's management. Our responsibility is to express an opinion on the City of Paintsville, Kentucky's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the City of Paintsville, Kentucky's compliance with those requirements.

In our opinion, the City of Paintsville, Kentucky, complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the City of Paintsville, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Paintsville, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 10, 2012

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued *unqualified*:

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 programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Abandoned Mine Land Reclamation (AMLR) Program	15.252
Clean Water State Revolving Funds	66.458
ARRA – Clean Water State Revolving Funds	66.458
ARRA – Rural Law Enforcement Assistance: Combating Rural Crime	16.810

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2011 - 1 Segregation of Duties

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

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

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

Recommendation: Mayor and City Council should continue its strong oversight.

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

SIGNIFICANT DEFICIENCY

2011 - 2 Financial Reporting

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

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

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

Recommendation: The management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**CITY OF PAINTSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

There were no findings and recommendations for the year ended June 30, 2010.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Property taxes	\$ 485,000	\$ 504,669	\$ 19,669
Payments in lieu of taxes	-	59,824	59,824
Franchise fees and taxes	128,350	79,097	(49,253)
Police court revenue	15,000	10,674	(4,326)
Police services	15,000	13,161	(1,839)
Building permits	10,000	1,857	(8,143)
Licenses	1,500	746	(754)
Interest earned on investments	-	6	6
ABC fees	120,000	149,448	29,448
Garbage collection fees	760,000	744,249	(15,751)
Taxes on insurance premiums	505,000	449,015	(55,985)
Occupational taxes	1,300,000	1,298,127	(1,873)
Motor vehicle tax	21,000	24,115	3,115
Ambulance receipts	615,000	597,826	(17,174)
Firefighter and police incentive pay	103,400	96,538	(6,862)
Rental/Lease revenue	85,000	53,619	(31,381)
City pool and concession revenue	23,000	28,815	5,815
Country Club revenue	278,000	214,571	(63,429)
Advertising	20,000	16,525	(3,475)
Miscellaneous intergovernmental revenue	210,000	145,345	(64,655)
Grants	133,700	405,242	271,542
Contributions	-	117,942	117,942
Other receipts	19,600	19,580	(20)
	<u>4,848,550</u>	<u>5,030,991</u>	<u>182,441</u>
Expenditures:			
General government:			
Administrative salaries	372,000	358,076	13,924
Payroll tax expense	31,550	36,081	(4,531)
Employee benefits	125,000	112,154	12,846
City attorney's fees	30,000	39,522	(9,522)
Mayor's expense	9,000	6,255	2,745
Postage	4,000	5,657	(1,657)
Advertising	10,000	12,224	(2,224)
Office supplies and printing	15,000	14,858	142
Telephone	12,000	12,953	(953)
Workmen's compensation insurance	5,100	10,993	(5,893)
Audit and accounting fees	14,000	1,900	12,100
Insurance and bonding	16,500	15,409	1,091
Utilities	162,000	187,876	(25,876)
Preparation of property tax bills	13,500	13,706	(206)

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Senior Citizens	48,930	52,434	(3,504)
Big Sandy ADD dues	1,500	-	1,500
Equipment lease expense	10,000	7,893	2,107
Main Street Program	12,000	7,302	4,698
Capital expenditures	-	219,367	(219,367)
Debt service:			
Interest expense	-	14,128	(14,128)
Principal retirement	21,000	19,444	1,556
Other general expenses	93,010	68,382	24,628
Contribution to Midway College	-	435,000	(435,000)
Building inspector expense	3,000	2,953	47
Total general government	<u>1,009,090</u>	<u>1,654,567</u>	<u>(645,477)</u>
Police:			
Salaries and wages	340,400	378,320	(37,920)
Payroll tax expense	31,950	29,538	2,412
Employee benefits	135,200	135,674	(474)
Gasoline and oil	36,000	46,889	(10,889)
Vehicle repairs and maintenance	10,000	21,875	(11,875)
Workmen's compensation insurance	23,200	23,088	112
Insurance and bonding	35,000	43,989	(8,989)
Utilities	-	6,184	(6,184)
Training	3,000	4,800	(1,800)
Telephone	8,500	11,422	(2,922)
Uniforms and uniforms cleaning	8,000	10,871	(2,871)
Capital expenditures	18,000	12,075	5,925
Other expenditures	35,780	95,870	(60,090)
Total police	<u>685,030</u>	<u>820,595</u>	<u>(135,565)</u>
Fire:			
Salaries and wages	252,700	241,592	11,108
Payroll tax expense	19,800	17,429	2,371
Employee benefits	90,000	80,372	9,628
Gasoline and oil	6,000	8,236	(2,236)
Repairs and maintenance	10,000	10,449	(449)
Insurance	18,750	20,459	(1,709)
Telephone	15,000	10,418	4,582
Utilities	-	7,223	(7,223)
Uniforms and uniforms cleaning	9,500	8,553	947
Training	1,000	855	145
Training center expenses	5,000	2,823	2,177
Workmen's compensation insurance	19,350	18,960	390

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Capital expenditures	-	146,176	(146,176)
Other expenses	11,780	12,364	(584)
Debt service:			
Interest expense	-	713	(713)
Principal retirement	13,500	11,812	1,688
Total fire	<u>472,380</u>	<u>598,434</u>	<u>(126,054)</u>
Ambulance:			
Salaries and wages	426,000	397,592	28,408
Payroll tax expense	36,810	30,567	6,243
Employee benefits	101,000	92,893	8,107
Medical supplies	20,000	22,177	(2,177)
Vehicle repairs and maintenance	25,000	28,027	(3,027)
Gasoline and oil	25,000	28,412	(3,412)
Uniforms	4,500	1,133	3,367
Telephone	3,000	1,151	1,849
Training	1,000	435	565
Insurance/bonding	22,750	23,812	(1,062)
Billing service	30,000	26,083	3,917
Debt service:			
Interest expense	-	900	(900)
Principal retirement	30,250	11,812	18,438
Workmen's compensation insurance	44,500	44,451	49
Capital expenditures	-	106,600	(106,600)
Other expenses	4,000	5,499	(1,499)
Total ambulance	<u>773,810</u>	<u>821,544</u>	<u>(47,734)</u>
Recreation:			
Recreation salaries	126,000	143,226	(17,226)
Payroll tax expense	12,554	13,485	(931)
Employee benefits	36,000	23,947	12,053
Repairs and maintenance	-	2,296	(2,296)
Insurance	13,146	14,310	(1,164)
Supplies	20,000	13,930	6,070
Pool concessions	5,000	4,262	738
Recreational programs	10,000	1,970	8,030
Workmen's compensation insurance	12,650	15,340	(2,690)
Utilities	-	15,634	(15,634)
Other expenses	15,450	20,840	(5,390)
Total recreation	<u>250,800</u>	<u>269,240</u>	<u>(18,440)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Streets:			
Salaries and wages	256,000	268,624	(12,624)
Payroll tax expense	22,665	22,347	318
Employee benefits	91,000	93,782	(2,782)
Uniforms	6,000	6,487	(487)
Gasoline and oil	25,000	32,038	(7,038)
Insurance	24,600	28,476	(3,876)
Supplies and parts	5,000	12,768	(7,768)
Workmen's compensation insurance	40,500	40,601	(101)
Other expenses	5,000	10,266	(5,266)
Total streets	<u>475,765</u>	<u>515,389</u>	<u>(39,624)</u>
Sanitation:			
Salaries and wages	221,500	232,511	(11,011)
Payroll tax expense	24,273	20,252	4,021
Employee benefits	87,000	83,625	3,375
Gasoline and oil	25,000	24,762	238
Truck repairs and maintenance	10,000	6,124	3,876
Workmen's compensation insurance	38,000	38,016	(16)
Hauling and dumping expense	195,000	196,005	(1,005)
Insurance	32,500	32,541	(41)
Uniforms	7,000	8,762	(1,762)
Utilities	-	4,893	(4,893)
Garage expenses	4,000	4,283	(283)
Debt service:			
Interest expense	-	4,507	(4,507)
Principal retirement	27,407	22,900	4,507
Other expenses	2,000	3,572	(1,572)
Total sanitation	<u>673,680</u>	<u>682,753</u>	<u>(9,073)</u>
Golf Course:			
Salaries and wages	151,000	161,241	(10,241)
Payroll tax expense	14,050	14,773	(723)
Employee benefits	30,000	29,958	42
Workmen's compensation insurance	10,900	10,932	(32)
Maintenance and repairs	16,500	10,955	5,545
Gasoline and oil	11,000	10,538	462
Insurance	13,400	13,577	(177)
Utilities and telephone	20,000	38,227	(18,227)
Debt service:			
Interest expense	-	983	(983)
Principal retirement	15,200	19,700	(4,500)
Other expenses	75,500	58,618	16,882
Total golf course	<u>357,550</u>	<u>369,502</u>	<u>(11,952)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Entrepreneur Center:			
Office expense	8,000	1,835	6,165
Insurance	1,215	-	1,215
Utilities and telephone	48,000	23,179	24,821
Debt service:			
Interest expense	-	21,896	(21,896)
Principal retirement	50,000	561,053	(511,053)
Other expenses	19,000	6,914	12,086
Total entrepreneur center	<u>126,215</u>	<u>614,877</u>	<u>(488,662)</u>
Total expenditures	<u>4,824,320</u>	<u>6,346,901</u>	<u>(1,522,581)</u>
Revenues over (under) expenditures	<u>24,230</u>	<u>(1,315,910)</u>	<u>(1,340,140)</u>
Other Financing Sources/(Uses):			
Proceeds from sales of capital assets	-	734	734
Proceeds from borrowing	-	1,474,954	1,474,954
Total other financing sources (uses)	<u>-</u>	<u>1,475,688</u>	<u>1,475,688</u>
Net change in fund balance	<u>\$ 24,230</u>	159,778	<u>\$ 135,548</u>
Fund balance - beginning		<u>(374,965)</u>	
Fund balance - ending		<u>\$ (215,187)</u>	

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Taxes:			
Restaurant tax	\$ 676,000	\$ 675,956	\$ (44)
Room occupancy tax	55,000	62,600	7,600
Country Music Museum:			
Gift Shop/Rental/Ticket Sales	81,300	57,827	(23,473)
Interest earned on investments	-	1,390	1,390
Miscellaneous revenues	27,300	39,135	11,835
	<u>839,600</u>	<u>836,908</u>	<u>(2,692)</u>
Expenditures:			
Salaries and wages	113,000	110,887	2,113
Payroll tax expense	25,020	19,176	5,844
Employee benefits	43,596	44,836	(1,240)
Contract labor	9,500	6,525	2,975
Administration	11,000	12,123	(1,123)
Travel	12,300	6,010	6,290
Telephone and utilities	34,000	44,281	(10,281)
Donations	178,000	217,803	(39,803)
Postage	1,800	3,333	(1,533)
General office expense	10,589	10,255	334
Janitorial	600	225	375
Gift shop expense	3,000	4,479	(1,479)
Advertising and promotional	180,840	125,561	55,279
Membership dues	3,277	3,569	(292)
Van and bus expense	8,800	6,526	2,274
Legal and professional expense	3,000	8,752	(5,752)
Taxes and licenses	900	929	(29)
Maintenance and repairs	51,415	47,808	3,607
Mountain Homeplace	50,000	82,162	(32,162)
Bank charges	400	440	(40)
Insurance	55,200	54,220	980
Security	1,365	1,472	(107)
Other expense	29,748	19,762	9,986
Capital outlay	12,250	17,939	(5,689)
	<u>839,600</u>	<u>849,073</u>	<u>(9,473)</u>
Total expenditures			
Revenues over (under) expenditures	<u>-</u>	<u>(12,165)</u>	<u>(12,165)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2011

Other financing sources (uses):

Operating transfers	-	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	-	-	-
	<hr/>	<hr/>	<hr/>
Net change in fund balance	<u>\$ -</u>	(12,165)	<u>\$ (12,165)</u>
Fund balance - beginning		<u>326,887</u>	
Fund balance - ending		<u><u>\$ 314,722</u></u>	

See accompanying notes to basic financial statements.

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2011

	<u>Special Revenue Funds</u>			<u>Total Non-Major Governmental Funds</u>
	<u>Coal and Mineral Tax Severance Fund</u>	<u>Municipal Road Aid Fund</u>	<u>911 Fund</u>	
ASSETS				
Cash and cash equivalents	\$ 9,684	\$ 7,997	\$ 7,484	\$ 25,165
Grant receivable	-	-	35,000	35,000
Due from General Fund	45,000	85,000	-	130,000
Total Assets	<u>\$ 54,684</u>	<u>\$ 92,997</u>	<u>\$ 42,484</u>	<u>\$ 190,165</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,018	\$ 1,831	\$ 42,131	\$ 50,980
Accrued vacation	-	-	4,496	4,496
Due to General Fund	-	-	79,221	79,221
Total Liabilities	<u>7,018</u>	<u>1,831</u>	<u>125,848</u>	<u>134,697</u>
Fund Balances:				
Restricted for:				
Streets	-	91,166	-	91,166
Other	47,666	-	-	47,666
Unassigned	-	-	(83,364)	(83,364)
Total Fund Balances	<u>47,666</u>	<u>91,166</u>	<u>(83,364)</u>	<u>55,468</u>
Total Liabilities and Fund Balances	<u>\$ 54,684</u>	<u>\$ 92,997</u>	<u>\$ 42,484</u>	<u>\$ 190,165</u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue Funds</u>			<u>Total Non-Major Governmental Funds</u>
	<u>Coal and Mineral Tax Severance Fund</u>	<u>Municipal Road Aid Fund</u>	<u>911 Fund</u>	
Revenues:				
Intergovernmental revenues	\$ 66,542	\$ 89,115	\$ -	\$ 155,657
Charges for services	-	-	323,816	323,816
Grants	-	-	47,754	47,754
Investment income	6	2	1	9
	<u>66,548</u>	<u>89,117</u>	<u>371,571</u>	<u>527,236</u>
Expenditures:				
Public safety	-	-	355,159	355,159
Streets	5,954	36,528	-	42,482
Recreation	16,976	-	-	16,976
Sanitation	3,600	-	-	3,600
Capital outlay	15,300	-	43,597	58,897
	<u>41,830</u>	<u>36,528</u>	<u>398,756</u>	<u>477,114</u>
Excess (deficiency) of revenues over expenditures	24,718	52,589	(27,185)	50,122
Other financing sources (uses):				
Operating transfers	<u>(1,000)</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,000)</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	23,718	53,589	(27,185)	50,122
Fund balances - beginning	<u>23,948</u>	<u>37,577</u>	<u>(56,179)</u>	<u>5,346</u>
Fund balances - ending	<u><u>\$ 47,666</u></u>	<u><u>\$ 91,166</u></u>	<u><u>\$ (83,364)</u></u>	<u><u>\$ 55,468</u></u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF SAVINGS ACCOUNT INVESTMENTS
 FOR THE YEAR ENDED JUNE 30, 2011

	TOTAL INVESTED FUNDS	GENERAL FUND	911 FUND	COAL AND MINERAL SEVERANCE TAX	MUNICIPAL ROAD AID FUND
BALANCE, JUNE 30, 2010	\$ 18,183	\$ 10,790	\$ 1,013	\$ 5,780	\$ 600
RECEIPTS:					
Interest earned	12	3	1	6	2
Other	-	-	-	-	-
Transfers	-	-	-	-	-
	<u>12</u>	<u>3</u>	<u>1</u>	<u>6</u>	<u>2</u>
TOTAL AVAILABLE FUNDS	18,195	10,793	1,014	5,786	602
DISBURSEMENTS:					
Transfers	10,000	10,000	-	-	-
	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
BALANCE, JUNE 30, 2011	<u>\$ 8,195</u>	<u>\$ 793</u>	<u>\$ 1,014</u>	<u>\$ 5,786</u>	<u>\$ 602</u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2011**

CITY COUNCIL

NAME

Fran Jarrell
Mark McKenzie
Jim Meek
Rick Roberts
David Trimble
David VanHoose

ADMINISTRATIVE PERSONNEL

NAME

Bob Porter
Virgie Castle
Jackie Miller
Jeffrey M. Baldwin

Mayor
City Clerk
City Treasurer
City Attorney

**CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF INSURANCE
 JUNE 30, 2011**

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount of Coverage</u>	<u>Policy Expiration</u>
KLC Insurance Agency	Commercial Property Coverage	\$11,316,167	7/1/12
KLC Insurance Agency	Workers Compensation	4,000,000	7/1/12
KLC Insurance Agency	Automobile Property and Liability	1,000,000	7/1/12
KLC Insurance Agency	Public Officials Liability	2,000,000	7/1/12
KLC Insurance Agency	Law Enforcement Liability	1,000,000	7/1/12
KLC Insurance Agency	General Liability	2,000,000	7/1/12
The Hartford	Flood Damage		
	Community Center	171,400	1/19/12
	City Hall	300,000	12/5/11
Wells Insurance	Surety Bonds		
	City Clerk, Treasurer, and Assistant Treasurer	25,000	4/14/12
	Deputy Administration of Alcohol Sales		7/15/11
Elite Insurance	Surety Bonds		
	Assistant Clerk	25,000	7/10/11
	Mayor	10,000	7/23/11