

CITY OF PAINTSVILLE, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 41-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paintsville, Kentucky's basic financial statements. The supplemental and other information and the schedules of expenditures of federal awards, as required by Office of management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
February 27, 2014

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 874,991	\$ 6,178,346	\$ 7,053,337
Certificates of deposit	-	2,662,394	2,662,394
Taxes receivable	74,015	-	74,015
Accounts receivable	108,497	770,562	879,059
Other receivable	13,574	-	13,574
Due from Paintsville Utilities	63,974	-	63,974
Unbilled revenues	-	254,708	254,708
Inventory	-	136,413	136,413
Prepaid and other assets	-	13,819	13,819
Capital assets:			
Land and construction-in-progress	858,515	37,152,007	38,010,522
Other capital assets, net of accumulated depreciation	7,774,857	41,540,821	49,315,678
Total Assets	<u>9,768,423</u>	<u>88,709,070</u>	<u>98,477,493</u>
LIABILITIES			
Accounts payable	511,461	1,847,835	2,359,296
Accrued payroll taxes	15,331	7,359	22,690
Accrued vacation	58,717	40,679	99,396
Other accrued liabilities	-	379,874	379,874
Short term note payable	375,000	-	375,000
Customer meter deposits payable	-	888,981	888,981
Interest payable on customer meter deposits	-	318,816	318,816
Long-term liabilities:			
Due within one year	197,344	777,029	974,373
Due in more than one year	1,371,935	28,797,154	30,169,089
Total Liabilities	<u>2,529,788</u>	<u>33,057,727</u>	<u>35,587,515</u>
NET POSITION			
Net investment in capital assets	7,064,093	49,116,245	56,180,338
Restricted for:			
Public safety	2,733	-	2,733
Streets	53,582	-	53,582
Tourism	215,070	-	215,070
Debt service	44,938	1,119,036	1,163,974
Equipment replacement	-	56,920	56,920
Depreciation	-	1,559,314	1,559,314
Other purposes	-	1,501,937	1,501,937
Unrestricted (deficit)	(141,781)	2,297,891	2,156,110
Total Net Position	<u>\$ 7,238,635</u>	<u>\$ 55,651,343</u>	<u>\$ 62,889,978</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,025,264	\$ 30,766	\$ 200	\$ 4,069	\$ (990,229)	\$ -	\$ (990,229)
Public safety	3,192,801	1,814,826	18,709	14,727	(1,344,539)	-	(1,344,539)
Recreation	869,372	234,271	-	23,267	(611,834)	-	(611,834)
Streets	548,995	-	-	-	(548,995)	-	(548,995)
Sanitation	708,399	756,985	-	-	48,586	-	48,586
Tourism	767,941	51,395	-	-	(716,546)	-	(716,546)
Interest on long-term debt	74,116	-	-	-	(74,116)	-	(74,116)
Total governmental activities	<u>7,186,888</u>	<u>2,888,243</u>	<u>18,909</u>	<u>42,063</u>	<u>(4,237,673)</u>	<u>-</u>	<u>(4,237,673)</u>
Business-type activities:							
Water, gas, and sewer	7,845,838	8,661,882	-	1,826,300	-	2,642,344	2,642,344
Total business-type activities	<u>7,845,838</u>	<u>8,661,882</u>	<u>-</u>	<u>1,826,300</u>	<u>-</u>	<u>2,642,344</u>	<u>2,642,344</u>
Total primary government	<u>\$ 15,032,726</u>	<u>\$ 11,550,125</u>	<u>\$ 18,909</u>	<u>\$ 1,868,363</u>	<u>(4,237,673)</u>	<u>2,642,344</u>	<u>(1,595,329)</u>
General revenues:							
Property taxes					606,993	-	606,993
Occupational taxes					1,287,026	-	1,287,026
Insurance premium taxes					473,386	-	473,386
Motor vehicle taxes					24,577	-	24,577
Restaurant taxes					702,067	-	702,067
Room occupancy taxes					69,227	-	69,227
Franchise fees and taxes					67,706	-	67,706
Payments in lieu of taxes					33,862	-	33,862
ABC fees					170,369	-	170,369
Licenses and permits					2,592	-	2,592
Intergovernmental revenue					327,462	-	327,462
Interest income					787	25,312	26,099
Gain/(Loss) on sale of capital assets					14,853	-	14,853
Donation/contributions					2,120,920	-	2,120,920
Miscellaneous					88,917	-	88,917
Total general revenues and transfers					<u>5,990,744</u>	<u>25,312</u>	<u>6,016,056</u>
Change in net position					1,753,071	2,667,656	4,420,727
Net position - beginning, restated					<u>5,485,564</u>	<u>52,983,687</u>	<u>58,469,251</u>
Net position - ending					<u>\$ 7,238,635</u>	<u>\$ 55,651,343</u>	<u>\$ 62,889,978</u>

CITY OF PAINTSVILLE, KENTUCKY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 616,795	\$ 239,180	\$ 19,016	\$ 874,991
Receivables:				
Property taxes	1,380	-	-	1,380
Accounts	108,497	-	-	108,497
Other	13,574	-	-	13,574
Due from Paintsville Utilities	63,974	-	-	63,974
Due from 911 Fund	174,032	-	-	174,032
Due from Tourism Fund	16,861	-	-	16,861
Due from General Fund	-	-	59,000	59,000
	<u>\$ 995,113</u>	<u>\$ 239,180</u>	<u>\$ 78,016</u>	<u>\$ 1,312,309</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 473,841	\$ 4,373	\$ 33,247	\$ 511,461
Accrued payroll taxes	15,331	-	-	15,331
Accrued vacation	51,243	2,876	4,598	58,717
Short term note payable	375,000	-	-	375,000
Due to General Fund	-	16,861	174,032	190,893
Due to Road Aid	59,000	-	-	59,000
	<u>974,415</u>	<u>24,110</u>	<u>211,877</u>	<u>1,210,402</u>
Fund Balances:				
Restricted for:				
Public Safety	2,733	-	-	2,733
Streets	-	-	53,582	53,582
Tourism	-	215,070	-	215,070
Debt Service	44,938	-	-	44,938
Unassigned	(26,973)	-	(187,443)	(214,416)
	<u>20,698</u>	<u>215,070</u>	<u>(133,861)</u>	<u>101,907</u>
Total Liabilities and Fund Balances	<u>\$ 995,113</u>	<u>\$ 239,180</u>	<u>\$ 78,016</u>	<u>\$ 1,312,309</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013

Fund Balances - Total Governmental Funds \$ 101,907

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

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

Governmental capital assets	15,273,883
Less: accumulated depreciation	(6,640,511)

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

Bond payable	(1,230,000)
Bond discount	21,704
Loans payable	(271,720)
Leases payable	(89,263)

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

Delinquent property taxes	<u>72,635</u>
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Net Position of Governmental Activities \$ 7,238,635

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 595,312	\$ -	\$ -	\$ 595,312
Occupational	1,287,026	-	-	1,287,026
Insurance premium	473,386	-	-	473,386
Motor vehicle	24,577	-	-	24,577
Franchise	30,353	-	-	30,353
Restaurant	-	702,067	-	702,067
Room occupancy	-	69,227	-	69,227
Payments in lieu of taxes	33,862	-	-	33,862
ABC fees	170,369	-	-	170,369
Franchise fees	37,353	-	-	37,353
Licenses and permits	2,592	-	-	2,592
Intergovernmental revenues	168,790	-	158,672	327,462
Grants	60,972	-	-	60,972
Charges for services	2,505,246	51,395	331,602	2,888,243
Interest income	1	782	4	787
Contributions	2,120,920	-	-	2,120,920
Miscellaneous revenues	24,472	64,445	-	88,917
Total revenues	7,535,231	887,916	490,278	8,913,425
Expenditures:				
Current:				
General government	950,638	-	-	950,638
Public safety	2,598,494	-	389,886	2,988,380
Recreation	774,959	-	38,852	813,811
Streets	452,420	-	18,979	471,399
Sanitation	675,188	-	-	675,188
Tourism	-	637,073	-	637,073
Debt service:				
Principal	177,397	6,891	-	184,288
Interest	72,799	546	-	73,345
Capital outlay	2,172,142	-	122,399	2,294,541
Total expenditures	7,874,037	644,510	570,116	9,088,663
Excess (deficiency) of revenues over expenditures	(338,806)	243,406	(79,838)	(175,238)
Other financing sources (uses):				
Proceeds from sale of capital assets	15,532	-	-	15,532
Transfers in from Tourism	297,798	-	-	297,798
Transfers in from Coal and Mineral Tax Severance	17,125	-	-	17,125
Transfers out to General Fund	-	(297,798)	(17,125)	(314,923)
Proceeds from borrowing	-	102,815	20,000	122,815
Total other financing sources (uses)	330,455	(194,983)	2,875	138,347
Net change in fund balances	(8,351)	48,423	(76,963)	(36,891)
Fund balances - beginning	29,049	166,647	(56,898)	138,798
Fund balances - ending	\$ 20,698	\$ 215,070	\$ (133,861)	\$ 101,907

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, 2013**

Net Change in Fund Balances - Total Governmental Funds \$ (36,891)

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	2,294,541
Depreciation expense	(576,283)

The net effect of various miscellaneous transactions involving capital assets: (679)

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

Increase/(decrease) in property taxes	11,681
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Principal paid	184,288
Loan proceeds	(122,815)
Amortization of bond discount	(771)
	<hr/>

Change in Net Position of Governmental Activities \$ 1,753,071

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET POSITION
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,891,436
Accounts receivable, no allowance considered necessary	770,562
Unbilled revenues	254,708
Inventory	136,413
Prepaid expenses	13,819

Total current assets	<u>4,066,938</u>
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Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	451,582
Debt service reserve fund	171,754
Depreciation reserve fund	559,314
Equipment replacement fund	56,920
Operations and maintenance fund	2,047,340
Certificates of deposit	2,662,394

Total restricted assets	<u>5,949,304</u>
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Utility Plant:

Plant in service	64,520,633
Less accumulated depreciation	<u>(22,218,223)</u>
	42,302,410
Construction work in progress	<u>36,390,418</u>

Net utility plant	<u>78,692,828</u>
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Total assets	<u><u>\$ 88,709,070</u></u>
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CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET POSITION (Continued)
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2013

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ 721,836
Retainage payable	1,125,999
Compensated absences	40,679
Accrued interest payable	226,043
Other accrued liabilities	161,190
Current portion of long-term liabilities	232,729
Current portion of capital lease obligations	40,000
Total current liabilities	<u>2,548,476</u>

Payable from restricted assets:

Current portion of bonds	504,300
Customer meter deposits	888,981
Interest payable on customer meter deposits	318,816
Total liabilities payable from restricted assets	<u>1,712,097</u>

Long-term liabilities:

Advances for construction	6,208,980
Bonds payable, net of premium	16,326,933
Notes payable	6,668,270
Capital lease obligations	370,000
	<u>29,574,183</u>
Less current portion	(777,029)
Total long-term liabilities	<u>28,797,154</u>

Total liabilities

33,057,727

Net position:

Net investment in capital assets	49,116,245
Restricted	
Debt service	1,119,036
Depreciation	1,559,314
Equipment replacement	56,920
Operations and maintenance	1,501,937
Unrestricted	2,297,891
Total net position	<u>55,651,343</u>
Total liabilities and net position	<u>\$ 88,709,070</u>

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND - PAINTSVILLE UTILITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Operating revenues:	
Gas revenues	\$ 2,275,547
Water revenues	3,712,169
Wastewater revenues	2,367,874
Other operating revenues	<u>306,292</u>
Total operating revenues	8,661,882
Cost of sales	<u>1,351,889</u>
Net operating revenues	<u>7,309,993</u>
Operating expenses:	
Salaries and wages	1,296,098
Payroll taxes	98,530
Employee pension and benefits	855,383
Materials and supplies	521,526
Legal and professional	155,468
Miscellaneous general expense	324,345
Utilities	1,130,085
Insurance	114,614
Motor vehicle expenses	108,895
Contract labor	16,512
Depreciation	<u>1,448,822</u>
Total operating expenses	<u>6,070,278</u>
Utility operating income (loss)	<u>1,239,715</u>
Non-operating revenues (expenses):	
Interest income	25,312
Interest expense	<u>(271,001)</u>
Total non-operating revenues (expenses)	<u>(245,689)</u>
Net income (loss) before contributions from (to)	994,026
Contributions in aid of construction	1,826,300
Contribution to the City of Paintsville	<u>(152,670)</u>
Change in net position	2,667,656
Net position, beginning of year - restated	<u>52,983,687</u>
Net position, end of year	<u><u>\$ 55,651,343</u></u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - PAINTSVILLE UTILITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Cash flows from operating activities:

Cash inflows:

Payments received from customers \$ 8,531,952

Total cash provided 8,531,952

Cash outflows:

Payments for salaries and benefits 2,253,573

Payments to suppliers for goods and services 3,476,876

Total cash used 5,730,449

Net cash provided (used) by operating activities 2,801,503

Cash flows from noncapital financing activities:

Contributions (49,948)

Interest paid on customer deposits (5,583)

Net cash provided (used) by noncapital financing activities (55,531)

Cash flows from capital and related financing activities:

Purchase and construction of utility plant (6,746,311)

Proceeds from loans and bonds 3,544,605

Principal payments on long-term debt (555,375)

Payments on capital leases (40,000)

Interest paid on long-term debt and capital leases (net of interest capitalized) (157,679)

Contributions-in-aid of construction 1,826,300

Net cash provided (used) by capital and related financing activities (2,128,460)

Cash flows from investing activities:

Purchase of investments (2,000,000)

Interest received 8,657

Net cash provided (used) by investing activities (1,991,343)

Net cash inflow (outflow) from all activities (1,373,831)

Cash and cash equivalents at beginning of period 7,552,177

Cash and cash equivalents at end of period \$ 6,178,346

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

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

Utility operating income	\$ 1,239,715
Depreciation and amortization	1,448,822
Contribution of utility services	(102,722)
(Increase) decrease in:	
Accounts receivable	(65,283)
Unbilled revenue	38,075
Inventory	(27,296)
Prepaid expenses and other assets	2,005
Increase (decrease) in:	
Accounts payable	302,793
Accrued liabilities and other liabilities	<u>(34,606)</u>

Net cash provided (used) by operating activities

\$ 2,801,503

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 2,226,247
Restricted cash and cash equivalents	<u>5,325,930</u>

\$ 7,552,177

End of period:

Unrestricted cash and cash equivalents	\$ 2,891,436
Restricted cash and cash equivalents	<u>3,286,910</u>

\$ 6,178,346

Supplemental disclosure of noncash capital and related financing activities:

The utilities had accounts payable for capital expenditures of \$1,362,252 at June 30, 2013.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

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

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

A. Financial Reporting Entity

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

Blended Component Units:

Paintsville Utilities Commission

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

Paintsville Utilities
137 Main Street
Paintsville, Kentucky 41240

Paintsville Tourism Commission

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

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

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 Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Governmental Funds

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

a. General Fund

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

b. Special Revenue Fund

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. PROPRIETARY FUNDS

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The City's Proprietary Funds follow GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. 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 position and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Budgets and Budgetary Accounting

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

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

E. Cash and Investments

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Allowance for Uncollectible Accounts

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

G. Capital Assets

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

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

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

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

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

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

H. Compensated Absences

The City's policy allows full-time employees to earn vacation leave and sick leave. Employees earn five (5) days of vacation leave after year one of employment; ten (10) days after year two, year three, year four, and year five; and one additional day for each year after year five up to a maximum of fifteen days after year ten. Any accumulated vacation will be paid to an employee upon termination.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Estimates

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

J. Restricted Assets

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

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Accrued Liabilities and Long-Term Obligations

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

N. Interfund Activity

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Retirement 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.

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 19.55% percent for all covered employees. The contribution requirement for the year ended June 30, 2013 was \$605,335, which consisted of \$474,564 from the City and \$130,771 from employees.

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

P. Fund Equity

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

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

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

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

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

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

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

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

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

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

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

Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2013 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$9,944,031</u>	<u>\$3,264,101</u>	<u>\$6,679,930</u>	<u>\$ 0</u>	<u>\$9,715,731</u>

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

NOTE 3. PROPERTY TAXES

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

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. 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, 2013, consisted of the following:

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 4. CAPITAL ASSETS (Continued)

Primary Government

Governmental Activities	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 664,448	\$ 194,067	\$ -	\$ 858,515
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>664,448</u>	<u>194,067</u>	<u>-</u>	<u>858,515</u>
Capital assets, being depreciated:				
Buildings and improvements	5,867,589	1,805,933	-	7,673,522
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,382,568	42,803	71,905	2,353,466
Infrastructure	249,234	75,781	-	325,015
Machinery and equipment	<u>3,104,201</u>	<u>175,957</u>	<u>67,359</u>	<u>3,212,799</u>
Total capital assets being depreciated	12,454,158	2,100,474	139,264	14,415,368
Less accumulated depreciation for:				
Buildings and improvements	(1,860,241)	(163,923)	-	(2,024,164)
Improvements other than buildings	(644,952)	(35,082)	-	(680,034)
Automobiles and trucks	(1,670,444)	(134,551)	(71,226)	(1,733,769)
Infrastructure	(113,969)	(28,713)	-	(142,682)
Machinery and equipment	<u>(1,913,207)</u>	<u>(214,014)</u>	<u>(67,359)</u>	<u>(2,059,862)</u>
Total accumulated depreciation	<u>(6,202,813)</u>	<u>(576,283)</u>	<u>(138,585)</u>	<u>(6,640,511)</u>
Total capital assets being depreciated, net	<u>6,251,345</u>	<u>1,524,191</u>	<u>679</u>	<u>7,774,857</u>
Governmental activities capital assets, net	<u>\$ 6,915,793</u>	<u>\$ 1,718,258</u>	<u>\$ 679</u>	<u>\$ 8,633,372</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 74,626
Public safety	204,421
Recreation	55,561
Streets	77,596
Sanitation	33,211
Tourism	<u>130,868</u>
Total	<u>\$ 576,283</u>

Business-Type Activities	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 521,589	\$ 240,000	\$ -	\$ 761,589
Construction in progress	<u>31,335,288</u>	<u>5,055,130</u>	<u>-</u>	<u>36,390,418</u>
Total capital assets, not being depreciated	<u>31,856,877</u>	<u>5,295,130</u>	<u>-</u>	<u>37,152,007</u>

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4. CAPITAL ASSETS (Continued)

Capital assets, being depreciated:

Buildings and improvements	633,933	391,566	-	1,025,499
Utility plants	61,241,508	507,042	55,000	61,693,550
Automobiles and trucks	752,849	38,262	-	791,111
Machinery and equipment	<u>223,364</u>	<u>25,520</u>	<u>-</u>	<u>248,884</u>
Total capital assets being depreciated	62,851,654	962,390	55,000	63,759,044

Less accumulated depreciation for:

Buildings and improvements	(204,168)	(16,566)	-	(220,734)
Utility plants	(19,852,594)	(1,351,357)	(48,584)	(21,155,367)
Automobiles and trucks	(582,291)	(60,110)	-	(642,401)
Machinery and equipment	<u>(178,932)</u>	<u>(20,789)</u>	<u>-</u>	<u>(199,721)</u>
Total accumulated depreciation	(20,817,985)	(1,448,822)	(48,584)	(22,218,223)

**Total capital assets being depreciated,
net**

<u>42,033,669</u>	<u>(486,432)</u>	<u>6,416</u>	<u>41,540,821</u>
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Total utilities capital assets, net

<u>\$73,890,546</u>	<u>\$ 4,808,698</u>	<u>\$ 6,416</u>	<u>\$ 78,692,828</u>
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Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 1,448,822</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 the leases 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, 2013, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2014	\$ 66,296	\$ 49,232
2015	25,204	48,192
2016	-	57,132

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6. CAPITAL LEASES (Continued)

2017	-	65,647
2018	-	64,098
2019-2021	-	<u>123,517</u>
Total minimum lease payments	91,500	407,818
Less amount representing interest	<u>(2,237)</u>	<u>(37,818)</u>
Present value of net minimum lease payments	<u>\$ 89,263</u>	<u>\$ 370,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2013:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Building	\$ 283,063	\$ -
Equipment	213,990	1,070,990
Less accumulated depreciation	<u>(135,326)</u>	<u>(580,119)</u>
	<u>\$ 361,727</u>	<u>\$ 490,871</u>

	Amount Outstanding 6/30/2012	Additions	Deductions	Amount Outstanding 6/30/2013	Amounts Due Within One Year
Governmental activities leases	\$ 173,171	\$ -	\$ (83,908)	\$ 89,263	\$ 64,129
Business-type activities leases	\$ 410,000	\$ -	\$ (40,000)	\$ 370,000	\$ 40,000

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2013 consists of the following:

Governmental Activities

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

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

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

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7. LONG-TERM DEBT (Continued)

On November 22, 2011, the City borrowed \$15,211 from First Commonwealth Bank to partially fund the purchase of an ambulance. The loan agreement provides for 36 monthly payments of \$463 to be made beginning December 20, 2011 with final payment due November 20, 2014. The loan bears interest at 6.00%.

On February 23, 2012, the City borrowed \$20,211 from First Commonwealth Bank to partially fund the purchase of an ambulance. The loan agreement provides for 36 monthly payments of \$614 to be made beginning March 23, 2012 with final payment due on February 23, 2015. Then loan bears interest at 5.85%.

On November 16, 2012, the City borrowed \$20,000 from First Commonwealth Bank to partially fund the purchase of an ambulance. The loan agreement provides for 36 monthly payments of \$600 to be made beginning December 16, 2012 with final payment due on November 16, 2015. The loan bears interest at 4.99%.

On May 1, 2013, Tourism borrowed \$102,815 from First Commonwealth Bank to fund the purchase of 40 golf carts. The loan agreement provides for 36 monthly payments of \$3,004 to be made beginning June 1, 2013 with final payment due on May 1, 2016. The loan bears interest at 3.25%.

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Revenue Bonds, Series 2011 Issue. Principal due in February of each year, interest payable semi-annually in February and August of each year.	\$1,230,000	Variable	01/2031
Less:			
Unamortized discount	<u>21,704</u>		
	<u>\$1,208,296</u>		

	<u>Amount Outstanding 6/30/2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2013</u>	<u>Amounts Due Within One Year</u>
Revenue Bond – Series 2011	\$ 1,275,000	\$ -	\$ (45,000)	\$ 1,230,000	
	\$ 50,000				
Sipp Theatre loan payable	120,000	-	(15,000)	105,000	15,000
Ambulance loan payable	53,686	-	(18,428)	35,258	18,990
Ambulance loan payable	12,461	-	(4,936)	7,525	5,245
Ambulance loan payable	18,138	-	(6,469)	11,669	6,863
Ambulance loan payable	-	20,000	(3,656)	16,344	6,523
Golf carts loan payable	-	102,815	(6,891)	95,924	30,594
	<u>1,479,285</u>	<u>122,815</u>	<u>(100,380)</u>	<u>1,501,720</u>	<u>133,215</u>
Unamortized bond discount	<u>(22,475)</u>	-	771	<u>(21,704)</u>	-
Long-Term Debt	<u>\$ 1,456,810</u>	<u>\$ 122,815</u>	<u>\$ (99,609)</u>	<u>\$ 1,480,016</u>	<u>\$ 133,215</u>

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 7. LONG-TERM DEBT (Continued)

Principal and interest payments to be made on all long-term debt at June 30, 2013, 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>
2014	\$ 50,000	\$ 83,215	\$ 133,215	\$ 63,266	\$ 196,481
2015	50,000	79,643	129,643	58,753	188,396
2016	50,000	48,862	98,862	54,845	153,707
2017	50,000	15,000	65,000	52,225	117,225
2018	55,000	15,000	70,000	50,125	120,125
2019-2023	305,000	30,000	335,000	211,694	546,694
2024-2028	385,000	-	385,000	135,963	520,963
2029-2031	285,000	-	285,000	31,438	316,438
	<u>\$ 1,230,000</u>	<u>\$ 271,720</u>	<u>\$ 1,501,720</u>	<u>\$ 658,309</u>	<u>\$ 2,160,029</u>

Business-Type Activities

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville Combined Utility Revenue Bonds, Series 2011 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	\$13,500,000	2.00%	01/2051
City of Paintsville Combined Utility Revenue Bond, Series 1978 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	243,000	5.00%	02/2026
City of Paintsville Public Projects Revenue Bond, Series 2011 (B) Issue. Principal installments due in February of each year, interest payable semi-annually in February and August of each year.	1,665,000	2.65%	02/2026
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	356,500	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	288,500	4.50%	07/2038
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>234,500</u> 16,287,500	4.125%	07/2046

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7. LONG-TERM DEBT (Continued)

Notes:

Note payable to Citizens National Bank, due in monthly installments of principal and interest. (Rt. 40 shop building)	310,912	2.95%	12/2022
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,201,182	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.	538,376	1.00%	12/2032
Note Payable to U. S. Department of the Army, due in annual installments of principal and interest. (Paintsville Lake Water storage space)	4,328,474	4.125%	05/2039
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year.	<u>289,326</u>	1.00%	06/2026
	<u>6,668,270</u>		
	<u>22,955,770</u>		
Add:			
Unamortized premium	<u>39,433</u>		
	<u>\$22,995,203</u>		

The Utility Refunding Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 2.77 at June 30, 2013.

	Amount Outstanding 6/30/2012	Additions	Deductions	Amount Outstanding 6/30/2013	Amounts Due Within One Year
Combined Utility Refunding Bond – 1978 Issue	\$ 285,000	\$ -	\$ (42,000)	\$ 243,000	\$ 44,000
Water Revenue Bond – Series 1994	365,300	-	(8,800)	356,500	9,300
Water Revenue Bond – Series 1998	294,500	-	(6,000)	288,500	6,500
Water Revenue Bond – Series 2006	238,000	-	(3,500)	234,500	3,500
Combined Utility Refunding Bonds – Series 2011	13,500,000	-	-	13,500,000	206,000
Public Projects Revenue Bond – Series 2011 (B)	1,895,000	-	(230,000)	1,665,000	235,000
Department of the Army Note Payable	4,426,233	-	(97,759)	4,328,474	101,792
EDA Loans Payable	11,201	-	(11,201)	-	-

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7. LONG-TERM DEBT (Continued)

	Amount Outstanding 6/30/2012	Additions	Deductions	Amount Outstanding 6/30/2013	Amounts Due Within One Year
Citizens National Bank (Rt 40 shop building)	-	325,000	(14,088)	310,912	28,733
KIA Loan Payable	1,256,579	-	(55,397)	1,201,182	56,120
KIA Loan Payable (wastewater treatment plant)	536,337	14,513	(12,474)	538,376	25,136
KIA Loan Payable (water treatment plant)	53,416	-	(53,416)	-	-
KIA Loan Payable (wastewater treatment plant)	310,066	-	(20,740)	289,326	20,948
	<u>23,171,632</u>	<u>339,513</u>	<u>(555,375)</u>	<u>22,955,770</u>	<u>737,029</u>
Unamortized Bond Premium	44,164	-	(4,731)	39,433	-
Long-Term Debt	<u>\$ 23,215,796</u>	<u>\$ 339,513</u>	<u>\$ (560,106)</u>	<u>\$ 22,995,203</u>	<u>\$ 737,029</u>

Principal and interest payments to be made on all long-term debt at June 30, 2013, for each of the next five years and thereafter are as follows:

Year Ending June 30	Bonds	Notes	Total Principal	Total Interest	Total
2014	\$ 504,300	\$ 232,729	\$ 737,029	\$ 588,170	\$ 1,325,199
2015	522,200	238,993	761,193	568,242	1,329,435
2016	542,700	245,452	788,152	546,984	1,335,136
2017	556,700	252,170	808,870	524,226	1,333,096
2018	575,300	259,101	834,401	500,181	1,334,582
2019-2023	1,718,300	1,389,203	3,107,503	2,193,024	5,300,527
2024-2028	1,652,900	1,367,713	3,020,613	1,799,533	4,820,146
2029-2033	1,843,400	1,425,222	3,268,622	1,381,203	4,649,825
2034-2038	2,049,200	1,240,517	3,289,717	919,014	4,208,731
2039-2043	2,195,000	17,170	2,212,170	532,541	2,744,711
2044-2048	2,488,500	-	2,488,500	292,124	2,780,624
2049-2051	1,639,000	-	1,639,000	49,740	1,688,740
	<u>\$16,287,500</u>	<u>\$ 6,668,270</u>	<u>\$22,955,770</u>	<u>\$ 9,894,982</u>	<u>\$32,850,752</u>

Advances for Construction

On November 1, 2009, the Commission entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the Paintsville Lake Water Treatment Plant.

The future loan to the Commission is \$6,519,566 of which \$6,208,980 was received through June 30, 2013. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

NOTE 8. SHORT TERM NOTE PAYABLE

On June 24, 2013, the City borrowed \$375,000 from Citizens National Bank to partially fund the payment of the 2013-2014 insurance premiums for property, liability, and workers' comp. The loan agreement provides for 8 monthly payments of \$47,529 to be made beginning August 10, 2013 with final payment due on March 10, 2014. The loan bears interest at 3.25%.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 10. GRANTS

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

NOTE 11. SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through February 27, 2014, the date the financial statements were available to be issued.

NOTE 12. RESTATEMENT OF PRIOR PERIOD NET POSITION

The City implemented GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* (GASB 65) for the fiscal year ending June 30, 2013.

Implementation of GASB 62 did not have any financial reporting impact on the City for fiscal year ended June 30, 2013. Implementation of GASB 63 required the reclassification of Net Assets to Net Position and, if applicable; it also required reclassification of deferred outflows and deferred inflows into new categories called Deferred Outflows of Resources and Deferred Inflows of Resources.

Implementation of GASB 65 recognizes cost of issuance of bonds as an expense. The prior year restatement for fiscal year ended June 30, 2012 decreased both the net position and unamortized issuance costs by \$72,590 for the business-type activities, and by \$20,186 for the governmental activities.

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through program from USDA Rural Development Water and Waste Disposal Systems for Rural Communities	10.760	20-058-616000521	\$ 1,801,866
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Pass-through program from Kentucky Dept of Natural Resources Division of Abandoned Mine Lands Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-13000009591	20,455
Pass-through program from Kentucky Dept of Local Government Land and Water Conservation Fund Grants	15.916	LW CF #21-1435	23,267
Total U.S. Department of the Interior			<u>43,722</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through program from Kentucky Transportation Cabinet State and Community Highway Safety	20.600	AL-12-30	1,032
State and Community Highway Safety	20.600	AL-13-23	293
Total U.S. Department of Transportation			<u>1,325</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from Kentucky Infrastructure Authority Capitalization Grants For Clean Water State Revolving Funds	66.458	F08-10	<u>2,457,695</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-through program from Johnson County Fiscal Court Homeland Security Grant Program	97.067	12-168	5,500
Pass-through program from Kentucky Dept of Military Affairs, Division of Emergency Management Disaster Grants - Public Assistance	97.036	DR-4057-KY	3,508
Pass-through program from Johnson County Fiscal Court Emergency Management Performance Grants	97.042	EMPG-3	7,579
Total U.S. Department of Homeland Security			<u>16,587</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 4,321,195</u></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, 2013**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the City of Paintsville, Kentucky under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Paintsville, Kentucky, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Paintsville, Kentucky.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated February 27, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2013-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs as 2013-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paintsville, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-3, 2013-4, and 2013-5.

City of Paintsville, Kentucky's Response to Findings

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

Purpose of this Report

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

Hell & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
February 27, 2014



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Paintsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Paintsville, Kentucky's major federal programs for the year ended June 30, 2013. The City of Paintsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Paintsville, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Paintsville, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Paintsville, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Paintsville, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Paintsville, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Paintsville, Kentucky's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
February 27, 2014

**CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued *unmodified*:

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? X yes ___ no

Federal Awards

Internal control over major programs:

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

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

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

The programs tested as major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Water and Waste Disposal Systems for Rural Communities	10.760
Clean Water State Revolving Funds	66.458

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

Auditee qualified as low-risk auditee? ___ yes X no

FINDINGS - FINANCIAL STATEMENTS AUDIT

2013 – 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.

2013 – 2 Financial Reporting

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

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

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

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

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

2013 – 3 Invoices Not Paid in a Timely Manner

Condition: The City had numerous invoices that were not paid at June 30, 2013 that were more than 30 days old. Total general fund accounts payable at June 30, 2013 were \$473,841. Invoices totaling \$325,055 were more than 30 days old which accounted for 68.6% of total accounts payable. The County Employee Retirement System was one vendor the City had a difficult time paying in a timely manner and ended up paying \$10,000 in penalties for the year for late payments.

Criteria: KRS.140 requires any city, county, or urban-county government to pay for purchases within 30 days of receipt of a vendor's invoice.

Cause of Condition: Overspending by the City over a course of time.

Recommendation: The Mayor and the City Council needs to work together to develop a solution that will eliminate the substantial amount of past due invoices. The City needs to get the accounts payable to the point where at any given time there will be no unpaid vendor invoices more than 30 days old.

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2013**

39

2013 – 3 Invoices Not Paid in a Timely Manner (Continued)

Management Response: The City will continue to do everything possible to address this issue.

2013 – 4 Fund Deficits

Condition: The City at June 30, 2013 had two funds with deficits. The 911 Fund had a fund deficit of \$175,030 and the Coal and Mineral Tax Severance Fund had a fund deficit of \$12,413.

Criteria: Cities are not to incur fund deficits when a balanced budget is required.

Cause of Condition: The 911 fund had its first fund deficit for fiscal year end June 30, 2008 and the deficit has been accumulating since. Expenditures have outpaced revenues. Local governments have been struggling to generate sufficient revenue to cover ever more expensive 911 services due to the decline in landline telephones. Demand for 911 services has increased due to the increase in cell phone usage and phones are more accessible to more people in emergencies. Cities and counties are being forced to sharply increase the fee on remaining landlines or supplement 911 services with general fund appropriations.

This is the first fiscal year end that the Coal and Mineral Tax Severance Fund reported a deficit. The deficit is much smaller and this deficit has since been eliminated.

Recommendation: The City needs to come up with a solution to eliminate the 911 fund deficit. Going forward, the City needs to raise the 911 fees or budget and transfer general fund revenue to 911 to cover costs.

Management Response: The current legislature has introduced several bills to address the 911 shortfall. This is an issue throughout the state. If a fix does not come from the legislature the City will address the problem in the upcoming budget.

2013 – 5 Lack of Insurance

Condition: The entrepreneur center building that was deeded back to the city from Midway College was not insured from October 2, 2012 to January 26, 2014 which was the date it was discovered during the audit.

Criteria: The City is to insure all property which it owns.

Cause of Condition: Management oversight.

Recommendation: City management needs to periodically review the insured property listing and compare it to all property that the City owns so that the City will be sufficiently covered in the event of any loss.

Management Response: A quarterly review has now been put in place to ensure that all recently acquired property has been added to insurance.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**CITY OF PAINTSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013**

There were no findings and recommendations for the year ended June 30, 2012.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 495,000	\$ 495,000	\$ 595,312	\$ 100,312
Payments in lieu of taxes	-	-	33,862	33,862
Franchise fees and taxes	140,000	140,000	67,706	(72,294)
Police court revenue	17,000	17,000	16,063	(937)
Police services	12,000	12,000	11,871	(129)
Building permits	10,000	10,000	1,665	(8,335)
Licenses	1,000	1,000	927	(73)
Interest	-	-	1	1
ABC fees	150,000	150,000	170,369	20,369
Garbage collection fees	760,000	760,000	756,985	(3,015)
Taxes on insurance premiums	500,000	500,000	473,386	(26,614)
Occupational taxes	1,365,000	1,365,000	1,287,026	(77,974)
Motor vehicle tax	20,000	20,000	24,577	4,577
Ambulance receipts	1,500,000	1,500,000	1,471,353	(28,647)
Firefighter and police incentive pay	108,500	108,500	109,368	868
Rental/Lease revenue	39,000	39,000	42,866	3,866
City pool and concession revenue	22,000	22,000	16,436	(5,564)
Country Club revenue	265,600	265,600	194,269	(71,331)
Advertising	15,000	15,000	11,466	(3,534)
Miscellaneous intergovernmental revenue	12,000	12,000	43,359	31,359
Grants	33,000	33,000	60,972	27,972
Contributions	-	-	2,120,920	2,120,920
Other receipts	16,050	16,050	24,472	8,422
	<u>5,481,150</u>	<u>5,481,150</u>	<u>7,535,231</u>	<u>2,054,081</u>
Total revenues				
Expenditures:				
General government:				
Administrative salaries	309,500	309,500	303,780	5,720
Payroll tax expense	28,100	28,100	31,973	(3,873)
Employee benefits	121,500	121,500	107,860	13,640
City attorney's fees	30,000	30,000	36,856	(6,856)
Mayor's expense	2,000	2,000	346	1,654
Postage	5,000	5,000	3,577	1,423
Advertising	5,000	5,000	5,822	(822)
Office supplies and printing	12,000	12,000	10,721	1,279
Telephone	13,000	13,000	10,321	2,679
Workmen's compensation insurance	2,000	2,000	5,622	(3,622)
Audit and accounting fees	14,000	14,000	4,400	9,600
Insurance and bonding	15,400	15,400	24,758	(9,358)
Utilities	225,000	225,000	227,305	(2,305)
Preparation of property tax bills	14,000	14,000	13,426	574

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Senior Citizens	55,000	55,000	53,517	1,483
Big Sandy ADD dues	1,500	1,500	1,500	-
Equipment lease expense	10,000	10,000	7,028	2,972
Main Street Program	15,000	15,000	15,000	-
Capital expenditures	5,000	5,000	2,000,000	(1,995,000)
Debt service:				
Interest expense	-	-	64,113	(64,113)
Principal retirement	107,000	107,000	60,000	47,000
Other general expenses	62,400	62,400	85,375	(22,975)
Building inspector expense	3,000	3,000	1,451	1,549
Total general government	<u>1,055,400</u>	<u>1,055,400</u>	<u>3,074,751</u>	<u>(2,019,351)</u>
Police:				
Salaries and wages	356,000	356,000	303,470	52,530
Payroll tax expense	31,500	31,500	22,139	9,361
Employee benefits	140,000	140,000	121,093	18,907
Gasoline and oil	45,000	45,000	33,281	11,719
Vehicle repairs and maintenance	8,000	8,000	10,883	(2,883)
Workmen's compensation insurance	18,500	18,500	19,506	(1,006)
Insurance and bonding	56,000	56,000	54,549	1,451
Utilities	-	-	9,179	(9,179)
Training	2,000	2,000	3,498	(1,498)
Telephone	10,000	10,000	10,868	(868)
Uniforms and uniforms cleaning	5,000	5,000	10,719	(5,719)
Capital expenditures	-	-	7,548	(7,548)
Other expenditures	6,200	6,200	18,116	(11,916)
Total police	<u>678,200</u>	<u>678,200</u>	<u>624,849</u>	<u>53,351</u>
Fire:				
Salaries and wages	269,800	269,800	261,202	8,598
Payroll tax expense	22,750	22,750	19,189	3,561
Employee benefits	110,000	110,000	103,620	6,380
Gasoline and oil	8,500	8,500	10,141	(1,641)
Repairs and maintenance	10,000	10,000	21,970	(11,970)
Insurance	20,000	20,000	18,492	1,508
Telephone	12,270	12,270	14,675	(2,405)
Utilities	-	-	22,755	(22,755)
Uniforms and uniforms cleaning	8,000	8,000	6,383	1,617
Training	750	750	875	(125)
Training center expenses	5,000	5,000	4,091	909
Workmen's compensation insurance	14,000	14,000	15,916	(1,916)

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Capital expenditures	-	-	-	-
Other expenses	11,000	11,000	10,466	534
Debt service:				
Interest expense	-	-	315	(315)
Principal retirement	17,000	17,000	14,577	2,423
Total fire	<u>509,070</u>	<u>509,070</u>	<u>524,667</u>	<u>(15,597)</u>
Ambulance:				
Salaries and wages	699,700	699,700	815,953	(116,253)
Payroll tax expense	61,800	61,800	60,852	948
Employee benefits	252,000	252,000	262,593	(10,593)
Medical supplies	44,300	44,300	39,001	5,299
Vehicle repairs and maintenance	42,000	42,000	23,073	18,927
Gasoline and oil	85,000	85,000	82,454	2,546
Uniforms	10,000	10,000	1,278	8,722
Telephone	-	-	1,244	(1,244)
Training	4,000	4,000	1,375	2,625
Insurance/bonding	56,000	56,000	63,586	(7,586)
Billing service	75,000	75,000	60,101	14,899
Debt service:				
Interest expense	-	-	3,835	(3,835)
Principal retirement	36,800	36,800	48,066	(11,266)
Workmen's compensation insurance	45,000	45,000	51,260	(6,260)
Capital expenditures	12,000	12,000	17,365	(5,365)
Other expenses	11,725	11,725	8,648	3,077
Total ambulance	<u>1,435,325</u>	<u>1,435,325</u>	<u>1,540,684</u>	<u>(105,359)</u>
Recreation:				
Recreation salaries	180,000	180,000	177,448	2,552
Payroll tax expense	15,900	15,900	15,608	292
Employee benefits	60,000	60,000	66,762	(6,762)
Insurance	15,000	15,000	17,788	(2,788)
Supplies	13,500	13,500	28,921	(15,421)
Recreational programs	5,000	5,000	3,694	1,306
Workmen's compensation insurance	10,000	10,000	9,458	542
Utilities	-	-	39,620	(39,620)
Capital expenditures	-	-	44,429	(44,429)
Other expenses	13,500	13,500	29,578	(16,078)
Total recreation	<u>312,900</u>	<u>312,900</u>	<u>433,306</u>	<u>(120,406)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Streets:				
Salaries and wages	240,000	240,000	216,396	23,604
Payroll tax expense	24,150	24,150	18,100	6,050
Employee benefits	115,600	115,600	85,089	30,511
Uniforms	6,500	6,500	8,740	(2,240)
Gasoline and oil	40,000	40,000	33,957	6,043
Insurance	32,250	32,250	33,607	(1,357)
Supplies and parts	10,000	10,000	16,407	(6,407)
Workmen's compensation insurance	22,000	22,000	21,603	397
Other expenses	10,000	10,000	18,521	(8,521)
Total streets	<u>500,500</u>	<u>500,500</u>	<u>452,420</u>	<u>48,080</u>
Sanitation:				
Salaries and wages	217,000	217,000	209,737	7,263
Payroll tax expense	22,275	22,275	18,130	4,145
Employee benefits	114,000	114,000	111,572	2,428
Gasoline and oil	35,000	35,000	29,475	5,525
Truck repairs and maintenance	9,000	9,000	20,168	(11,168)
Workmen's compensation insurance	24,000	24,000	25,078	(1,078)
Hauling and dumping expense	192,000	192,000	192,284	(284)
Insurance	32,500	32,500	34,933	(2,433)
Uniforms	8,000	8,000	7,288	712
Utilities	-	-	7,261	(7,261)
Garage expenses	5,000	5,000	8,739	(3,739)
Debt service:				
Interest expense	-	-	4,182	(4,182)
Principal retirement	52,500	52,500	48,428	4,072
Other expenses	2,500	2,500	10,523	(8,023)
Total sanitation	<u>713,775</u>	<u>713,775</u>	<u>727,798</u>	<u>(14,023)</u>
Golf Course:				
Salaries and wages	155,000	155,000	162,636	(7,636)
Payroll tax expense	15,500	15,500	15,016	484
Employee benefits	36,500	36,500	36,625	(125)
Workmen's compensation insurance	7,000	7,000	6,822	178
Maintenance and repairs	14,500	14,500	23,188	(8,688)
Gasoline and oil	14,000	14,000	15,472	(1,472)
Insurance	16,000	16,000	17,583	(1,583)
Utilities and telephone	21,500	21,500	54,246	(32,746)
Debt service:				
Interest expense	-	-	354	(354)
Principal retirement	7,700	7,700	6,326	1,374
Capital expenditures	-	-	102,800	(102,800)
Other expenses	57,720	57,720	54,494	3,226
Total golf course	<u>345,420</u>	<u>345,420</u>	<u>495,562</u>	<u>(150,142)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Total Expenditures	5,550,590	5,550,590	7,874,037	(2,323,447)
Revenues over (under) expenditures	(69,440)	(69,440)	(338,806)	(269,366)
Other Financing Sources/(Uses):				
Proceeds from sales of capital assets	-	-	15,532	15,532
Transfer in from Tourism	160,000	160,000	297,798	137,798
Transfer in from Coal and Mineral Tax Severance	-	-	17,125	17,125
Total other financing sources (uses)	160,000	160,000	330,455	170,455
Net change in fund balance	<u>\$ 90,560</u>	<u>\$ 90,560</u>	(8,351)	<u>\$ (98,911)</u>
Fund balance - beginning			29,049	
Fund balance - ending			<u>20,698</u>	

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
Restaurant tax	\$ 674,000	\$ 674,000	\$ 702,067	\$ 28,067
Room occupancy tax	84,000	84,000	69,227	(14,773)
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	51,500	51,500	51,395	(105)
Interest	-	-	782	782
Miscellaneous revenues	62,600	62,600	64,445	1,845
Total revenues	<u>872,100</u>	<u>872,100</u>	<u>887,916</u>	<u>15,816</u>
Expenditures:				
Salaries and wages	193,000	193,000	147,586	45,414
Payroll tax expense	15,000	15,000	16,340	(1,340)
Employee benefits	58,500	58,500	45,840	12,660
Contract labor	9,000	9,000	3,571	5,429
Administration	11,000	11,000	11,569	(569)
Travel	8,500	8,500	6,192	2,308
Telephone and utilities	40,500	40,500	32,701	7,799
Donations	111,000	111,000	116,159	(5,159)
Postage	1,500	1,500	1,745	(245)
General office expense	13,800	13,800	9,105	4,695
Gift shop expense	7,000	7,000	7,024	(24)
Advertising and promotional	94,100	94,100	71,738	22,362
Membership dues	5,245	5,245	3,244	2,001
Van and bus expense	7,750	7,750	1,140	6,610
Legal and professional expense	9,000	9,000	14,230	(5,230)
Taxes and licenses	1,000	1,000	544	456
Maintenance and repairs	44,872	44,872	37,275	7,597
Mountain Homeplace	25,000	25,000	25,000	-
Bank charges	530	530	635	(105)
Insurance	41,000	41,000	33,040	7,960
Security	1,880	1,880	1,471	409
Other expense	37,868	37,868	50,924	(13,056)
Debt service:				
Interest expense	-	-	546	(546)
Principal retirement	-	-	6,891	(6,891)
Capital outlay	2,500	2,500	-	2,500
Total expenditures	<u>739,545</u>	<u>739,545</u>	<u>644,510</u>	<u>95,035</u>
Revenues over (under) expenditures	<u>132,555</u>	<u>132,555</u>	<u>243,406</u>	<u>110,851</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing sources (uses):				
Proceeds from borrowing	-	-	102,815	102,815
Transfer out to General Fund	(145,000)	(145,000)	(297,798)	(152,798)
Total other financing sources (uses)	(145,000)	(145,000)	(194,983)	(49,983)
Net change in fund balance	<u>\$ (12,445)</u>	<u>\$ (12,445)</u>	48,423	<u>\$ 60,868</u>
Fund balance - beginning			166,647	
Fund balance - ending			<u>\$ 215,070</u>	

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2013

	<u>Special Revenue Funds</u>			<u>Total Non-Major Governmental Funds</u>
	<u>Coal and Mineral Tax Severance Fund</u>	<u>Municipal Road Aid Fund</u>	<u>911 Fund</u>	
ASSETS				
Cash and cash equivalents	\$ 4,151	\$ 1,707	\$ 13,158	\$ 19,016
Due from General Fund	-	59,000	-	59,000
Total Assets	<u>\$ 4,151</u>	<u>\$ 60,707</u>	<u>\$ 13,158</u>	<u>\$ 78,016</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 16,564	\$ 7,125	\$ 9,558	\$ 33,247
Accrued vacation	-	-	4,598	4,598
Due to General Fund	-	-	174,032	174,032
Total Liabilities	<u>16,564</u>	<u>7,125</u>	<u>188,188</u>	<u>211,877</u>
Fund Balances:				
Restricted for:				
Streets	-	53,582	-	53,582
Other	-	-	-	-
Unassigned	<u>(12,413)</u>	<u>-</u>	<u>(175,030)</u>	<u>(187,443)</u>
Total Fund Balances	<u>(12,413)</u>	<u>53,582</u>	<u>(175,030)</u>	<u>(133,861)</u>
Total Liabilities and Fund Balances	<u>\$ 4,151</u>	<u>\$ 60,707</u>	<u>\$ 13,158</u>	<u>\$ 78,016</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Special Revenue Funds</u>			<u>Total Non-Major Governmental Funds</u>
	<u>Coal and Mineral Tax Severance Fund</u>	<u>Municipal Road Aid Fund</u>	<u>911 Fund</u>	
Revenues:				
Intergovernmental revenues	\$ 51,916	\$ 106,756	\$ -	\$ 158,672
Charges for services	-	-	331,602	331,602
Interest	3	-	1	4
Total revenues	<u>51,919</u>	<u>106,756</u>	<u>331,603</u>	<u>490,278</u>
Expenditures:				
Current:				
Public safety	12,441	-	377,445	389,886
Streets	3,609	15,370	-	18,979
Recreation	38,852	-	-	38,852
Capital outlay	<u>27,865</u>	<u>94,534</u>	<u>-</u>	<u>122,399</u>
Total expenditures	<u>82,767</u>	<u>109,904</u>	<u>377,445</u>	<u>570,116</u>
Excess (deficiency) of revenues over expenditures	(30,848)	(3,148)	(45,842)	(79,838)
Other financing sources (uses):				
Proceeds from borrowing	20,000	-	-	20,000
Transfer in from Coal and Mineral Tax Severance	-	7,165	-	7,165
Transfer out to General Fund	(17,125)	-	-	(17,125)
Transfer out to Road Aid	(7,165)	-	-	(7,165)
Total other financing sources (uses)	<u>(4,290)</u>	<u>7,165</u>	<u>-</u>	<u>2,875</u>
Net change in fund balances	(35,138)	4,017	(45,842)	(76,963)
Fund balances - beginning	<u>22,725</u>	<u>49,565</u>	<u>(129,188)</u>	<u>(56,898)</u>
Fund balances - ending	<u>\$ (12,413)</u>	<u>\$ 53,582</u>	<u>\$(175,030)</u>	<u>\$ (133,861)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2013

CITY COUNCIL

NAME

- Sara Blair
- Mark McKenzie
- Jim Meek
- Bill Mike Runyon
- Tommy Trimble
- David VanHoose

ADMINISTRATIVE PERSONNEL

NAME

- Bob Porter
- Virgie Castle
- Kim Blanton
- Jeffrey M. Baldwin

- Mayor
- City Clerk
- City Treasurer
- City Attorney

SCHEDULE OF INSURANCE
JUNE 30, 2013

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount of Coverage</u>	<u>Policy Expiration</u>
KLC Insurance Agency	Commercial Property Coverage	\$11,531,234	7/1/14
KLC Insurance Agency	Workers Compensation	4,000,000	7/1/14
KLC Insurance Agency	Automobile Property and Liability	1,000,000	7/1/14
KLC Insurance Agency	Public Officials Liability	2,000,000	7/1/14
KLC Insurance Agency	Law Enforcement Liability	1,000,000	7/1/14
KLC Insurance Agency	General Liability	2,000,000	7/1/14
The Hartford	Flood Damage		
	Community Center	171,400	1/19/14
	City Hall	300,000	12/5/13
Elite Insurance	Surety Bonds		
	City Clerk, Treasurer, and Assistant Treasurer	25,000	4/14/14
	Deputy Administration of Alcohol Sales	25,000	7/15/14
	Assistant Clerk	25,000	7/10/14
	Mayor	10,000	7/23/14