

CITY OF PAINTSVILLE, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2009



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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Paintsville, Kentucky 41240

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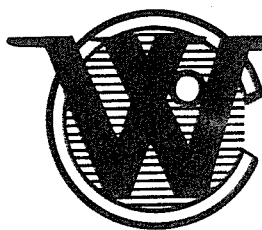
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## INDEPENDENT AUDITOR'S REPORT

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, 2009, 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, 2009, 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 December 16, 2009, 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.

City of Paintsville, Kentucky  
December 16, 2009  
Page 2

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

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

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
December 16, 2009

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 426,213	\$ 4,886,184	\$ 5,312,397
Investments	-	590,932	590,932
Taxes receivable	63,191	-	63,191
Accounts receivable	58,647	622,609	681,256
Grants receivable	299,275	369,069	668,344
Other receivable	13,574	-	13,574
Due from Paintsville Utilities	62,841	-	62,841
Unbilled revenues	-	264,089	264,089
Inventory	-	117,071	117,071
Prepaid and other assets	419,496	203,595	623,091
Capital assets:			
Land and construction-in-progress	858,515	4,450,603	5,309,118
Other capital assets, net of accumulated depreciation	8,222,439	39,480,755	47,703,194
<b>Total Assets</b>	<b>10,424,191</b>	<b>50,984,907</b>	<b>61,409,098</b>
<b>LIABILITIES</b>			
Accounts payable	417,732	767,086	1,184,818
Accrued payroll taxes	15,299	7,372	22,671
Accrued vacation	43,762	41,732	85,494
Other accrued liabilities	28,518	169,883	198,401
Deferred grant revenues	-	12,313	12,313
Customer meter deposits payable	-	810,079	810,079
Interest payable on customer meter deposits	-	247,485	247,485
Long-term liabilities:			
Due within one year	674,982	470,107	1,145,089
Due in more than one year	755,653	6,589,787	7,345,440
<b>Total Liabilities</b>	<b>1,935,946</b>	<b>9,115,844</b>	<b>11,051,790</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,070,095	36,871,464	44,941,559
Restricted for:			
Other purposes	430,185	3,488,792	3,918,977
Unrestricted	(12,035)	1,508,807	1,496,772
<b>Total Net Assets</b>	<b>\$ 8,488,245</b>	<b>\$ 41,869,063</b>	<b>\$ 50,357,308</b>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 1,070,987	\$ 50,622	\$ -	\$ 226,761	\$ (793,604)	\$ -	\$ (793,604)
Public safety	2,299,060	1,065,358	24,588	201,638	(1,007,476)	-	(1,007,476)
Recreation	760,553	323,942	-	-	(436,611)	-	(436,611)
Streets	516,233	-	-	33,292	(482,941)	-	(482,941)
Sanitation	639,246	748,532	-	-	109,286	-	109,286
Tourism	823,656	26,491	-	-	(797,165)	-	(797,165)
Interest on long-term debt	48,503	-	-	-	(48,503)	-	(48,503)
Total governmental activities	<u>6,158,238</u>	<u>2,214,945</u>	<u>24,588</u>	<u>461,691</u>	<u>(3,457,014)</u>	<u>-</u>	<u>(3,457,014)</u>
Business-type activities:							
Water, gas, and sewer	7,390,515	8,258,286	-	2,201,682	-	3,069,453	3,069,453
Total business-type activities	<u>7,390,515</u>	<u>8,258,286</u>	<u>-</u>	<u>2,201,682</u>	<u>-</u>	<u>3,069,453</u>	<u>3,069,453</u>
<b>Total primary government</b>	<b>\$ 13,548,753</b>	<b>\$ 10,473,231</b>	<b>\$ 24,588</b>	<b>\$ 2,663,373</b>	<b>(3,457,014)</b>	<b>3,069,453</b>	<b>(387,561)</b>
<b>General revenues:</b>							
Property taxes					475,824		475,824
Occupational taxes					1,199,181		1,199,181
Insurance premium taxes					509,740		509,740
Motor vehicle taxes					20,593		20,593
Restaurant taxes					695,305		695,305
Room occupancy taxes					56,995		56,995
Franchise fees and taxes					70,426		70,426
Licenses and permits					22,811		22,811
Intergovernmental revenue					360,229		360,229
Investment income					2,075	48,297	50,372
Gain/(Loss) on sale of capital assets					651	2,087	2,738
Donation/contributions					123,331		123,331
Miscellaneous					73,129		73,129
Total general revenues and transfers					<u>3,610,290</u>	<u>50,384</u>	<u>3,660,674</u>
Change in net assets					153,276	3,119,837	3,273,113
Net assets - beginning					8,334,969	38,749,226	47,084,195
<b>Net assets - ending</b>					<b>\$ 8,488,245</b>	<b>\$ 41,869,063</b>	<b>\$ 50,357,308</b>

CITY OF PAINTSVILLE, KENTUCKY  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2009

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 45,697	\$ 354,864	\$ 25,652	\$ 426,213
Receivables:				
Property taxes	4,991	-	-	4,991
Accounts	58,647	-	-	58,647
Grants	299,275	-	-	299,275
Other	13,574	-	-	13,574
Due from Paintsville Utilities	62,841	-	-	62,841
Due from General Fund	-	-	40,000	40,000
Due from Road Aid	-	-	5,348	5,348
Prepaid expenses	365,276	54,220	-	419,496
	<u>365,276</u>	<u>54,220</u>	<u>-</u>	<u>419,496</u>
Total Assets	<u>\$ 850,301</u>	<u>\$ 409,084</u>	<u>\$ 71,000</u>	<u>\$ 1,330,385</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 384,881	\$ 13,294	\$ 19,557	\$ 417,732
Accrued payroll taxes	9,596	5,703	-	15,299
Accrued vacation	37,765	3,065	2,932	43,762
Other accrued liabilities	28,518	-	-	28,518
Due to Coal & Mineral	-	-	5,348	5,348
Due to Road Aid	40,000	-	-	40,000
	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Total Liabilities	<u>500,760</u>	<u>22,062</u>	<u>27,837</u>	<u>550,659</u>
<b>Fund Balances:</b>				
Reserved for prepaid items	365,276	-	-	365,276
Unreserved reported in:				
General Fund	(15,735)	-	-	(15,735)
Special Revenue Funds	-	387,022	43,163	430,185
	<u>-</u>	<u>387,022</u>	<u>43,163</u>	<u>430,185</u>
Total Fund Balances	<u>349,541</u>	<u>387,022</u>	<u>43,163</u>	<u>779,726</u>
	<u>349,541</u>	<u>387,022</u>	<u>43,163</u>	<u>779,726</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 850,301</u>	<u>\$ 409,084</u>	<u>\$ 71,000</u>	<u>\$ 1,330,385</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, 2009

<b>Fund Balances - Total Governmental Funds</b>	\$ 779,726
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Governmental capital assets	13,943,509
Less: accumulated depreciation	(4,862,555)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
	(1,430,635)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent property taxes	<u>58,200</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 8,488,245</u></u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes:				
Property	\$ 476,914	\$ -	\$ -	\$ 476,914
Occupational	1,199,181	-	-	1,199,181
Insurance premium	509,740	-	-	509,740
Motor vehicle	20,593	-	-	20,593
Franchise	22,533	-	-	22,533
Restaurant	-	695,305	-	695,305
Room occupancy	-	56,995	-	56,995
Franchise fees	47,893	-	-	47,893
Licenses and permits	22,811	-	-	22,811
Intergovernmental revenues	187,986	-	172,243	360,229
Grants	396,255	-	90,024	486,279
Charges for services	1,856,961	26,491	331,493	2,214,945
Investment income	10	2,049	16	2,075
Contributions	123,331	-	-	123,331
Miscellaneous revenues	61,176	11,953	-	73,129
Total revenues	<u>4,925,384</u>	<u>792,793</u>	<u>593,776</u>	<u>6,311,953</u>
<b>Expenditures:</b>				
General government	985,064	-	-	985,064
Public safety	1,818,533	-	310,444	2,128,977
Recreation	659,274	-	31,819	691,093
Streets	413,217	-	43,521	456,738
Sanitation	608,010	-	-	608,010
Tourism	-	692,509	-	692,509
Debt service:				
Principal retirement	604,643	-	32,611	637,254
Interest	47,231	-	1,272	48,503
Capital outlay	399,069	6,960	127,284	533,313
Total expenditures	<u>5,535,041</u>	<u>699,469</u>	<u>546,951</u>	<u>6,781,461</u>
Excess (deficiency) of revenues over expenditures	(609,657)	93,324	46,825	(469,508)
<b>Other financing sources (uses):</b>				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Proceeds from sale of assets	651	-	-	651
Proceeds from borrowing	539,776	-	-	539,776
Total other financing sources (uses)	<u>540,427</u>	<u>-</u>	<u>-</u>	<u>540,427</u>
Net change in fund balances	(69,230)	93,324	46,825	70,919
Fund balances - beginning	418,771	293,698	(3,662)	708,807
<b>Fund balances - ending</b>	<u>\$ 349,541</u>	<u>\$ 387,022</u>	<u>\$ 43,163</u>	<u>\$ 779,726</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, 2009

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 70,919
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	533,313
Depreciation expense	(547,344)
The net effect of various miscellaneous transactions involving capital assets	
-	
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:	
Decrease in property taxes	(1,090)
Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:	
Capital debt proceeds	(539,776)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities:	
Loans payable	443,786
Capital leases payable	<u>193,468</u>
<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ 153,276</u></u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND - PAINTSVILLE UTILITIES  
 JUNE 30, 2009

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 930,760
Accounts receivable, no allowance considered necessary	622,609
Grant funds receivable	369,069
Unbilled revenues	264,089
Inventory	117,071
Prepaid expenses	<u>129,797</u>

**Total current assets** 2,433,395

**Non-current assets:**

**Restricted assets:**

Cash and cash equivalents:	
Bond and interest sinking fund	211,092
Debt service reserve fund	193,514
Depreciation reserve fund	650,590
Operations and maintenance fund	2,900,228
Investments - debt service reserve fund	<u>590,932</u>

**Total restricted assets** 4,546,356

**Utility Plant:**

Plant in service	56,956,692
Less accumulated depreciation	<u>(16,954,348)</u>
	40,002,344
Construction work in progress	<u>3,929,014</u>

**Net utility plant** 43,931,358

**Other non-current assets:**

Bond issuance costs, net	<u>73,798</u>
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**Total other non-current assets** 73,798

**Total assets** \$ 50,984,907

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF NET ASSETS (Continued)  
 PROPRIETARY FUND - PAINTSVILLE UTILITIES  
 JUNE 30, 2009

**LIABILITIES AND NET ASSETS**

**Current liabilities:**

Accounts payable	\$ 614,177
Retainage payable	152,909
Deferred grant revenue	12,313
Compensated absences	41,732
Accrued interest payable	42,166
Other accrued liabilities	135,089
Current portion of long-term liabilities	182,607
Current portion of capital lease obligations	40,000

**Total current liabilities** 1,220,993

**Payable from restricted assets:**

Current portion of bonds	247,500
Customer meter deposits	810,079
Interest payable on customer meter deposits	247,485

**Total liabilities payable from restricted assets** 1,305,064

**Long-term liabilities:**

Long-term debt, net of discount	6,529,894
Long-term capital lease obligations	530,000
	<u>7,059,894</u>
Less current portion	(470,107)

**Total long-term liabilities** 6,589,787

**Total liabilities** 9,115,844

**Net assets:**

Investments in capital assets, net of related debt	36,871,464
Restricted	3,488,792
Unrestricted	1,508,807

**Total net assets** 41,869,063

**Total liabilities and net assets** \$ 50,984,907

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND - PAINTSVILLE UTILITIES  
 YEAR ENDED JUNE 30, 2009

<b>Operating revenues:</b>	
Gas revenues	\$ 3,313,408
Water revenues	2,423,576
Wastewater revenues	2,247,028
Other operating revenues	<u>274,274</u>
<b>Total operating revenues</b>	<b>8,258,286</b>
Cost of sales	<u>1,822,113</u>
<b>Net operating revenues</b>	<b><u>6,436,173</u></b>
<b>Operating expenses:</b>	
Salaries and wages	1,212,768
Payroll taxes	90,756
Employee pension and benefits	595,934
Materials and supplies	447,555
Legal and professional	133,362
Miscellaneous general expense	249,536
Utilities	986,784
Insurance	138,479
Motor vehicle expenses	75,551
Contract labor	19,197
Amortization of debt issuance costs	7,481
Depreciation	<u>1,213,247</u>
<b>Total operating expenses</b>	<b><u>5,170,650</u></b>
<b>Utility operating income (loss)</b>	<b><u>1,265,523</u></b>
<b>Non-operating revenues (expenses):</b>	
Interest income	48,297
Gain on sale of equipment	2,087
Interest expense	<u>(274,422)</u>
<b>Total non-operating revenues (expenses)</b>	<b><u>(224,038)</u></b>
<b>Net income (loss) before contributions from (to)</b>	<b>1,041,485</b>
Contributions in aid of construction	2,201,682
Contribution to the City of Paintsville	<u>(123,330)</u>
Change in net assets	3,119,837
Net assets, beginning of year	<u>38,749,226</u>
Net assets, end of year	<b><u>\$ 41,869,063</u></b>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND - PAINTSVILLE UTILITIES  
 YEAR ENDED JUNE 30, 2009

**Cash flows from operating activities:**

**Cash inflows:**

Payments received from customers	<u>\$ 8,127,452</u>
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<b>Total cash provided</b>	<u>8,127,452</u>
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**Cash outflows:**

Payments for salaries and benefits	1,892,152
Payments to suppliers for goods and services	<u>3,788,356</u>

<b>Total cash used</b>	<u>5,680,508</u>
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<b>Net cash provided (used) by operating activities</b>	<u>2,446,944</u>
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**Cash flows from noncapital financing activities:**

Interest paid on customer deposits	<u>(4,124)</u>
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<b>Net cash provided (used) by noncapital financing activities</b>	<u>(4,124)</u>
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**Cash flows from capital and related financing activities:**

Purchase and construction of utility plant	(2,773,598)
Principal payments on long-term debt	(423,317)
Payments on capital leases	(40,000)
Interest paid on long-term debt and capital leases (net of interest capitalized)	(252,746)
Proceeds from sale of capital assets	2,087
Contributions-in-aid of construction	<u>1,898,153</u>

<b>Net cash provided (used) by capital and related financing activities</b>	<u>(1,589,421)</u>
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**Cash flows from investing activities:**

Interest received	<u>26,412</u>
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<b>Net cash provided (used) by investing activities</b>	<u>26,412</u>
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**Net cash inflow (outflow) from all activities**

Cash and cash equivalents at beginning of period	<u>4,006,373</u>
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<b>Cash and cash equivalents at end of period</b>	<u><u>\$ 4,886,184</u></u>
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See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)**  
**YEAR ENDED JUNE 30, 2009**

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

Utility operating income	\$ 1,265,523
Depreciation and amortization	1,220,728
Contribution of utility services	(123,330)
(Increase) decrease in:	
Accounts receivable	(1,224)
Unbilled revenue	(6,280)
Inventory	8,892
Prepaid expenses and other assets	10,997
Increase (decrease) in:	
Accounts payable	33,202
Accrued liabilities and other liabilities	38,436

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

\$ 2,446,944

**Schedule of cash and cash equivalents:**

**Beginning of period:**

Unrestricted cash and cash equivalents	\$ 623,042
Restricted cash and cash equivalents	3,383,331

\$ 4,006,373

**End of period:**

Unrestricted cash and cash equivalents	\$ 930,760
Restricted cash and cash equivalents	3,955,424

\$ 4,886,184

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

The utilities had accounts payable for capital expenditures of \$550,129 at June 30, 2009.



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

**Narrative Profile**

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

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

**A. Financial Reporting Entity**

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

**Blended Component Units:**

**Paintsville Utilities Commission**

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

**Paintsville Tourism Commission**

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

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

Paintsville Utilities  
137 Main Street  
Paintsville, Kentucky 41240

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

**Excluded From Entity**

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

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

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

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

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

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

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

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

**1. Governmental Funds**

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

**a. General Fund**

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

**b. Special Revenue Fund**

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

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

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

**2. PROPRIETARY FUNDS**

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

**a. Enterprise Fund or Business Funds**

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

**b. Internal Service Fund**

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

**3. Fiduciary Funds**

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

**C. Basis of Accounting**

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

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

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

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

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

**D. Budgets and Budgetary Accounting**

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

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

**E. Cash and Investments**

The City considers all cash, certificates of deposit, and savings to be cash equivalents. At June 30, 2009, the reported amount of the City's deposits was \$5,903,329 and the bank balance was \$5,953,419.

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

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

**F. Allowance for Uncollectible Accounts**

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

**G. Capital Assets**

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

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

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

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

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

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

**H. Compensated Absences**

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

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

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

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

**I. Estimates**

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

**J. Restricted Assets**

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

**K. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2009, 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, 2009 was \$1,726,710 the City's total payroll was \$2,383,123.

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 13.50% percent for all covered employees. The contribution requirement for the year ended June 30, 2009 was \$319,902, which consisted of \$233,106 from the City and \$86,796 from employees.

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

**NOTE 2. DEPOSITS**

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

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The City does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, the City's deposits were fully collateralized.



**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, 2009, consisted of the following:

**Primary Government**

<b>Governmental Activities</b>	<b>Balance July 1, 2008</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2009</b>
<b>Capital assets, not being depreciated:</b>				
Land and land improvements	\$ 858,515	\$ -	\$ -	\$ 858,515
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total capital assets, not being depreciated</b>	<u>858,515</u>	<u>-</u>	<u>-</u>	<u>858,515</u>
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	7,547,642	-	-	7,547,642
Improvements other than buildings	821,882	-	-	821,882
Automobiles and trucks	1,970,610	163,845	21,897	2,112,558
Infrastructure	137,293	33,638	-	170,931
Machinery and equipment	<u>2,096,151</u>	<u>335,830</u>	<u>-</u>	<u>2,431,981</u>
<b>Total capital assets being depreciated</b>	12,573,578	533,313	21,897	13,084,994
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(1,444,061)	(188,712)	-	(1,632,773)
Improvements other than buildings	(496,976)	(39,895)	-	(536,871)
Automobiles and trucks	(1,222,565)	(133,952)	(21,897)	(1,334,620)
Infrastructure	(43,363)	(15,411)	-	(58,774)
Machinery and equipment	<u>(1,130,143)</u>	<u>(169,374)</u>	<u>-</u>	<u>(1,299,517)</u>
<b>Total accumulated depreciation</b>	<u>(4,337,108)</u>	<u>(547,344)</u>	<u>(21,897)</u>	<u>(4,862,555)</u>
<b>Total capital assets being depreciated, net</b>	<u>8,236,470</u>	<u>(14,031)</u>	<u>-</u>	<u>8,222,439</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 9,094,985</u>	<u>\$(14,031)</u>	<u>\$ -</u>	<u>\$ 9,080,954</u>

CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

NOTE 4. CAPITAL ASSETS (Continued)

Depreciation was charged to governmental activities as follows:

General government	\$ 85,923
Public safety	170,083
Recreation	69,460
Streets	59,495
Sanitation	31,236
Tourism	<u>131,147</u>
<b>Total</b>	<b><u>\$547,344</u></b>

Business-Type Activities	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2009</u>
<b>Capital assets, not being depreciated:</b>				
Land and land improvements	\$ 521,589	\$ -	\$ -	\$ 521,589
Construction in progress	<u>2,740,392</u>	<u>2,809,067</u>	<u>1,620,445</u>	<u>3,929,014</u>
<b>Total capital assets, not being depreciated</b>	<u>3,261,981</u>	<u>2,809,067</u>	<u>1,620,445</u>	<u>4,450,603</u>
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	625,429	4,351	-	629,780
Utility plants	53,199,297	1,828,426	-	55,027,723
Automobiles and trucks	567,593	42,000	19,921	589,672
Machinery and equipment	<u>134,030</u>	<u>53,898</u>	<u>-</u>	<u>187,928</u>
<b>Total capital assets being depreciated</b>	54,526,349	1,928,675	19,921	56,435,103
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(153,919)	(12,478)	-	(166,397)
Utility plants	(15,019,759)	(1,162,480)	-	(16,182,239)
Automobiles and trucks	(469,703)	(28,207)	(19,921)	(477,989)
Machinery and equipment	<u>(117,642)</u>	<u>(10,081)</u>	<u>-</u>	<u>(127,723)</u>
<b>Total accumulated depreciation</b>	<u>(15,761,023)</u>	<u>(1,213,246)</u>	<u>(19,921)</u>	<u>(16,954,348)</u>
<b>Total capital assets being depreciated, net</b>	<u>38,765,326</u>	<u>715,429</u>	<u>-</u>	<u>39,480,755</u>
<b>Total utilities capital assets, net</b>	<u>\$42,027,307</u>	<u>\$3,524,496</u>	<u>\$1,620,445</u>	<u>\$43,931,358</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$1,179,978</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, therefore have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2009, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2010	\$241,776	\$ 53,392
2011	62,862	52,352
2012	55,155	51,332
2013	54,642	50,253
2014	41,092	49,232
2015-2019	-	297,607
2020-2024	-	<u>60,979</u>
Total minimum lease payments	455,527	615,147
Less amount representing interest	<u>(28,780)</u>	<u>(85,147)</u>
Present value of net minimum lease payments	<u>\$426,747</u>	<u>\$530,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2009:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Building	\$283,063	\$ -
Equipment	882,647	1,070,990
Less accumulated depreciation	<u>(287,174)</u>	<u>(408,761)</u>
	<u>\$878,536</u>	<u>\$ 662,229</u>

**CITY OF PAINTSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 7. LONG-TERM DEBT**

**Governmental Activities**

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

On June 18, 2009, the City borrowed \$419,776 from Citizens National Bank to pay the 2009/2010 property, liability, and workers compensation insurance premiums. The loan agreement provides for 8 monthly payments of \$53,293 to be made beginning July 25, 2009 with the final payments made on May 25, 2010. The loan bears interest at 3.00%.

	<u>Amount Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2009</u>	<u>Amounts Due Within One Year</u>
Preston Street Property loan payable (CNB)	\$ 5,906	\$ -	(\$ 5,906)	\$ -	\$ -
Entrepreneur Center loan payable (CNB)	606,102	-	(21,990)	584,112	23,058
Insurance loan payable (CNB)	415,889	-	(415,889)	-	-
Insurance loan payable (CNB)	<u>-</u>	<u>419,776</u>	<u>-</u>	<u>419,776</u>	<u>419,776</u>
Long-Term Debt	<u>\$1,027,897</u>	<u>\$419,776</u>	<u>(\$443,785)</u>	<u>\$1,003,888</u>	<u>\$442,834</u>

Principal and interest payments to be made on all long-term debt at June 30, 2009, for each of the next five years and thereafter are as follows:

<u>Year Ending 6/30</u>	<u>Notes</u>	<u>Total Interest</u>	<u>Total</u>
2010	\$ 442,834	\$33,814	\$ 476,648
2011	561,054	23,994	585,048
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015-2019	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,003,888</u>	<u>\$57,808</u>	<u>\$1,061,696</u>

**Business-Type Activities**

Long-term debt at June 30, 2009 consists of the following:

**CITY OF PAINTSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

<b>Bonds:</b>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville Combined Utility Refunding Bonds, Series 1978 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	\$ 399,000	5.00%	09/2017
City of Paintsville Combined Utility Refunding Revenue Bonds, Series 1998 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	2,185,000	4.50%	09/2018
City of Paintsville, Kentucky Water Revenue Bond, Series 1989. Principal installments and interest payable in July of each year.	829,000	5.00%	07/2029
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	381,700	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	306,000	4.50%	07/2037
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>247,000</u> 4,347,700	4.125%	07/2046
<b>Notes:</b>			
Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.	35,481	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.	10,011	7.00%	07/2013
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,418,528	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.	357,736	3.00%	06/2012

CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2009

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

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

<u>371,061</u>	1.00%	06/2026
<u>2,192,817</u>		
6,540,517		

**Less:**

Current maturities	430,107
Unamortized discount	<u>10,623</u>
	<u>\$6,099,787</u>

The Utility Refunding Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 3.38 at June 30, 2009.

	<u>Amount Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2009</u>	<u>Amounts Due Within One Year</u>
Combined Utility Refunding Bond – 1978 Issue	\$ 434,000	\$ -	(\$ 35,000)	\$ 399,000	\$ 36,000
Combined Utility Refunding Bond – 1998 Issue	2,355,000	-	(170,000)	2,185,000	170,000
Water Revenue Bond – Series 1989	853,000	-	(24,000)	829,000	25,000
Water Revenue Bond – Series 1994	389,300	-	(7,600)	381,700	8,000
Water Revenue Bond – Series 1998	311,500	-	(5,500)	306,000	5,500
Water Revenue Bond – Series 2006	250,000	-	(3,000)	247,000	3,000
EDA Loans Payable	55,634	-	(10,142)	45,492	10,758
KIA Loan Payable	1,471,127	-	(52,599)	1,418,528	53,285
KIA Loan Payable (water treatment plant)	453,283	-	(95,547)	357,736	98,435
KIA Loan Payable (wastewater treatment plant)	<u>390,990</u>	<u>-</u>	<u>(19,929)</u>	<u>371,061</u>	<u>20,129</u>
<b>Long-Term Debt</b>	<u>\$6,963,834</u>	<u>\$ -</u>	<u>(\$423,317)</u>	<u>\$6,540,517</u>	<u>\$430,107</u>

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

Principal and interest payments to be made on all long-term debt at June 30, 2009, 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>
2010	\$ 247,500	\$ 182,607	\$ 430,107	\$ 235,388	\$ 665,495
2011	262,400	187,135	449,535	218,807	668,342
2012	274,800	191,805	466,605	201,388	667,993
2013	291,300	140,762	432,062	183,147	615,209
2014	303,700	77,068	380,768	167,086	547,854
2015-2019	1,725,900	399,703	2,125,603	587,597	2,713,200
2020-2024	371,000	424,752	795,752	314,038	1,109,790
2025-2029	467,500	379,126	846,626	187,091	1,033,717
2030-2034	228,100	209,859	437,959	74,097	512,056
2035-2039	98,000	-	98,000	26,525	124,525
2040-2044	54,000	-	54,000	11,676	65,676
2045-2048	23,500	-	23,500	1,445	24,945
	<u>\$4,347,700</u>	<u>\$2,192,817</u>	<u>\$6,540,517</u>	<u>\$2,208,285</u>	<u>\$8,748,802</u>

**NOTE 8. COMMITMENTS AND CONTINGENCIES**

**Litigation**

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

**NOTE 9. GRANTS**

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

**NOTE 10. RESTRICTED NET ASSETS/FUND BALANCE**

Restrictions on net assets/fund balances at June 30, 2009 are as follows:

<u>Fund</u>	<u>Statement of Net Assets Governmental Activities</u>	<u>Balance Sheet – Governmental Funds</u>
Tourism	\$387,022	\$387,022
Coal and Mineral	25,016	25,016
Municipal Road Aid	33,141	33,141
911	(14,994)	(14,994)
Totals	<u>\$430,185</u>	<u>\$430,185</u>

CITY OF PAINTSVILLE, KENTUCKY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2009

<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>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Pass-through program from USDA Rural Development			
Community Facilities Loans and Grants	10.766	00-03	\$ 5,597
Water and Waste Disposal Systems for Rural Communities	10.760	00-15	<u>144,085</u>
Total U.S. Department of Agriculture			<u>149,682</u>
<b><u>U.S. DEPARTMENT OF THE INTERIOR</u></b>			
Pass-through program from Kentucky Dept of Natural Resources			
Division of Abandoned Mine Lands			
Abandoned Mine Land Reclamation (AMLR) Program	15.252	595-0800016826	<u>606,538</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Direct programs:			
Bulletproof Vest Partnership Program	16.607		<u>2,765</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Pass-through program from Kentucky Transportation Cabinet			
Highway Planning & Construction - US 460 Project	20.205	NCPD 3000 (647)	13,964
Highway Planning & Construction - Renaissance Grant	20.205	C-01025974	206,565
Highway Planning & Construction - Safe Routes to School Grant	20.205	PO2 628 0600003109	30,492
State and Highway Community Safety	20.600	AL-08-36	4,781
State and Highway Community Safety	20.600	AL-09-34	<u>9,346</u>
Total U.S. Department of Transportation			<u>265,148</u>
<b><u>APPALACHIAN REGIONAL COMMISSION</u></b>			
Pass-through program from Center for Rural Development			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	ARC-ICS2	<u>8,000</u>
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY</u></b>			
Pass-through program from Kentucky Office of Homeland Security			
Homeland Security Grant Program	97.067	PO2 094 0700012885	17,802
Homeland Security Grant Program	97.067	PO2 094 0700013225	11,487
Homeland Security Grant Program	97.067	PO2 094 0800020873	<u>26,000</u>
			55,289
Pass-through program from Kentucky Department of Military Affairs			
Disaster Grants - Public Assistance	97.036	FEMA-DR-1818-KY	50,524
Pass-through program from Johnson County Fiscal Court			
Emergency Management Performance Grants	97.042	EMPG-3	<u>24,588</u>
Total U.S. Department of Homeland Security			<u>130,401</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 1,162,534</u>

See accompanying note to schedule of expenditures of federal awards.

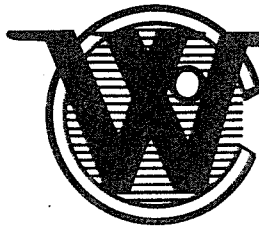


**CITY OF PAINTSVILLE, KENTUCKY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

**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  
Paintsville, Kentucky 41240-1215

(606) 789-3588  
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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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky as of and for the year ended June 30, 2009 which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated December 16, 2009, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Paintsville, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in

accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Paintsville, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Paintsville, Kentucky's internal control. We consider the deficiencies (item 09-01 and 09-02) described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 09-01 to be a material weakness.

#### **Compliance and Other Matters**

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

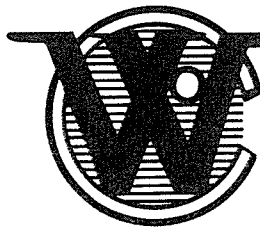
We noted certain matters that we reported to management of the City of Paintsville, Kentucky, in a separate letter dated December 16, 2009.

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

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

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
December 16, 2009



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO 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 compliance of the City of Paintsville, Kentucky, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

**Internal Control Over Compliance**

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
December 16, 2009

**CITY OF PAINTSVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

**SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Paintsville, Kentucky.
2. Two significant deficiencies disclosed during the audit of the financial statements was reported in the "Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*". One of the two conditions is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Paintsville, Kentucky, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the "Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for the City of Paintsville, Kentucky expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program included:
  - a) Abandoned Mine Land Reclamation (AMLR) Program CFDA#15.252
8. The threshold used for distinguishing between Type A and B programs was \$300,000
9. The City of Paintsville, Kentucky did not qualify as a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

**SIGNIFICANT DEFICIENCIES**

**2009 – 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.

**CITY OF PAINTSVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

**SIGNIFICANT DEFICIENCIES (Continued)**

**2009 - 2 Financial Reporting**

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

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

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

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

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

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None



**CITY OF PAINTSVILLE, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2009**

There were no findings and recommendations for the year ended June 30, 2008.

**REQUIRED SUPPLEMENTAL INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Property taxes	\$ 490,000	\$ 476,914	\$ (13,086)
Franchise fees and taxes	66,000	70,426	4,426
Police court revenue	25,000	19,070	(5,930)
Police services	14,000	14,077	77
Building permits	10,000	21,454	11,454
Licenses	3,000	1,357	(1,643)
Interest earned on investments	-	10	10
Garbage collection fees	760,000	748,532	(11,468)
Taxes on insurance premiums	480,000	509,740	29,740
Occupational taxes	1,170,000	1,199,181	29,181
Motor vehicle tax	22,000	20,593	(1,407)
Ambulance receipts	1,020,000	719,788	(300,212)
Firefighter and police incentive pay	108,500	94,742	(13,758)
Rental/Lease revenue	55,000	67,012	12,012
City pool and concession revenue	20,000	31,226	11,226
Country Club revenue	275,000	245,516	(29,484)
Advertising	-	30,810	30,810
Miscellaneous intergovernmental revenue	58,000	74,174	16,174
Grants	160,000	396,255	236,255
Contributions	-	123,331	123,331
Other receipts	36,200	61,176	24,976
	<u>4,772,700</u>	<u>4,925,384</u>	<u>152,684</u>
<b>Total Revenues</b>			
<b>Expenditures:</b>			
General government:			
Administrative salaries	272,549	332,140	(59,591)
Payroll tax expense	22,000	26,325	(4,325)
Employee benefits	105,000	87,592	17,408
City attorney's fees	25,000	35,651	(10,651)
Mayor's expense	15,000	7,730	7,270
Postage	5,000	3,299	1,701
Advertising	6,500	6,637	(137)
Office supplies and printing	15,000	11,921	3,079
Telephone	12,000	9,312	2,688
Workmen's compensation insurance	3,000	3,904	(904)
Audit and accounting fees	15,000	2,800	12,200
Insurance and bonding	15,000	13,752	1,248
Utilities	115,000	176,340	(61,340)
Preparation of property tax bills	13,500	13,406	94
Garden Club	1,000	1,337	(337)

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Senior Citizens	46,000	46,971	(971)
Big Sandy ADD dues	1,500	1,500	-
Equipment lease expense	6,000	8,267	(2,267)
Main Street Program	12,000	12,758	(758)
Capital expenditures	38,000	232,512	(194,512)
Debt service:			
Interest expense	-	454	(454)
Principal retirement	10,800	22,247	(11,447)
Other general expenses	85,000	104,225	(19,225)
Building inspector expense	3,000	2,639	361
Total General Government	<u>842,849</u>	<u>1,163,719</u>	<u>(320,870)</u>
<b>Police:</b>			
Salaries and wages	292,211	306,038	(13,827)
Payroll tax expense	22,500	25,387	(2,887)
Employee benefits	115,000	103,045	11,955
Gasoline and oil	36,000	34,356	1,644
Vehicle repairs and maintenance	12,000	14,184	(2,184)
Workmen's compensation insurance	24,300	24,556	(256)
Insurance and bonding	38,000	30,428	7,572
Utilities	-	9,362	(9,362)
Training	3,500	4,220	(720)
Telephone	11,500	14,007	(2,507)
Uniforms and uniforms cleaning	5,000	4,851	149
Capital expenditures	29,500	17,845	11,655
Debt service:			
Interest expense	-	1,676	(1,676)
Principal retirement	16,000	75,854	(59,854)
Other expenditures	2,780	5,936	(3,156)
Total Police	<u>608,291</u>	<u>671,745</u>	<u>(63,454)</u>
<b>Fire:</b>			
Salaries and wages	236,131	229,582	6,549
Payroll tax expense	19,500	18,373	1,127
Employee benefits	85,000	66,192	18,808
Gasoline and oil	9,400	7,605	1,795
Repairs and maintenance	10,000	13,988	(3,988)
Insurance	21,000	17,604	3,396
Telephone	8,400	9,701	(1,301)
Utilities	-	10,933	(10,933)
Uniforms and uniforms cleaning	3,000	8,492	(5,492)
Training	1,000	640	360

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Training center expenses	4,500	4,472	28
Workmen's compensation insurance	22,000	21,988	12
Capital expenditures	20,834	26,132	(5,298)
Other expenses	11,050	16,487	(5,437)
Debt service:			
Interest expense	-	2,908	(2,908)
Principal retirement	16,000	58,065	(42,065)
Total Fire	<u>467,815</u>	<u>513,162</u>	<u>(45,347)</u>
<b>Ambulance:</b>			
Salaries and wages	502,942	468,523	34,419
Payroll tax expense	37,500	38,060	(560)
Employee benefits	144,000	96,352	47,648
Medical supplies	25,000	18,419	6,581
Vehicle repairs and maintenance	14,000	26,370	(12,370)
Gasoline and oil	48,000	30,933	17,067
Uniforms	4,500	3,711	789
Telephone	2,000	921	1,079
Training	2,000	280	1,720
Insurance/bonding	32,000	25,462	6,538
Billing service	55,000	36,118	18,882
Debt service:			
Interest expense	-	4,606	(4,606)
Principal retirement	35,000	132,130	(97,130)
Workmen's compensation insurance	58,000	65,492	(7,492)
Capital expenditures	-	2,580	(2,580)
Other expenses	10,000	5,465	4,535
Total Ambulance	<u>969,942</u>	<u>955,422</u>	<u>14,520</u>
<b>Recreation:</b>			
Recreation salaries	155,500	129,110	26,390
Payroll tax expense	17,200	11,902	5,298
Employee benefits	48,000	29,565	18,435
Repairs and maintenance	-	5,233	(5,233)
Insurance	14,600	18,613	(4,013)
Supplies	18,000	21,409	(3,409)
Pool concessions	5,000	7,770	(2,770)
Recreational programs	2,500	4,601	(2,101)
Workmen's compensation insurance	16,500	19,413	(2,913)

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Debt service:</b>			
Interest expense	-	1,568	(1,568)
Principal retirement	27,500	66,963	(39,463)
Utilities	-	23,665	(23,665)
Other expenses	31,300	47,300	(16,000)
Total Recreation	<u>336,100</u>	<u>387,112</u>	<u>(51,012)</u>
<b>Streets:</b>			
Salaries and wages	174,551	227,077	(52,526)
Payroll tax expense	15,000	19,467	(4,467)
Employee benefits	70,000	62,681	7,319
Uniforms	7,000	7,225	(225)
Gasoline and oil	30,000	24,414	5,586
Insurance	20,000	19,773	227
Supplies and parts	18,000	12,315	5,685
Workmen's compensation insurance	37,000	29,746	7,254
<b>Debt service:</b>			
Interest expense	-	2,363	(2,363)
Principal retirement	46,000	90,478	(44,478)
Other expenses	8,600	10,519	(1,919)
Total Streets	<u>426,151</u>	<u>506,058</u>	<u>(79,907)</u>
<b>Sanitation:</b>			
Salaries and wages	216,002	193,551	22,451
Payroll tax expense	18,000	16,307	1,693
Employee benefits	90,000	75,415	14,585
Gasoline and oil	30,000	22,752	7,248
Truck repairs and maintenance	15,000	13,960	1,040
Workmen's compensation insurance	36,000	36,975	(975)
Hauling and dumping expense	195,000	199,629	(4,629)
Insurance	35,000	25,660	9,340
Uniforms	8,000	8,994	(994)
Utilities	-	7,406	(7,406)
Garage expenses	6,000	2,885	3,115
Capital expenditures	-	120,000	(120,000)
<b>Debt service:</b>			
Interest expense	-	2,225	(2,225)
Principal retirement	28,000	93,743	(65,743)
Other expenses	11,000	4,476	6,524
Total Sanitation	<u>688,002</u>	<u>823,978</u>	<u>(135,976)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Country Club:</b>			
Salaries and wages	135,400	143,826	(8,426)
Payroll tax expense	12,600	13,372	(772)
Employee benefits	27,500	20,844	6,656
Workmen's compensation insurance	10,000	9,370	630
Maintenance and repairs	20,500	18,674	1,826
Gasoline and oil	15,000	8,521	6,479
Insurance	13,500	6,755	6,745
Utilities and telephone	12,500	53,464	(40,964)
Equipment rental	19,000	4,488	14,512
Debt service:			
Interest expense	-	3,088	(3,088)
Principal retirement	22,500	41,717	(19,217)
Other expenses	23,000	61,379	(38,379)
Total Country Club	<u>311,500</u>	<u>385,498</u>	<u>(73,998)</u>
<b>Entrepreneur Center:</b>			
Marketing	2,500	-	2,500
Travel	1,000	-	1,000
Office expense	8,000	3,744	4,256
Equipment lease expense	1,500	-	1,500
Insurance	1,250	1,284	(34)
Utilities and telephone	50,000	53,331	(3,331)
Capital expenditures	2,800	-	2,800
Debt service:			
Interest expense	-	28,343	(28,343)
Principal retirement	50,000	23,446	26,554
Other expenses	5,000	18,199	(13,199)
Total Entrepreneur Center	<u>122,050</u>	<u>128,347</u>	<u>(6,297)</u>
<b>Total Expenditures</b>	<u>4,772,700</u>	<u>5,535,041</u>	<u>(762,341)</u>
Revenues over (under) expenditures	<u>-</u>	<u>(609,657)</u>	<u>(609,657)</u>
<b>Other Financing Sources/(Uses):</b>			
Operating transfers	-	-	-
Proceeds from sale of assets	-	651	651
Proceeds from borrowing	-	539,776	539,776
Total Other Financing Uses	<u>-</u>	<u>540,427</u>	<u>540,427</u>
Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	<u>\$ -</u>	<u>(69,230)</u>	<u>\$ (69,230)</u>
Fund Balance at Beginning of Year		<u>418,771</u>	
<b>Fund Balance at End of Year</b>		<u>\$ 349,541</u>	

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 PAINTSVILLE TOURISM COMMISSION  
 FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Taxes:			
Restaurant tax	\$ 575,000	\$ 695,305	\$ 120,305
Room occupancy tax	50,000	56,995	6,995
Country Music Museum:			
Gift Shop/Rental/Ticket Sales	-	26,491	26,491
Interest earned on investments	-	2,049	2,049
Miscellaneous revenues	-	11,953	11,953
	<u>625,000</u>	<u>792,793</u>	<u>167,793</u>
Total revenues			
<b>Expenditures:</b>			
Salaries and wages	275,000	188,782	86,218
Payroll tax expense	-	18,464	(18,464)
Employee benefits	-	44,618	(44,618)
Administration	10,125	11,174	(1,049)
Travel	5,000	2,831	2,169
Telephone and utilities	22,000	49,519	(27,519)
Donations	25,000	125,884	(100,884)
Entertainment	-	303	(303)
Equipment lease	2,000	1,915	85
Postage	-	1,813	(1,813)
General office expense	15,000	14,624	376
Janitorial	-	1,849	(1,849)
Gift shop expense	-	6,689	(6,689)
Advertising and promotional	146,875	67,616	79,259
Membership dues	3,000	1,115	1,885
Van and bus expense	3,000	4,245	(1,245)
Legal and professional expense	23,000	37,886	(14,886)
Taxes and licenses	-	1,569	(1,569)
Maintenance and repairs	5,000	17,513	(12,513)
Mountain Homeplace	50,000	12,500	37,500
Bank charges	-	179	(179)
Insurance	40,000	48,802	(8,802)
Security	-	1,058	(1,058)
Special events expense	-	762	(762)
Other expense	50,000	30,799	19,201
Capital outlay	-	6,960	(6,960)
	<u>675,000</u>	<u>699,469</u>	<u>(24,469)</u>
Total expenditures			

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 PAINTSVILLE TOURISM COMMISSION  
 FOR THE YEAR ENDED JUNE 30, 2009

Excess (deficiency) of revenues over expenditures	<u>(50,000)</u>	<u>93,324</u>	<u>143,324</u>
<b>Other financing sources (uses):</b>			
Operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(50,000)	93,324	<u>\$ 143,324</u>
Fund balances - beginning	<u>50,000</u>	<u>293,698</u>	
<b>Fund balances - ending</b>	<u>\$ -</u>	<u>\$ 387,022</u>	

See accompanying notes to basic financial statements.

**SUPPLEMENTARY  
AND  
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY  
 COMBINING BALANCE SHEET  
 NON-MAJOR FUNDS  
 JUNE 30, 2009

	Special Revenue Funds			Total Non-Major Governmental Funds
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 20,976	\$ 2,536	\$ 2,140	\$ 25,652
Due from General Fund	-	40,000	-	40,000
Due from Road Aid	5,348	-	-	5,348
Total Assets	<u>\$ 26,324</u>	<u>\$ 42,536</u>	<u>\$ 2,140</u>	<u>\$ 71,000</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,308	\$ 4,047	\$ 14,202	\$ 19,557
Accrued vacation	-	-	2,932	2,932
Due to Coal & Mineral	-	5,348	-	5,348
Total Liabilities	<u>1,308</u>	<u>9,395</u>	<u>17,134</u>	<u>27,837</u>
<b>Fund Balances:</b>				
Unreserved	<u>25,016</u>	<u>33,141</u>	<u>(14,994)</u>	<u>43,163</u>
Total Fund Balances	<u>25,016</u>	<u>33,141</u>	<u>(14,994)</u>	<u>43,163</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 26,324</u>	<u>\$ 42,536</u>	<u>\$ 2,140</u>	<u>\$ 71,000</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 NON-MAJOR FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<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>	
<b>Revenues:</b>				
Intergovernmental revenues	\$ 94,129	\$ 78,114	\$ -	\$ 172,243
Charges for services	-	-	331,493	331,493
Grants	-	33,292	56,732	90,024
Investment income	12	1	3	16
	<u>94,141</u>	<u>111,407</u>	<u>388,228</u>	<u>593,776</u>
<b>Total revenues</b>				
	94,141	111,407	388,228	593,776
<b>Expenditures:</b>				
Public safety	1,579	-	308,865	310,444
Streets	5,897	37,624	-	43,521
Recreation	31,819	-	-	31,819
Debt service:				
Interest expense	-	-	1,272	1,272
Principal retirement	-	-	32,611	32,611
Capital outlay	30,100	40,472	56,712	127,284
	<u>69,395</u>	<u>78,096</u>	<u>399,460</u>	<u>546,951</u>
<b>Total expenditures</b>				
	69,395	78,096	399,460	546,951
Excess (deficiency) of revenues over expenditures	24,746	33,311	(11,232)	46,825
<b>Other financing sources (uses):</b>				
Operating transfers	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total other financing sources (uses)</b>				
	-	-	-	-
Net change in fund balances	24,746	33,311	(11,232)	46,825
Fund balances - beginning	270	(170)	(3,762)	(3,662)
<b>Fund balances - ending</b>	<u>\$ 25,016</u>	<u>\$ 33,141</u>	<u>\$ (14,994)</u>	<u>\$ 43,163</u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY  
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL  
JUNE 30, 2009**

CITY COUNCIL

NAME

Fran Jarrell  
Mark McKenzie  
David Trimble  
Bill Mike Runyon  
David VanHoose  
Jim Williams

ADMINISTRATIVE PERSONNEL

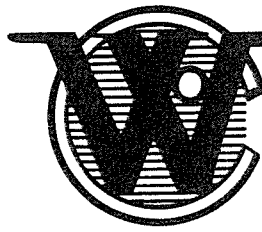
NAME

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

Mayor  
City Clerk  
Finance Officer  
City Treasurer  
City Attorney

**CITY OF PAINTSVILLE, KENTUCKY**  
**SCHEDULE OF INSURANCE**  
**JUNE 30, 2009**

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount of Coverage</u>	<u>Policy Expiration</u>
KLC Insurance Agency	Commercial Property Coverage	\$11,174,749	7/1/10
KLC Insurance Agency	Workers Compensation	4,000,000	7/1/10
KLC Insurance Agency	Automobile Property and Liability	1,000,000	7/1/10
KLC Insurance Agency	Public Officials Liability	1,000,000	7/1/10
KLC Insurance Agency	Law Enforcement Liability	1,000,000	7/1/10
KLC Insurance Agency	General Liability	1,000,000	7/1/10
The Hartford	Flood Damage		
	Community Center	171,400	1/19/10
	City Hall	300,000	12/5/09
Wells Insurance	Surety Bonds		
	City Clerk, Treasurer, and Finance Officer, Deputy Administration of Alcohol Sales	25,000	4/14/10 8/20/09 7/15/10
Elite Insurance	Surety Bonds		
	Assistant Clerk	25,000	7/10/09
	Mayor	10,000	1/01/11



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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

(606) 789-3588

Fax (606) 789-3326

December 16, 2009

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

In planning and performing our audit of the financial statements of the City of Paintsville, Kentucky ("City") for the year ended June 30, 2009, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the City's internal control in our report dated December 16, 2009. This letter does not affect our report dated December 16, 2009, on the financial statements of the City of Paintsville, Kentucky.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Purchases

The City had numerous invoices that were not paid in a timely manner. KRS 65.140 states that all bills for goods and services shall be paid within thirty days of receipt of a vendor's invoice. The City needs to keep working on improving its cash flow in order to get bills paid in a timely manner.

Fund Balance

The audited financial statements of the City show a negative fund balance of \$14,994 in the 911 Fund. Cities must pass a balanced budget where appropriations do not exceed revenues plus any positive prior year fund balance. Thus, there should not be negative fund balances. The City should strictly adhere to the balanced budget ordinance adopted by the City Council.

### Bank Reconciliations

During the audit, it was noted that bank reconciliations were completed through the month of July 2009. The finance officer left her position in early September 2009 and she was responsible for the reconciliations. It is highly recommended that the City not fall far behind in getting the reconciliations completed. It is important to have the reconciliations done in a timely manner so that cash is reported correctly on the general ledger and all items that pass through the bank account are properly recorded.

### Grant Files

Searching for grant information during the audit was cumbersome. The information was located in different areas. The city clerk had grant files, the former finance officer had files, as well as some department heads. It is highly recommended that the city clerk or another designated city employee maintain a file for every grant awarded which should include any correspondence with the grantor agency, a copy of the signed grant agreement, and copies of checks and invoices showing how the grant funds were expended. To help know where grant information is at, there could be a sign out sheet for when any grant file is needed by any other city employee.

We wish to thank the City's staff for their support and assistance during our audit.

This report is intended solely for the information and use of the City Council, Mayor, management, and others within the City 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  
December 16, 2009