

CITY OF PAINTSVILLE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2014



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, 2014, 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, 2014, 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 schedule 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015 on our consideration of the City of Paintsville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 of Paintsville, Kentucky's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 5, 2015

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 734,114	\$ 5,810,812	\$ 6,544,926
Certificates of deposit	126,259	2,700,746	2,827,005
Taxes receivable	73,408	-	73,408
Accounts receivable	141,870	749,820	891,690
Grants receivable	80,517	54,944	135,461
Other receivable	29,981	-	29,981
Due from Paintsville Utilities	62,652	-	62,652
Unbilled revenues	-	290,998	290,998
Inventory	-	112,922	112,922
Prepaid and other assets	-	23,451	23,451
Capital assets:			
Land and construction-in-progress	858,515	38,436,758	39,295,273
Other capital assets, net of accumulated depreciation	7,693,798	41,033,047	48,726,845
	<u>9,801,114</u>	<u>89,213,498</u>	<u>99,014,612</u>
Total Assets			
LIABILITIES			
Accounts payable	474,552	464,696	939,248
Accrued payroll taxes	44,250	-	44,250
Accrued vacation	60,232	43,983	104,215
Accrued retirement	99,314	-	99,314
Other accrued liabilities	-	401,243	401,243
Due to Agency Fund	45,380	-	45,380
Short term note payable	361,427	-	361,427
Customer meter deposits payable	-	819,984	819,984
Interest payable on customer meter deposits	-	308,169	308,169
Long-term liabilities:			
Due within one year	207,353	800,979	1,008,332
Due in more than one year	1,351,624	28,271,936	29,623,560
	<u>2,644,132</u>	<u>31,110,990</u>	<u>33,755,122</u>
Total Liabilities			
NET POSITION			
Net investment in capital assets	6,993,336	50,396,890	57,390,226
Restricted for:			
Public safety	1,893	-	1,893
Streets	101,693	-	101,693
Tourism	284,039	-	284,039
Debt service	44,396	1,113,984	1,158,380
Equipment replacement	-	56,950	56,950
Depreciation	-	1,572,206	1,572,206
Other purposes	5,702	1,449,783	1,455,485
Unrestricted (deficit)	(274,077)	3,512,695	3,238,618
	<u>\$ 7,156,982</u>	<u>\$ 58,102,508</u>	<u>\$ 65,259,490</u>
Total Net Position			

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

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	\$ 1,039,414	\$ 24,279	\$ 5,862	\$ 58,893	\$ (950,380)	\$ -	\$ (950,380)
Public safety	3,186,572	1,817,665	35,382	188,842	(1,144,683)	-	(1,144,683)
Recreation	889,989	245,520	-	-	(644,469)	-	(644,469)
Streets	593,158	-	-	-	(593,158)	-	(593,158)
Sanitation	680,557	762,720	-	-	82,163	-	82,163
Tourism	717,524	46,657	-	-	(670,867)	-	(670,867)
Interest on long-term debt	75,205	-	-	-	(75,205)	-	(75,205)
Total governmental activities	<u>7,182,419</u>	<u>2,896,841</u>	<u>41,244</u>	<u>247,735</u>	<u>(3,996,599)</u>	<u>-</u>	<u>(3,996,599)</u>
Business-type activities:							
Water, gas, and sewer	7,991,834	8,757,774	-	885,306	-	1,651,246	1,651,246
Total business-type activities	<u>7,991,834</u>	<u>8,757,774</u>	<u>-</u>	<u>885,306</u>	<u>-</u>	<u>1,651,246</u>	<u>1,651,246</u>
Total primary government	\$ 15,174,253	\$ 11,654,615	\$ 41,244	\$ 1,133,041	(3,996,599)	1,651,246	(2,345,353)
General revenues:							
Property taxes					618,212	-	618,212
Occupational taxes					1,288,849	-	1,288,849
Insurance premium taxes					462,904	-	462,904
Motor vehicle taxes					20,502	-	20,502
Restaurant taxes					694,683	-	694,683
Room occupancy taxes					63,894	-	63,894
Franchise fees and taxes					74,472	-	74,472
Payments in lieu of taxes					33,402	-	33,402
ABC fees					162,475	-	162,475
Licenses and permits					7,775	-	7,775
Intergovernmental revenue					306,945	-	306,945
Interest income					708	52,887	53,595
Gain/(Loss) on sale of capital assets					927	1,900	2,827
Donation/contributions					87,880	-	87,880
Miscellaneous					91,318	-	91,318
Total general revenues and transfers					<u>3,914,946</u>	<u>54,787</u>	<u>3,969,733</u>
Change in net position					(81,653)	1,706,033	1,624,380
Net position - beginning, restated					<u>7,238,635</u>	<u>56,396,475</u>	<u>63,635,110</u>
Net position - ending					\$ 7,156,982	\$ 58,102,508	\$ 65,259,490

CITY OF PAINTSVILLE, KENTUCKY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2014

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 502,848	\$ 163,078	\$ 68,188	\$ 734,114
Certificate of deposit	-	126,259	-	126,259
Receivables:				
Property taxes	2,292	-	-	2,292
Accounts	141,870	-	-	141,870
Grants	80,517	-	-	80,517
Other	29,981	-	-	29,981
Due from Paintsville Utilities	62,652	-	-	62,652
Due from 911 Fund	233,383	-	-	233,383
Due from General Fund	-	-	97,632	97,632
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,053,543</u>	<u>\$ 289,337</u>	<u>\$ 165,820</u>	<u>\$ 1,508,700</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 441,872	\$ 1,954	\$ 30,726	\$ 474,552
Accrued payroll taxes	44,250	-	-	44,250
Accrued vacation	51,474	3,344	5,414	60,232
Accrued retirement	99,314	-	-	99,314
Short term note payable	361,427	-	-	361,427
Due to General Fund	-	-	233,383	233,383
Due to Agency Fund	45,380	-	-	45,380
Due to Road Aid	97,632	-	-	97,632
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,141,349</u>	<u>5,298</u>	<u>269,523</u>	<u>1,416,170</u>
Fund Balances:				
Restricted for:				
Public Safety	1,893	-	-	1,893
Streets	-	-	101,693	101,693
Tourism	-	284,039	-	284,039
Debt Service	44,396	-	-	44,396
Other	-	-	5,702	5,702
Unassigned	(134,095)	-	(211,098)	(345,193)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>(87,806)</u>	<u>284,039</u>	<u>(103,703)</u>	<u>92,530</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 1,053,543</u>	<u>\$ 289,337</u>	<u>\$ 165,820</u>	<u>\$ 1,508,700</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, 2014

Fund Balances - Total Governmental Funds \$ 92,530

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	15,799,059
Less: accumulated depreciation	(7,246,746)

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

Bond payable	(1,180,000)
Bond discount	20,898
Loans payable	(340,776)
Leases payable	(59,099)

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

Delinquent property taxes	<u>71,116</u>
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Net Position of Governmental Activities \$ 7,156,982

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
Property	\$ 619,731	\$ -	\$ -	\$ 619,731
Occupational	1,288,849	-	-	1,288,849
Insurance premium	462,904	-	-	462,904
Motor vehicle	20,502	-	-	20,502
Franchise	37,120	-	-	37,120
Restaurant	-	694,683	-	694,683
Room occupancy	-	63,894	-	63,894
Payments in lieu of taxes	33,402	-	-	33,402
ABC fees	162,475	-	-	162,475
Franchise fees	37,352	-	-	37,352
Licenses and permits	7,775	-	-	7,775
Intergovernmental revenues	177,814	-	129,131	306,945
Grants	288,979	-	-	288,979
Charges for services	2,509,446	46,657	340,738	2,896,841
Interest income	-	706	2	708
Contributions	87,880	-	-	87,880
Miscellaneous revenues	31,235	60,083	-	91,318
	<u>5,765,464</u>	<u>866,023</u>	<u>469,871</u>	<u>7,101,358</u>
Expenditures:				
Current:				
General government	951,061	-	-	951,061
Public safety	2,602,546	-	379,867	2,982,413
Recreation	817,377	-	5,546	822,923
Streets	470,903	-	35,262	506,165
Sanitation	647,157	-	-	647,157
Tourism	-	588,510	-	588,510
Debt service:				
Principal	197,248	33,421	8,938	239,607
Interest	71,776	2,623	-	74,399
Capital outlay	<u>460,173</u>	<u>17,500</u>	<u>53,003</u>	<u>530,676</u>
Total expenditures	<u>6,218,241</u>	<u>642,054</u>	<u>482,616</u>	<u>7,342,911</u>
Excess of revenues over (under) expenditures	(452,777)	223,969	(12,745)	(241,553)
Other financing sources (uses):				
Proceeds from sale of capital assets	3,677	-	-	3,677
Transfers in from Tourism	155,000	-	-	155,000
Transfers out to General Fund	-	(155,000)	-	(155,000)
Proceeds from borrowing	185,596	-	42,903	228,499
Total other financing sources (uses)	<u>344,273</u>	<u>(155,000)</u>	<u>42,903</u>	<u>232,176</u>
Net change in fund balances	(108,504)	68,969	30,158	(9,377)
Fund balances - beginning	<u>20,698</u>	<u>215,070</u>	<u>(133,861)</u>	<u>101,907</u>
Fund balances - ending	<u>\$ (87,806)</u>	<u>\$ 284,039</u>	<u>\$ (103,703)</u>	<u>\$ 92,530</u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
 OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ (9,377)

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	530,676
Depreciation expense	(608,985)

The net effect of various miscellaneous transactions involving capital assets: (2,750)

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	(1,519)
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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	239,607
Loan proceeds	(228,499)
Amortization of bond discount	(806)
	<hr/>

Change in Net Position of Governmental Activities \$ (81,653)

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET POSITION
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,668,282
Accounts receivable, no allowance considered necessary	749,820
Grant funds receivable	54,944
Unbilled revenues	290,998
Inventory	112,922
Prepaid expenses	23,451

Total current assets	3,900,417
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Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	453,792
Depreciation reserve fund	561,568
Equipment replacement fund	56,950
Operations and maintenance	2,070,220
Investments:	
Operations and maintenance	679,470
Debt service reserve fund	1,010,638
Depreciation reserve fund	1,010,638

Total restricted assets	5,843,276
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Capital assets:

Land and land improvements	778,589
Construction work in progress	37,658,169
Capital assets, net of depreciation	41,033,047

Total capital assets	79,469,805
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Total assets	\$ 89,213,498
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CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET POSITION (Continued)
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2014

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ 395,479
Retainage payable	69,217
Compensated absences	43,983
Accrued interest payable	220,102
Other accrued liabilities	181,141
Current portion of long-term liabilities	238,779
Current portion of capital lease obligations	40,000

Total current liabilities 1,188,701

Payable from restricted assets:

Current portion of bonds	522,200
Customer meter deposits	819,984
Interest payable on customer meter deposits	308,169

Total liabilities payable from restricted assets 1,650,353

Long-term liabilities:

Advances for construction	6,489,164
Bonds payable, net of premium	15,818,214
Notes payable	6,435,537
Capital lease obligations	330,000
	<u>29,072,915</u>
Less current portion	(800,979)

Total long-term liabilities 28,271,936

Total liabilities 31,110,990

Net position:

Net investment in capital assets	50,396,890
Restricted	
Debt service	1,113,984
Depreciation	1,572,206
Equipment replacement	56,950
Operations and maintenance	1,449,783
Unrestricted	<u>3,512,695</u>

Total net position 58,102,508

Total liabilities and net position \$ 89,213,498

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues:	
Gas revenues	\$ 2,382,071
Water revenues	3,580,473
Wastewater revenues	2,334,724
Other operating revenues	<u>460,506</u>
Total operating revenues	8,757,774
Cost of sales	<u>1,278,003</u>
Net operating revenues	<u>7,479,771</u>
Operating expenses:	
Salaries and wages	1,394,984
Payroll taxes	110,309
Employee pension and benefits	830,426
Materials and supplies	328,001
Legal and professional	124,351
Miscellaneous general expense	338,647
Telephone and utilities	1,255,722
Insurance	123,207
Motor vehicle expenses	129,917
Repairs and maintenance	310,100
Depreciation	<u>1,537,391</u>
Total operating expenses	<u>6,483,055</u>
Utility operating income (loss)	<u>996,716</u>
Non-operating revenues (expenses):	
Interest income	52,887
Gain on sale of equipment	1,900
Interest expense	<u>(142,896)</u>
Total non-operating revenues (expenses)	<u>(88,109)</u>
Net income (loss) before contributions from (to)	908,607
Contributions in aid of construction	885,306
Contribution to the City of Paintsville	<u>(87,880)</u>
Change in net position	1,706,033
Net position, beginning of year - restated	<u>56,396,475</u>
Net position, end of year	<u>\$ 58,102,508</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, 2014

Cash flows from operating activities:

Cash inflows:

Payments received from customers \$ 8,611,211

Total cash provided 8,611,211

Cash outflows:

Payments for salaries and benefits 2,357,989

Payments to suppliers for goods and services 4,010,121

Total cash used 6,368,110

Net cash provided (used) by operating activities 2,243,101

Cash flows from noncapital financing activities:

Proceeds from gas settlement payment 745,132

Interest paid on customer deposits (10,647)

Net cash provided (used) by noncapital financing activities 734,485

Cash flows from capital and related financing activities:

Purchase and construction of utility plant (3,041,806)

Proceeds from loans and bonds 280,184

Principal payments on long-term debt (737,033)

Payments on capital leases (40,000)

Interest paid on long-term debt and capital leases (653,262)

Proceeds from sale of capital assets 1,900

Contributions-in-aid of construction 830,362

Net cash provided (used) by capital and related financing activities (3,359,655)

Cash flows from investing activities:

Interest received 14,535

Net cash provided (used) by investing activities 14,535

Net cash inflow (outflow) from all activities (367,534)

Cash and cash equivalents at beginning of period 6,178,346

Cash and cash equivalents at end of period \$ 5,810,812

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
 FOR THE YEAR ENDED JUNE 30, 2014

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

Utility operating income	\$ 996,716
Depreciation and amortization	1,537,391
Contribution of utility services	(87,880)
(Increase) decrease in:	
Accounts receivable	20,742
Unbilled revenue	(36,290)
Inventory	23,491
Prepaid expenses and other assets	(9,632)
Increase (decrease) in:	
Accounts payable	(145,048)
Accrued liabilities and other liabilities	(56,389)

Net cash provided (used) by operating activities

\$ 2,243,101

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 2,891,436
Restricted cash and cash equivalents	3,286,910

\$ 6,178,346

End of period:

Unrestricted cash and cash equivalents	\$ 2,668,282
Restricted cash and cash equivalents	3,142,530

\$ 5,810,812

Supplemental disclosure of noncash capital and related financing activities:

The utilities had accounts payable for capital expenditures of \$124,160 at June 30, 2014.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2014

	<u>Agency Fund</u>
ASSETS	
Due from General Fund	<u>\$ 45,380</u>
Total Assets	<u><u>\$ 45,380</u></u>
LIABILITIES	
Due to Paintsville Independent School District	<u>\$ 45,380</u>
Total Liabilities	<u><u>\$ 45,380</u></u>

See accompanying notes to basic financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

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

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

A. Financial Reporting Entity

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

Blended Component Units:

Paintsville Utilities Commission

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

Paintsville Utilities
137 Main Street
Paintsville, Kentucky 41240

Paintsville Tourism Commission

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

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

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

a. Enterprise Fund or Business Funds

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

b. Internal Service Fund

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

3. Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The City has one Agency Fund for the Paintsville Independent School District's property and franchise tax collection deposits. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. Taxes are collected by the City and subsequently transmitted to the school district.

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

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, 2014, 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. 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 18.89% percent for all covered employees. The contribution requirement for the year ended June 30, 2014 was \$622,203, which consisted of \$483,463 from the City and \$138,740 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>\$9,595,974</u>	<u>\$3,248,678</u>	<u>\$6,347,296</u>	<u>\$ 0</u>	<u>\$9,369,371</u>

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

NOTE 3. PROPERTY TAXES

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

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end.

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, consisted of the following:

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4. CAPITAL ASSETS (Continued)

Primary Government

Governmental Activities	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets, not being depreciated:				
Land and land improvements	\$ 858,515	\$ -	\$ -	\$ 858,515
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>858,515</u>	<u>-</u>	<u>-</u>	<u>858,515</u>
Capital assets, being depreciated:				
Buildings and improvements	7,673,522	-	-	7,673,522
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,353,466	227,960	5,500	2,575,926
Infrastructure	325,015	-	-	325,015
Machinery and equipment	<u>3,212,799</u>	<u>302,716</u>	<u>-</u>	<u>3,515,515</u>
Total capital assets being depreciated	14,415,368	530,676	5,500	14,940,544
Less accumulated depreciation for:				
Buildings and improvements	(2,024,164)	(186,316)	-	(2,210,480)
Improvements other than buildings	(680,034)	(29,778)	-	(709,812)
Automobiles and trucks	(1,733,769)	(140,628)	(2,750)	(1,871,647)
Infrastructure	(142,682)	(32,502)	-	(175,184)
Machinery and equipment	<u>(2,059,862)</u>	<u>(219,761)</u>	<u>-</u>	<u>(2,279,623)</u>
Total accumulated depreciation	<u>(6,640,511)</u>	<u>(608,985)</u>	<u>(2,750)</u>	<u>(7,246,746)</u>
Total capital assets being depreciated, net	<u>7,774,857</u>	<u>(78,309)</u>	<u>2,750</u>	<u>7,693,798</u>
Governmental activities capital assets, net	<u>\$ 8,633,372</u>	<u>\$ (78,309)</u>	<u>\$ 2,750</u>	<u>\$ 8,552,313</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 88,353
Public safety	204,159
Recreation	67,066
Streets	86,993
Sanitation	33,400
Tourism	<u>129,014</u>
Total	<u>\$ 608,985</u>

Business-Type Activities	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets, not being depreciated:				
Land and land improvements	\$ 761,589	\$ 17,000	\$ -	\$ 778,589
Construction in progress	<u>36,390,418</u>	<u>1,267,751</u>	<u>-</u>	<u>37,658,169</u>
Total capital assets, not being depreciated	<u>37,152,007</u>	<u>1,284,751</u>	<u>-</u>	<u>38,436,758</u>

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4. CAPITAL ASSETS (Continued)

Capital assets, being depreciated:

Buildings and improvements	1,025,499	30,672	-	1,056,171
Utility plants	61,693,550	644,042	-	62,337,592
Automobiles and trucks	791,111	103,702	29,927	864,886
Machinery and equipment	<u>248,884</u>	<u>172,416</u>	<u>-</u>	<u>421,300</u>
Total capital assets being depreciated	63,759,044	950,832	29,927	64,679,949
Less accumulated depreciation for:				
Buildings and improvements	(220,734)	(23,236)	-	(243,970)
Utility plants	(21,155,367)	(1,414,713)	-	(22,570,080)
Automobiles and trucks	(642,401)	(66,772)	(29,927)	(679,246)
Machinery and equipment	<u>(199,721)</u>	<u>(32,670)</u>	<u>-</u>	<u>(232,391)</u>
Total accumulated depreciation	(22,218,223)	(1,537,391)	(29,927)	(23,725,687)
Total capital assets being depreciated, net	<u>41,540,821</u>	<u>(586,559)</u>	<u>-</u>	<u>40,954,262</u>
Total capital assets, net	<u>\$78,692,828</u>	<u>\$ 698,192</u>	<u>\$ -</u>	<u>\$ 79,391,020</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 1,537,391</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, 2014, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2015	\$ 36,824	\$ 48,192
2016	10,726	57,132
2017	10,726	65,647
2018	894	64,098
2019	-	62,538
2020-2021	<u>-</u>	<u>60,979</u>

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6. CAPITAL LEASES (Continued)

Total minimum lease payments	59,170	358,586
Less amount representing interest	<u>(71)</u>	<u>(28,568)</u>
Present value of net minimum lease payments	<u>\$ 59,099</u>	<u>\$ 330,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2014:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 136,893	\$1,070,990
Less accumulated depreciation	<u>(25,643)</u>	<u>(622,959)</u>
	<u>\$ 111,250</u>	<u>\$ 448,031</u>

	<u>Amount Outstanding 6/30/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2014</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 89,263	\$ 42,903	\$ (73,067)	\$ 59,099	\$ 36,753
Business-type activities leases	\$ 370,000	\$ -	\$ (40,000)	\$ 330,000	\$ 40,000

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2014 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.

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%.

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 7. LONG-TERM DEBT (Continued)

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%.

On December 11, 2013, the City borrowed \$16,236 from First Commonwealth Bank to partially fund the purchase of an ambulance. The loan agreement provides for 24 monthly payments of \$713 to be made beginning January 10, 2014 with final payment due on December 10, 2015. The loan bears interest at 4.99%.

On August 22, 2013, the City borrowed \$169,360 from Citizens National Bank to fund the purchase of an Isuzu street sweeper. The loan agreement provides for 60 monthly payments of \$3,030 to be made beginning September 22, 2013 with final payment due on August 22, 2018. The loan bears interest at 2.79%.

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.	\$1,180,000	Variable	01/2031
Less:			
Unamortized discount	<u>20,898</u>		
	<u>\$1,159,102</u>		

	<u>Amount Outstanding 6/30/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2014</u>	<u>Amounts Due Within One Year</u>
Revenue Bond – Series 2011	\$ 1,230,000	\$ -	\$ (50,000)	\$1,180,000	\$ 50,000
Sipp Theatre loan payable	105,000	-	(15,000)	90,000	15,000
Ambulance loan payable	35,258	-	(18,990)	16,268	16,268
Ambulance loan payable	7,525	-	(5,244)	2,281	2,281
Ambulance loan payable	11,669	-	(6,863)	4,806	4,806
Ambulance loan payable	16,344	-	(6,523)	9,821	6,860
Ambulance loan payable	-	16,236	(3,908)	12,328	8,115
Street sweeper loan payable	-	169,360	(26,591)	142,769	32,747
Golf carts loan payable	95,924	-	(33,421)	62,503	34,523
	<u>1,501,720</u>	<u>185,596</u>	<u>(166,540)</u>	<u>1,520,776</u>	<u>170,600</u>
Unamortized bond discount	(21,704)	-	806	(20,898)	-
Long-Term Debt	<u>\$ 1,480,016</u>	<u>\$ 185,596</u>	<u>\$ (165,734)</u>	<u>\$ 1,499,878</u>	<u>\$ 170,600</u>

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 7. LONG-TERM DEBT (Continued)

Principal and interest payments to be made on all long-term debt at June 30, 2014, 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>
2015	\$ 50,000	\$ 120,600	\$ 170,600	\$ 62,715	\$ 233,315
2016	50,000	83,839	133,839	57,503	191,342
2017	50,000	49,652	99,652	53,939	153,591
2018	55,000	50,645	105,645	51,145	156,790
2019	55,000	21,040	76,040	47,896	123,936
2020-2024	320,000	15,000	335,000	197,969	532,969
2025-2029	405,000	-	405,000	117,144	522,144
2030-2031	195,000	-	195,000	16,106	211,106
	<u>\$ 1,180,000</u>	<u>\$ 340,776</u>	<u>\$ 1,520,776</u>	<u>\$ 604,417</u>	<u>\$ 2,125,193</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.	\$13,294,000	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.	199,000	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.	1,430,000	2.65%	02/2026
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	347,200	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	282,000	4.50%	07/2038
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>231,000</u>	4.125%	07/2046
	15,783,200		

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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)	282,175	2.95%	12/2022
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,145,062	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.	513,240	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)	4,226,682	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>268,378</u>	1.00%	06/2026
	<u>6,435,537</u>		
	22,218,737		
Add:			
Unamortized premium	<u>35,014</u>		
	<u>\$22,253,751</u>		

The Utility Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 1.81 at June 30, 2014.

	<u>Amount Outstanding 6/30/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2014</u>	<u>Amounts Due Within One Year</u>
Combined Utility Revenue Bond – 1978 Issue	\$ 243,000	\$ -	\$ (44,000)	\$ 199,000	\$ 46,000
Water Revenue Bond – Series 1994	356,500	-	(9,300)	347,200	9,700
Water Revenue Bond – Series 1998	288,500	-	(6,500)	282,000	6,500
Water Revenue Bond – Series 2006	234,500	-	(3,500)	231,000	3,500
Combined Utility Revenue Bonds – Series 2011	13,500,000	-	(206,000)	13,294,000	211,500
Public Projects Revenue Bond – Series 2011 (B)	1,665,000	-	(235,000)	1,430,000	245,000
Department of the Army Note Payable	4,328,474	-	(101,792)	4,226,682	105,991

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7. LONG-TERM DEBT (Continued)

	Amount Outstanding <u>6/30/2013</u>	<u>Additions</u>	<u>Deductions</u>	Amount Outstanding <u>6/30/2014</u>	Amounts Due Within <u>One Year</u>
Citizens National Bank (Rt 40 shop building)	310,912	-	(28,737)	282,175	29,605
KIA Loan Payable	1,201,182	-	(56,120)	1,145,062	56,851
KIA Loan Payable (wastewater treatment plant)	538,376	-	(25,136)	513,240	25,388
KIA Loan Payable (wastewater treatment plant)	<u>289,326</u>	<u>-</u>	<u>(20,948)</u>	<u>268,378</u>	<u>21,158</u>
	22,955,770	-	(737,033)	22,218,737	761,193
Unamortized Bond Premium	<u>39,433</u>	<u>-</u>	<u>(4,419)</u>	<u>35,014</u>	<u>-</u>
Long-Term Debt	<u>\$ 22,995,203</u>	<u>\$ -</u>	<u>\$(741,452)</u>	<u>\$22,253,751</u>	<u>\$ 761,193</u>

Principal and interest payments to be made on all long-term debt at June 30, 2014, 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>
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	1,335,096
2018	575,300	259,101	834,401	500,181	1,334,582
2019	539,800	266,270	806,070	476,008	1,282,078
2020-2024	1,498,600	1,390,228	2,888,828	2,108,808	4,997,636
2025-2029	1,680,000	1,384,421	3,064,421	1,719,081	4,783,502
2030-2034	1,898,300	1,369,676	3,267,976	1,291,793	4,559,769
2035-2039	2,062,100	1,029,226	3,091,326	821,327	3,912,653
2040-2044	2,256,000	-	2,256,000	486,946	2,742,946
2045-2049	2,544,500	-	2,544,500	240,935	2,785,435
2050-2051	<u>1,107,000</u>	<u>-</u>	<u>1,107,000</u>	<u>22,280</u>	<u>1,129,280</u>
	<u>\$15,783,200</u>	<u>\$ 6,435,537</u>	<u>\$22,218,737</u>	<u>\$ 9,306,811</u>	<u>\$31,525,548</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 \$6,489,164 was received through June 30, 2014. 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 27, 2014, the City borrowed \$361,427 from Citizens National Bank to fund the payment of the 2014-2015 insurance premiums for property, liability, and workers' comp. The loan agreement provides for 8 monthly payments of \$46,072 to be made beginning August 10, 2014 with final payment due on March 10, 2015. The loan bears interest at 3.50%.

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

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

NOTE 11. SUBSEQUENT EVENT (Continued)

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Paintsville's unfunded liability would be approximately \$4,000,000, based on the 2011 actuarial analysis. The actual liability for June 30, 2015, could be considerably different due to changes in system assumptions and liabilities.

NOTE 12. RESTATEMENT OF PRIOR PERIOD NET POSITION

The business type activities of the water, sewer, and gas fund received \$745,132 during the fiscal year from one of its suppliers for gas purchase overcharges in prior periods. The restatement of net position for fiscal year ended June 30, 2013 is as follows:

<u>Net Position As Previously Reported</u>	<u>Prior Period Adjustment</u>	<u>Net Position As Restated</u>
<u>\$55,651,343</u>	<u>\$745,132</u>	<u>\$56,396,475</u>

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, 2014, and the related notes to the financial statements, which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated January 5, 2015.

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 2014-001 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 2014-002 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 2014-003 and 2014-004.

City of Paintsville, Kentucky's Response to Findings

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

Purpose of this Report

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 5, 2015



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, 2014. 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, 2014.

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.

Nelk & Company, PSC

Certified Public Accountants

Paintsville, Kentucky

January 5, 2015

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued *unmodified*:

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
---	-----------------------

Water and Waste Disposal Systems for Rural Communities	10.760
--	--------

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

2014 – 001 Segregation of Duties

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

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

Cause 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.

2014 – 002 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.

2014 – 003 Invoices Not Paid in a Timely Manner

Condition: The City had numerous invoices that were not paid at June 30, 2014 that were more than 30 days old. Total General Fund accounts payable and retirement payable at June 30, 2014 was \$541,186. Invoices totaling \$345,243 were more than 30 days old which accounted for 63.8% 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 \$14,000 in penalties for the year for late payments.

Criteria: KRS 65.140 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: Expenditures exceeding revenues.

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2014**

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2014 – 003 Invoices Not Paid in a Timely Manner (Continued)

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.

Management Response: Invoices are paid as quickly as funds are available. We are currently exploring several avenues to improve this situation.

2013 – 004 Fund Deficits

Condition: The City at June 30, 2014 had two funds with deficits. The 911 Fund had a fund deficit of \$211,098 and the General Fund had a fund deficit of \$87,806.

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 as 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.

The General Fund deficit was also due to expenditures exceeding revenues.

Recommendation: The City needs to come up with a solution to eliminate the 911 Fund deficit and General Fund deficit. Going forward, the City needs to raise the 911 fees or budget and transfer general fund revenue to 911 to cover costs. The General Fund needs a significant reduction in expenses or significant increase in revenues.

Management Response: The legislature continues to work toward a solution to statewide 911 deficits. We are hopeful that this legislative session will have some success. The City is continuing to explore ways to increase revenues and curtail expenses in an effort to continue to offer existing services to the residents of Paintsville.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**CITY OF PAINTSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014**

There were no findings and recommendations for the year ended June 30, 2013.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 500,000	\$ 500,000	\$ 619,731	\$ 119,731
Payments in lieu of taxes	-	-	33,402	33,402
Franchise fees and taxes	145,000	145,000	74,472	(70,528)
Police court revenue	17,000	17,000	10,716	(6,284)
Police services	12,000	12,000	7,199	(4,801)
Building permits	10,000	10,000	6,640	(3,360)
Licenses	1,000	1,000	1,135	135
ABC fees	160,000	160,000	162,475	2,475
Garbage collection fees	760,000	760,000	762,720	2,720
Taxes on insurance premiums	520,000	520,000	462,904	(57,096)
Occupational taxes	1,375,000	1,375,000	1,288,849	(86,151)
Motor vehicle tax	20,000	20,000	20,502	502
Ambulance receipts	1,650,000	1,650,000	1,469,728	(180,272)
Firefighter and police incentive pay	105,400	105,400	116,437	11,037
Rental/Lease revenue	25,000	25,000	34,826	9,826
City pool and concession revenue	15,000	15,000	18,634	3,634
Country Club revenue	269,300	269,300	201,060	(68,240)
Sipp Theatre revenue	14,000	14,000	5,341	(8,659)
Advertising	12,000	12,000	9,938	(2,062)
Miscellaneous intergovernmental revenue	51,000	51,000	50,661	(339)
Grants	33,000	33,000	288,979	255,979
Contributions	-	-	87,880	87,880
Other receipts	21,000	21,000	31,235	10,235
Total revenues	<u>5,715,700</u>	<u>5,715,700</u>	<u>5,765,464</u>	<u>49,764</u>
Expenditures:				
General government:				
Administrative salaries	312,500	312,500	311,560	940
Payroll tax expense	27,600	27,600	32,277	(4,677)
Employee benefits	113,000	113,000	106,236	6,764
City attorney's fees	32,000	32,000	23,578	8,422
Mayor's expense	2,000	2,000	1,943	57
Postage	5,000	5,000	4,440	560
Advertising	5,000	5,000	8,424	(3,424)
Office supplies and printing	11,000	11,000	14,608	(3,608)
Telephone	13,000	13,000	9,054	3,946
Workmen's compensation insurance	2,000	2,000	1,620	380
Audit and accounting fees	15,000	15,000	3,100	11,900
Insurance and bonding	15,400	15,400	24,137	(8,737)
Utilities	205,000	205,000	213,981	(8,981)
Preparation of property tax bills	14,000	14,000	13,167	833

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Senior Citizens	55,240	55,240	52,559	2,681
Garden Club	1,000	1,000	1,000	-
Big Sandy ADD dues	1,500	1,500	1,500	-
Equipment lease expense	10,000	10,000	6,382	3,618
Main Street Program	15,000	15,000	15,000	-
Capital expenditures	5,000	5,000	67,541	(62,541)
Debt service:				
Interest expense	-	-	61,915	(61,915)
Principal retirement	126,375	126,375	65,000	61,375
Other general expenses	75,900	75,900	104,741	(28,841)
Building inspector expense	2,500	2,500	1,754	746
Total general government	<u>1,065,015</u>	<u>1,065,015</u>	<u>1,145,517</u>	<u>(80,502)</u>
Police:				
Salaries and wages	317,000	317,000	349,028	(32,028)
Payroll tax expense	28,000	28,000	25,791	2,209
Employee benefits	127,500	127,500	132,959	(5,459)
Gasoline and oil	36,000	36,000	35,294	706
Vehicle repairs and maintenance	8,500	8,500	8,413	87
Workmen's compensation insurance	18,500	18,500	14,016	4,484
Insurance and bonding	56,000	56,000	48,596	7,404
Utilities	-	-	6,671	(6,671)
Training	2,500	2,500	1,231	1,269
Telephone	10,000	10,000	9,769	231
Uniforms and uniforms cleaning	5,000	5,000	4,644	356
Capital expenditures	-	-	13,000	(13,000)
Other expenditures	6,000	6,000	7,777	(1,777)
Total police	<u>615,000</u>	<u>615,000</u>	<u>657,189</u>	<u>(42,189)</u>
Fire:				
Salaries and wages	299,900	299,900	285,217	14,683
Payroll tax expense	26,100	26,100	21,203	4,897
Employee benefits	119,000	119,000	131,131	(12,131)
Gasoline and oil	9,500	9,500	10,353	(853)
Repairs and maintenance	12,000	12,000	7,711	4,289
Insurance	20,000	20,000	27,013	(7,013)
Telephone	12,270	12,270	9,615	2,655
Utilities	13,000	13,000	18,602	(5,602)
Uniforms and uniforms cleaning	8,000	8,000	1,064	6,936
Training	2,000	2,000	16	1,984
Training center expenses	5,000	5,000	3,048	1,952
Workmen's compensation insurance	14,000	14,000	12,840	1,160

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Capital expenditures	-	-	86,431	(86,431)
Other expenses	9,700	9,700	10,023	(323)
Debt service:				
Interest expense	-	-	48	(48)
Principal retirement	7,000	7,000	6,844	156
Total fire	<u>557,470</u>	<u>557,470</u>	<u>631,159</u>	<u>(73,689)</u>
Ambulance:				
Salaries and wages	764,600	764,600	819,337	(54,737)
Payroll tax expense	67,000	67,000	61,116	5,884
Employee benefits	243,000	243,000	210,821	32,179
Medical supplies	44,300	44,300	37,115	7,185
Vehicle repairs and maintenance	32,000	32,000	17,057	14,943
Gasoline and oil	85,000	85,000	63,383	21,617
Uniforms	10,000	10,000	1,005	8,995
Telephone	12,000	12,000	3,017	8,983
Training	4,000	4,000	581	3,419
Insurance/bonding	56,000	56,000	60,026	(4,026)
Billing service	105,625	105,625	94,343	11,282
Debt service:				
Interest expense	-	-	2,711	(2,711)
Principal retirement	47,000	47,000	48,372	(1,372)
Workmen's compensation insurance	45,000	45,000	42,672	2,328
Capital expenditures	18,000	18,000	123,841	(105,841)
Other expenses	14,225	14,225	10,048	4,177
Total ambulance	<u>1,547,750</u>	<u>1,547,750</u>	<u>1,595,445</u>	<u>(47,695)</u>
Recreation:				
Recreation salaries	176,500	176,500	191,394	(14,894)
Payroll tax expense	16,400	16,400	16,933	(533)
Employee benefits	70,000	70,000	68,377	1,623
Insurance	15,000	15,000	21,419	(6,419)
Supplies	17,000	17,000	15,631	1,369
Recreational programs	5,000	5,000	3,379	1,621
Workmen's compensation insurance	10,000	10,000	9,612	388
Utilities	19,000	19,000	29,244	(10,244)
Other expenses	19,500	19,500	48,556	(29,056)
Total recreation	<u>348,400</u>	<u>348,400</u>	<u>404,545</u>	<u>(56,145)</u>

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Streets:				
Salaries and wages	247,000	247,000	228,664	18,336
Payroll tax expense	23,000	23,000	19,996	3,004
Employee benefits	115,000	115,000	94,554	20,446
Uniforms	8,000	8,000	9,719	(1,719)
Gasoline and oil	35,000	35,000	33,688	1,312
Insurance	32,250	32,250	30,259	1,991
Supplies and parts	12,000	12,000	20,100	(8,100)
Workmen's compensation insurance	22,000	22,000	13,932	8,068
Debt service:				
Interest expense	-	-	3,714	(3,714)
Principal retirement	40,000	40,000	26,590	13,410
Capital expenditures	-	-	169,360	(169,360)
Other expenses	17,000	17,000	19,991	(2,991)
Total streets	<u>551,250</u>	<u>551,250</u>	<u>670,567</u>	<u>(119,317)</u>
Sanitation:				
Salaries and wages	234,000	234,000	206,907	27,093
Payroll tax expense	22,700	22,700	17,808	4,892
Employee benefits	122,000	122,000	93,497	28,503
Gasoline and oil	32,000	32,000	28,451	3,549
Truck repairs and maintenance	12,000	12,000	17,263	(5,263)
Workmen's compensation insurance	24,000	24,000	22,596	1,404
Hauling and dumping expense	192,000	192,000	195,613	(3,613)
Insurance	32,500	32,500	38,202	(5,702)
Uniforms	6,500	6,500	8,207	(1,707)
Utilities	-	-	5,277	(5,277)
Garage expenses	7,500	7,500	4,287	3,213
Debt service:				
Interest expense	-	-	3,388	(3,388)
Principal retirement	52,500	52,500	50,442	2,058
Other expenses	2,000	2,000	9,049	(7,049)
Total sanitation	<u>739,700</u>	<u>739,700</u>	<u>700,987</u>	<u>38,713</u>
Golf Course:				
Salaries and wages	158,000	158,000	155,920	2,080
Payroll tax expense	15,500	15,500	14,488	1,012
Employee benefits	36,000	36,000	33,445	2,555
Workmen's compensation insurance	7,000	7,000	5,196	1,804
Maintenance and repairs	14,500	14,500	51,667	(37,167)
Gasoline and oil	15,000	15,000	20,272	(5,272)
Insurance	16,000	16,000	18,972	(2,972)
Utilities and telephone	24,000	24,000	45,914	(21,914)
Other expenses	66,600	66,600	66,958	(358)
Total golf course	<u>352,600</u>	<u>352,600</u>	<u>412,832</u>	<u>(60,232)</u>

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Total Expenditures	5,777,185	5,777,185	6,218,241	(441,056)
Excess of revenues over (under) expenditures	(61,485)	(61,485)	(452,777)	(391,292)
Other Financing Sources/(Uses):				
Proceeds from sales of capital assets	-	-	3,677	3,677
Transfer in from Tourism	175,000	175,000	155,000	(20,000)
Proceeds from borrowing	-	-	185,596	185,596
Total other financing sources (uses)	175,000	175,000	344,273	169,273
Net change in fund balance	<u>\$ 113,515</u>	<u>\$ 113,515</u>	(108,504)	<u>\$ (222,019)</u>
Fund balance - beginning			20,698	
Fund balance - ending			<u>(87,806)</u>	

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes:				
Restaurant tax	\$ 693,500	\$ 693,500	\$ 694,683	\$ 1,183
Room occupancy tax	84,000	84,000	63,894	(20,106)
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	51,500	51,500	46,657	(4,843)
Interest	-	-	706	706
Miscellaneous revenues	56,600	56,600	60,083	3,483
Total revenues	885,600	885,600	866,023	(19,577)
Expenditures:				
Salaries and wages	183,100	183,100	162,026	21,074
Payroll tax expense	13,641	13,641	18,499	(4,858)
Employee benefits	51,257	51,257	43,962	7,295
Contract labor	8,000	8,000	4,055	3,945
Administration	11,000	11,000	11,382	(382)
Travel	8,500	8,500	11,836	(3,336)
Telephone and utilities	42,780	42,780	37,775	5,005
Donations	90,629	90,629	110,181	(19,552)
Postage	1,850	1,850	1,340	510
General office expense	9,300	9,300	7,107	2,193
Gift shop expense	7,000	7,000	5,949	1,051
Advertising and promotional	94,500	94,500	67,165	27,335
Membership dues	3,165	3,165	1,988	1,177
Van and bus expense	5,500	5,500	1,603	3,897
Legal and professional expense	9,000	9,000	6,600	2,400
Taxes and licenses	1,000	1,000	414	586
Maintenance and repairs	40,980	40,980	13,863	27,117
Mountain Homeplace	20,200	20,200	12,725	7,475
Bank charges	500	500	683	(183)
Insurance	35,000	35,000	35,671	(671)
Security	1,880	1,880	2,160	(280)
Other expense	31,318	31,318	31,526	(208)
Debt service:				
Interest expense	-	-	2,623	(2,623)
Principal retirement	37,000	37,000	33,421	3,579
Capital outlay	23,500	23,500	17,500	6,000
Total expenditures	730,600	730,600	642,054	88,546
Excess of revenues over (under) expenditures	155,000	155,000	223,969	68,969

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing sources (uses):				
Transfer out to General Fund	(155,000)	(155,000)	(155,000)	-
Total other financing sources (uses)	<u>(155,000)</u>	<u>(155,000)</u>	<u>(155,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	68,969	<u>\$ 68,969</u>
Fund balance - beginning			<u>215,070</u>	
Fund balance - ending			<u>\$ 284,039</u>	

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2014

	<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	\$ 12,317	\$ 13,798	\$ 42,073	\$ 68,188
Due from General Fund	-	97,632	-	97,632
Total Assets	<u>\$ 12,317</u>	<u>\$ 111,430</u>	<u>\$ 42,073</u>	<u>\$ 165,820</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 6,615	\$ 9,737	\$ 14,374	\$ 30,726
Accrued vacation	-	-	5,414	5,414
Due to General Fund	-	-	233,383	233,383
Total Liabilities	<u>6,615</u>	<u>9,737</u>	<u>253,171</u>	<u>269,523</u>
Fund Balances:				
Restricted for:				
Streets	-	101,693	-	101,693
Other	5,702	-	-	5,702
Unassigned	-	-	(211,098)	(211,098)
Total Fund Balances	<u>5,702</u>	<u>101,693</u>	<u>(211,098)</u>	<u>(103,703)</u>
Total Liabilities and Fund Balances	<u>\$ 12,317</u>	<u>\$ 111,430</u>	<u>\$ 42,073</u>	<u>\$ 165,820</u>

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	<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	\$ 46,881	\$ 82,250	\$ -	\$ 129,131
Charges for services	-	-	340,738	340,738
Interest	1	-	1	2
Total revenues	<u>46,882</u>	<u>82,250</u>	<u>340,739</u>	<u>469,871</u>
Expenditures:				
Current:				
Public safety	3,060	-	376,807	379,867
Streets	11,223	24,039	-	35,262
Recreation	14,484	-	-	14,484
Capital outlay	<u>42,903</u>	<u>10,100</u>	<u>-</u>	<u>53,003</u>
Total expenditures	<u>71,670</u>	<u>34,139</u>	<u>376,807</u>	<u>482,616</u>
Excess of revenues over (under) expenditures	(24,788)	48,111	(36,068)	(12,745)
Other financing sources (uses):				
Proceeds from borrowing	<u>42,903</u>	<u>-</u>	<u>-</u>	<u>42,903</u>
Total other financing sources (uses)	<u>42,903</u>	<u>-</u>	<u>-</u>	<u>42,903</u>
Net change in fund balances	18,115	48,111	(36,068)	30,158
Fund balances - beginning	<u>(12,413)</u>	<u>53,582</u>	<u>(175,030)</u>	<u>(133,861)</u>
Fund balances - ending	<u>\$ 5,702</u>	<u>\$ 101,693</u>	<u>\$(211,098)</u>	<u>\$ (103,703)</u>

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2014

<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	\$ <u>694,773</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Pass-through program from Kentucky Dept of Natural Resources Division of Abandoned Mine Lands Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-13000009591	<u>190,414</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through program from Kentucky Transportation Cabinet State and Community Highway Safety	20.600	AL-13-23	<u>414</u>
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Pass-through program from The Center for Rural Development Appalachian Program	23.001	N/A	<u>4,000</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from Kentucky Infrastructure Authority Capitalization Grants For Clean Water State Revolving Funds	66.458	F08-10	<u>195,041</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Funding: Assistance to Firefighters Grant	97.044	N/A	88,125
Pass-through program from Kentucky Dept of Military Affairs Hazard Mitigation Grant Program	97.039	DR-4057-0007	92,304
Pass-through program from Johnson County Fiscal Court Emergency Management Performance Grants	97.042	EMPG-3	24,253
Pass-through program from Kentucky Office of Homeland Security Homeland Security Grant Program	97.067	094 13000002896	<u>30,000</u>
Total U.S. Department of Homeland Security			<u>234,682</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ <u>1,319,324</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, 2014**

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.