

CITY OF PAINTSVILLE, KENTUCKY

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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

(606) 789-3588

## TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT .....	1
AUDITED FINANCIAL STATEMENTS	
Statement Of Net Position.....	3
Statement Of Activities.....	4
Balance Sheet.....	5
Reconciliation Of The Balance Sheet Of Governmental Funds To The Statement Of Net Position .....	6
Statement Of Revenues, Expenditures, And Changes In Fund Balances.....	7
Reconciliation Of The Statement Of Revenues, Expenditures, And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities .....	8
Statement Of Net Position – Proprietary Fund .....	9
Statement Of Revenues, Expenses And Changes In Net Position – Proprietary Fund.....	11
Statement Of Cash Flows – Proprietary Fund.....	12
Notes To Financial Statements .....	14-35
AUDITOR'S REPORTS	
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 <i>Government Auditing Standards</i> .....	36
Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133 .....	38
Schedule Of Findings And Questioned Costs.....	40
Summary Schedule Of Prior Audit Findings .....	42

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund ..... 43

Budgetary Comparison Schedule – Tourism Fund ..... 48

Schedule Of The City’s Proportionate Share Of The Net Position Liability (CERS)..... 50

Schedule Of City Contributions (CERS)..... 51

Notes To Required Supplementary Information (CERS)..... 52

SUPPLEMENTARY AND OTHER INFORMATION

Combining Balance Sheet – Non-Major Funds ..... 53

Combining Statement Of Revenues, Expenditures, And  
Changes In Fund Balances – Non-Major Funds..... 54

Schedule Of Expenditures Of Federal Awards ..... 55

Notes to Schedule Of Expenditures Of Federal Awards..... 56



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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

(606) 789-3588

Fax (606) 789-3326

## 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, 2015, 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, 2015, 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 43-49 and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 50 and 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paintsville, Kentucky's basic financial statements. The supplementary and other information, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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 11, 2016 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 11, 2016

CITY OF PAINTSVILLE, KENTUCKY  
STATEMENT OF NET POSITION  
JUNE 30, 2015

3

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 680,045	\$ 5,541,754	\$ 6,221,799
Certificates of deposit	126,359	2,738,763	2,865,122
Taxes receivable	63,490	-	63,490
Accounts receivable	110,737	826,922	937,659
Grants receivable	11,279	-	11,279
Other receivable	31,636	-	31,636
Due from Paintsville Utilities	60,637	-	60,637
Unbilled revenues	-	263,113	263,113
Inventory	-	133,895	133,895
Prepaid items	331,634	38,184	369,818
Capital assets:			
Land and construction-in-progress	938,515	1,640,437	2,578,952
Other capital assets, net of accumulated depreciation	7,370,955	77,873,966	85,244,921
<b>Total Assets</b>	<b>9,725,287</b>	<b>89,057,034</b>	<b>98,782,321</b>
<b>DEFERRED OUTFLOWS</b>			
Employer pension contributions subsequent to measurement date	457,097	263,571	720,668
<b>LIABILITIES</b>			
Accounts payable	170,200	275,470	445,670
Accrued payroll taxes	15,267	18,212	33,479
Accrued vacation	57,481	43,140	100,621
Other accrued liabilities	48,733	378,161	426,894
Short term note payable	331,634	-	331,634
Customer meter deposits payable	-	794,105	794,105
Interest payable on customer meter deposits	-	302,905	302,905
Long-term liabilities:			
Net pension liability	3,615,000	1,895,000	5,510,000
Due within one year	408,442	932,405	1,340,847
Due in more than one year	1,678,094	27,826,790	29,504,884
<b>Total Liabilities</b>	<b>6,324,851</b>	<b>32,466,188</b>	<b>38,791,039</b>
<b>DEFERRED INFLOWS</b>			
Net difference between projected and actual investment earnings on pension plan investments	404,000	212,000	616,000
<b>NET POSITION</b>			
Net investment in capital assets	6,722,934	48,860,208	55,583,142
Restricted for:			
Public safety	64,208	-	64,208
Streets	105,187	-	105,187
Tourism	325,156	-	325,156
Debt service	43,719	943,678	987,397
Equipment replacement	-	80,074	80,074
Depreciation	-	1,584,837	1,584,837
Other purposes	8,075	1,449,519	1,457,594
Unrestricted (deficit)	(3,815,746)	3,724,101	(91,645)
<b>Total Net Position</b>	<b>\$ 3,453,533</b>	<b>\$ 56,642,417</b>	<b>\$ 60,095,950</b>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

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
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government	\$ 1,092,725	\$ 62,597	\$ 1,861	\$ 216,912	\$ (811,355)	\$ -	\$ (811,355)
Public safety	3,120,546	1,626,010	24,716	29,534	(1,440,286)	-	(1,440,286)
Recreation	815,855	241,773	-	-	(574,082)	-	(574,082)
Streets	638,362	-	-	-	(638,362)	-	(638,362)
Sanitation	670,422	761,052	-	-	90,630	-	90,630
Tourism	738,519	58,912	-	-	(679,607)	-	(679,607)
Interest on long-term debt	72,860	-	-	-	(72,860)	-	(72,860)
Total governmental activities	<u>7,149,289</u>	<u>2,750,344</u>	<u>26,577</u>	<u>246,446</u>	<u>(4,125,922)</u>	<u>-</u>	<u>(4,125,922)</u>
<b>Business-type activities:</b>							
Water, gas, and sewer	8,712,113	8,519,315	-	564,551	-	371,753	371,753
Total business-type activities	<u>8,712,113</u>	<u>8,519,315</u>	<u>-</u>	<u>564,551</u>	<u>-</u>	<u>371,753</u>	<u>371,753</u>
<b>Total primary government</b>	<b>\$ 15,861,402</b>	<b>\$ 11,269,659</b>	<b>\$ 26,577</b>	<b>\$ 810,997</b>	<b>(4,125,922)</b>	<b>371,753</b>	<b>(3,754,169)</b>
<b>General revenues:</b>							
Property taxes					546,960	-	546,960
Occupational taxes					1,317,033	-	1,317,033
Insurance premium taxes					479,172	-	479,172
Motor vehicle taxes					27,464	-	27,464
Restaurant taxes					728,144	-	728,144
Room occupancy taxes					66,979	-	66,979
Franchise fees and taxes					153,930	-	153,930
Payments in lieu of taxes					29,598	-	29,598
ABC fees					164,439	-	164,439
Licenses and permits					4,190	-	4,190
Intergovernmental revenue					289,364	-	289,364
Interest income					197	52,199	52,396
Gain/(Loss) on sale of capital assets					-	7,780	7,780
Insurance proceeds					18,134	-	18,134
Donation/contributions					87,126	-	87,126
Miscellaneous					117,838	-	117,838
Total general revenues and transfers					<u>4,030,568</u>	<u>59,979</u>	<u>4,090,547</u>
Change in net position					(95,354)	431,732	336,378
Net position - beginning, restated					<u>3,548,887</u>	<u>56,210,685</u>	<u>59,759,572</u>
Net position - ending					<u>\$ 3,453,533</u>	<u>\$ 56,642,417</u>	<u>\$ 60,095,950</u>

CITY OF PAINTSVILLE, KENTUCKY  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 423,129	\$ 219,278	\$ 37,638	\$ 680,045
Certificate of deposit	-	126,359	-	126,359
Receivables:				
Property taxes	1,237	-	-	1,237
Accounts	110,737	-	-	110,737
Grants	11,279	-	-	11,279
Other	31,636	-	-	31,636
Due from Paintsville Utilities	60,637	-	-	60,637
Due from 911 Fund	302,327	-	-	302,327
Due from General Fund	-	-	97,632	97,632
Prepaid items	331,634	-	-	331,634
	<u>\$ 1,272,616</u>	<u>\$ 345,637</u>	<u>\$ 135,270</u>	<u>\$ 1,753,523</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 142,617	\$ 17,356	\$ 10,227	\$ 170,200
Accrued payroll taxes	15,267	-	-	15,267
Accrued vacation	49,405	3,125	4,951	57,481
Accrued retirement	48,733	-	-	48,733
Short term note payable	331,634	-	-	331,634
Due to General Fund	-	-	302,327	302,327
Due to Road Aid	97,632	-	-	97,632
	<u>685,288</u>	<u>20,481</u>	<u>317,505</u>	<u>1,023,274</u>
<b>Fund Balances:</b>				
Restricted for:				
Public Safety	64,208	-	-	64,208
Streets	-	-	105,187	105,187
Tourism	-	325,156	-	325,156
Debt Service	43,719	-	-	43,719
Other	-	-	8,075	8,075
Unassigned	479,401	-	(295,497)	183,904
	<u>587,328</u>	<u>325,156</u>	<u>(182,235)</u>	<u>730,249</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,272,616</u>	<u>\$ 345,637</u>	<u>\$ 135,270</u>	<u>\$ 1,753,523</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, 2015

<b>Fund Balances - Total Governmental Funds</b>	<b>\$ 730,249</b>
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	16,178,198
Less: accumulated depreciation	(7,868,728)
Pension contributions after measurement date are reported as a deferred outflow of resources:	457,097
Net pension liability is not due and payable in the current period and, therefore, is not reported in governmental funds:	(3,615,000)
Net difference between projected and actual investment earnings on pension plan investments is reported as a deferred inflow of resources in the statement of net position:	(404,000)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bond payable	(1,130,000)
Bond discount	20,056
Loans payable	(813,580)
Leases payable	(163,012)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent property taxes	<u>62,253</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 3,453,533</u></b>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes:				
Property	\$ 555,823	\$ -	\$ -	\$ 555,823
Occupational	1,317,033	-	-	1,317,033
Insurance premium	479,172	-	-	479,172
Motor vehicle	27,464	-	-	27,464
Franchise	116,582	-	-	116,582
Restaurant	-	728,144	-	728,144
Room occupancy	-	66,979	-	66,979
Payments in lieu of taxes	29,598	-	-	29,598
ABC fees	164,439	-	-	164,439
Franchise fees	37,348	-	-	37,348
Licenses and permits	4,190	-	-	4,190
Intergovernmental revenues	175,396	-	113,968	289,364
Grants	273,023	-	-	273,023
Charges for services	2,397,639	58,912	293,793	2,750,344
Interest income	95	100	2	197
Contributions	87,126	-	-	87,126
Miscellaneous revenues	69,900	47,938	-	117,838
<b>Total revenues</b>	<b>5,734,828</b>	<b>902,073</b>	<b>407,763</b>	<b>7,044,664</b>
<b>Expenditures:</b>				
Current:				
General government	1,005,156	-	-	1,005,156
Public safety	2,553,673	-	388,193	2,941,866
Recreation	744,431	-	7,000	751,431
Streets	471,444	-	80,376	551,820
Sanitation	635,197	-	-	635,197
Tourism	-	615,169	-	615,169
<b>Debt service:</b>				
Principal	166,628	62,503	10,726	239,857
Interest	70,719	1,299	-	72,018
<b>Capital outlay</b>	<b>360,154</b>	<b>18,985</b>	<b>-</b>	<b>379,139</b>
<b>Total expenditures</b>	<b>6,007,402</b>	<b>697,956</b>	<b>486,295</b>	<b>7,191,653</b>
Excess of revenues over (under) expenditures	(272,574)	204,117	(78,532)	(146,989)
<b>Other financing sources (uses):</b>				
Proceeds from insurance	18,134	-	-	18,134
Transfers in from Tourism	163,000	-	-	163,000
Transfers out to General Fund	-	(163,000)	-	(163,000)
Proceeds from borrowing	766,574	-	-	766,574
<b>Total other financing sources (uses)</b>	<b>947,708</b>	<b>(163,000)</b>	<b>-</b>	<b>784,708</b>
Net change in fund balances	675,134	41,117	(78,532)	637,719
Fund balances - beginning	(87,806)	284,039	(103,703)	92,530
<b>Fund balances - ending</b>	<b>\$ 587,328</b>	<b>\$ 325,156</b>	<b>\$ (182,235)</b>	<b>\$ 730,249</b>

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, 2015**

**Net Change in Fund Balances - Total Governmental Funds** \$ 637,719

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	379,139
Depreciation expense	(621,982)

The net effect of various miscellaneous transactions involving capital assets: -

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

Increase/(decrease) in property taxes	(8,863)
---------------------------------------	---------

Pension expense related to long-term net pension liability that is not included in the governmental funds: 46,192

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	239,857
Loan proceeds	(766,574)
Amortization of bond discount	(842)
	<hr/>

**Change in Net Position of Governmental Activities** \$ (95,354)

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF NET POSITION  
 PROPRIETARY FUND - PAINTSVILLE UTILITIES  
 JUNE 30, 2015

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 2,582,699
Accounts receivable, no allowance considered necessary	826,922
Unbilled revenues	263,113
Inventory	133,895
Prepaid items	<u>38,184</u>

**Total current assets** 3,844,813

**Non-current assets:**

**Restricted assets:**

<b>Cash and cash equivalents:</b>	
Bond and interest sinking fund	465,359
Depreciation reserve fund	563,818
Equipment replacement fund	80,074
Operations and maintenance	<u>1,849,804</u>
<b>Investments:</b>	
Operations and maintenance	696,725
Debt service reserve fund	1,021,019
Depreciation reserve fund	<u>1,021,019</u>

**Total restricted assets** 5,697,818

**Capital assets:**

Land and land improvements	816,089
Construction work in progress	824,348
Capital assets, net of depreciation	<u>77,873,966</u>

**Total capital assets** 79,514,403

**Total assets** 89,057,034

**DEFERRED OUTFLOWS**

Employer pension contributions subsequent to measurement date	<u>263,571</u>
---------------------------------------------------------------	----------------

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF NET POSITION (Continued)  
 PROPRIETARY FUND - PAINTSVILLE UTILITIES  
 JUNE 30, 2015

**LIABILITIES**

**Current liabilities:**

Accounts payable	265,534
Retainage payable	9,936
Compensated absences	43,140
Accrued interest payable	191,599
Other accrued liabilities	204,774
Current portion of long-term liabilities	339,705
Current portion of capital lease obligations	50,000

**Total current liabilities** 1,104,688

**Payable from restricted assets:**

Current portion of bonds	542,700
Customer meter deposits	794,105
Interest payable on customer meter deposits	302,905

**Total liabilities payable from restricted assets** 1,639,710

**Long-term liabilities:**

Net pension liability	1,895,000
Advances for construction	6,489,164
Bonds payable, net of premium	15,291,594
Notes payable	6,688,437
Capital lease obligations	290,000

30,654,195

Less current portion (932,405)

**Total long-term liabilities** 29,721,790

**Total liabilities** 32,466,188

**DEFERRED INFLOWS**

Net difference between projected and actual investment earnings on pension plan investments	212,000
---------------------------------------------------------------------------------------------	---------

212,000

**NET POSITION:**

Net investment in capital assets	48,860,208
Restricted	
Debt service	943,678
Depreciation	1,584,837
Equipment replacement	80,074
Operations and maintenance	1,449,519
Unrestricted	3,724,101

3,724,101

**Total net position** \$ 56,642,417

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUND - PAINTSVILLE UTILITIES  
 FOR THE YEAR ENDED JUNE 30, 2015

<b>Operating revenues:</b>	
Gas revenues	\$ 2,139,286
Water revenues	3,611,510
Wastewater revenues	2,342,339
Other operating revenues	<u>426,180</u>
<b>Total operating revenues</b>	<b>8,519,315</b>
Cost of sales	<u>956,566</u>
<b>Net operating revenues</b>	<b><u>7,562,749</u></b>
<b>Operating expenses:</b>	
Salaries and wages	1,554,828
Payroll taxes	119,688
Employee pension and benefits	899,869
Materials and supplies	290,426
Legal and professional	150,523
Miscellaneous general expense	316,691
Telephone and utilities	1,203,240
Insurance	139,091
Motor vehicle expenses	105,275
Repairs and maintenance	257,685
Depreciation	<u>1,998,451</u>
<b>Total operating expenses</b>	<b><u>7,035,767</u></b>
<b>Utility operating income (loss)</b>	<b><u>526,982</u></b>
<b>Non-operating revenues (expenses):</b>	
Interest income	52,199
Gain on sale of equipment	7,780
Interest expense	<u>(632,654)</u>
<b>Total non-operating revenues (expenses)</b>	<b><u>(572,675)</u></b>
<b>Net income (loss) before contributions from (to)</b>	<b>(45,693)</b>
Contributions in aid of construction	564,551
Contribution to the City of Paintsville	<u>(87,126)</u>
<b>Change in net position</b>	<b>431,732</b>
Net position, beginning of year - restated	<u>56,210,685</u>
<b>Net position, end of year</b>	<b><u>\$ 56,642,417</u></b>

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, 2015

**Cash flows from operating activities:**

**Cash inflows:**

Payments received from customers \$ 8,351,878

**Total cash provided** 8,351,878

**Cash outflows:**

Payments for salaries and benefits 2,583,950

Payments to suppliers for goods and services 3,546,292

**Total cash used** 6,130,242

**Net cash provided (used) by operating activities** 2,221,636

**Cash flows from noncapital financing activities:**

Interest paid on customer deposits (5,264)

**Net cash provided (used) by noncapital financing activities** (5,264)

**Cash flows from capital and related financing activities:**

Purchase and construction of utility plant (2,162,569)

Proceeds from loans and bonds 4,679,810

Principal payments on long-term debt (4,949,110)

Payments on capital leases (40,000)

Interest paid on long-term debt and capital leases (660,312)

Proceeds from sale of capital assets 13,075

Contributions-in-aid of construction 619,495

**Net cash provided (used) by capital and related financing activities** (2,499,611)

**Cash flows from investing activities:**

Interest received 14,171

**Net cash provided (used) by investing activities** 14,171

**Net cash inflow (outflow) from all activities** (269,068)

Cash and cash equivalents at beginning of period 5,810,822

**Cash and cash equivalents at end of period** \$ 5,541,754

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY  
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)  
 FOR THE YEAR ENDED JUNE 30, 2015**

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

Utility operating income	\$ 526,982
Depreciation and amortization	1,998,451
Contribution of utility services	(87,126)
(Increase) decrease in:	
Accounts receivable	(77,102)
Unbilled revenue	27,885
Inventory	(20,973)
Prepaid expenses and other assets	(25,127)
Increase (decrease) in:	
Accounts payable	(75,001)
Accrued liabilities and other liabilities	(46,353)

**Net cash provided (used) by operating activities** \$ 2,221,636

**Schedule of cash and cash equivalents:**

**Beginning of period:**

Unrestricted cash and cash equivalents	\$ 2,668,292
Restricted cash and cash equivalents	<u>3,142,530</u>

\$ 5,810,822

**End of period:**

Unrestricted cash and cash equivalents	\$ 2,582,699
Restricted cash and cash equivalents	<u>2,959,055</u>

\$ 5,541,754

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

**Narrative Profile**

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

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

**A. Financial Reporting Entity**

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

**Blended Component Units:**

**Paintsville Utilities Commission**

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

Paintsville Utilities  
137 Main Street  
Paintsville, Kentucky 41240

**Paintsville Tourism Commission**

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

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

**Excluded From Entity**

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

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

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

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

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

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

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

**1. Governmental Funds**

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

**a. General Fund**

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

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

**b. Special Revenue Fund**

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

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

**2. PROPRIETARY FUNDS**

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. As permitted by generally accepted accounting principals, the City's Proprietary Funds has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

**a. Enterprise Fund or Business Funds**

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

**b. Internal Service Fund**

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



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

**3. Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the City in a trustee capacity 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. The Agency Fund had no assets and no liabilities at June 30, 2015.

**C. Basis of Accounting**

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

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

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

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

**D. Budgets and Budgetary Accounting**

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

1. In accordance with the City Charter, prior to June 1, the City Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with



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

estimates for the current year and actual data for the two preceding years. The City Charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.

2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Mayor is required by the City Charter to present a quarterly report to the City Council explaining any variance from the approved budget.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
6. The City Council may authorize supplemental appropriations during the year.

**E. Cash and Investments**

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

**F. Allowance for Uncollectible Accounts**

The City's delinquent taxes and accounts receivable 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

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

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

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

**H. Compensated Absences**

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

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

**I. Estimates**

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

**J. Restricted Assets**

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

**K. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

**L. Net Position**

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

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

**M. Accrued Liabilities and Long-Term Obligations**

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

**N. Interfund Activity**

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

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

**O. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has only one item that qualifies for reporting in this category, employer pension contributions subsequent to measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category, net difference between projected and actual investment earnings on pension plan investments.

**P. Fund Equity**

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

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

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

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

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

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

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

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

**NOTE 2. DEPOSITS AND INVESTMENTS**

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

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

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

- Category 1 – Insured or collateralized with securities held by the City or by its agent in the City’s name.
- Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.
- Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2015 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>\$9,284,907</u>	<u>\$3,252,133</u>	<u>\$5,972,095</u>	<u>\$60,679</u>	<u>\$9,083,862</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, 2015, consisted of the following:

**Primary Government**

<b>Governmental Activities</b>	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2015</b>
<b>Capital assets, not being depreciated:</b>				
Land and land improvements	\$ 858,515	\$ 80,000	\$ -	\$ 938,515
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total capital assets, not being depreciated</b>	<u>858,515</u>	<u>80,000</u>	<u>-</u>	<u>938,515</u>
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	7,673,522	71,059	-	7,744,581
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,575,926	166,445	-	2,742,371
Infrastructure	325,015	-	-	325,015
Machinery and equipment	<u>3,515,515</u>	<u>61,635</u>	<u>-</u>	<u>3,577,150</u>
<b>Total capital assets being depreciated</b>	<u>14,940,544</u>	<u>299,139</u>	<u>-</u>	<u>15,239,683</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(2,210,480)	(188,532)	-	(2,399,012)
Improvements other than buildings	(709,812)	(30,495)	-	(740,307)
Automobiles and trucks	(1,871,647)	(158,196)	-	(2,029,843)
Infrastructure	(175,184)	(27,982)	-	(203,166)
Machinery and equipment	<u>(2,279,623)</u>	<u>(216,777)</u>	<u>-</u>	<u>(2,496,400)</u>
<b>Total accumulated depreciation</b>	<u>(7,246,746)</u>	<u>(621,982)</u>	<u>-</u>	<u>(7,868,728)</u>
<b>Total capital assets being depreciated, net</b>	<u>7,693,798</u>	<u>(322,843)</u>	<u>-</u>	<u>7,370,955</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,552,313</u>	<u>\$ (242,843)</u>	<u>\$ -</u>	<u>\$ 8,309,470</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 93,002
Public safety	203,236
Recreation	68,304
Streets	91,249
Sanitation	40,389
Tourism	<u>125,802</u>
<b>Total</b>	<u>\$ 621,982</u>

CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
<b>Capital assets, not being depreciated:</b>				
Land and land improvements	\$ 778,589	\$ 37,500	\$ -	\$ 816,089
Construction in progress	<u>37,658,169</u>	<u>1,103,415</u>	<u>37,937,236</u>	<u>824,348</u>
<b>Total capital assets, not being depreciated</b>	<u>38,436,758</u>	<u>1,140,915</u>	<u>37,937,236</u>	<u>1,640,437</u>
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	1,056,171	10,735	-	1,066,906
Utility plants	62,416,377	38,414,448	-	100,830,825
Automobiles and trucks	864,886	402,223	17,650	1,249,459
Machinery and equipment	<u>421,300</u>	<u>17,259</u>	<u>-</u>	<u>438,559</u>
<b>Total capital assets being depreciated</b>	<u>64,758,734</u>	<u>38,844,665</u>	<u>17,650</u>	<u>103,585,749</u>
<b>Less accumulated depreciation for:</b>				
Buildings and improvements	(243,970)	(21,541)	-	(265,511)
Utility plants	(22,570,080)	(1,852,074)	-	(24,422,154)
Automobiles and trucks	(679,246)	(85,274)	(12,355)	(752,165)
Machinery and equipment	<u>(232,391)</u>	<u>(39,562)</u>	<u>-</u>	<u>(271,953)</u>
<b>Total accumulated depreciation</b>	<u>(23,725,687)</u>	<u>(1,998,451)</u>	<u>(12,355)</u>	<u>(25,711,783)</u>
<b>Total capital assets being depreciated, net</b>	<u>41,033,047</u>	<u>36,846,214</u>	<u>5,295</u>	<u>77,873,966</u>
<b>Total capital assets, net</b>	<u>\$ 79,469,805</u>	<u>\$ 37,987,129</u>	<u>\$ 37,942,531</u>	<u>\$ 79,514,403</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 1,998,451</u>
-----------------------	---------------------

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.



**CITY OF PAINTSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6. CAPITAL LEASES (Continued)**

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2015, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2016	\$ 41,116	\$ 57,132
2017	40,222	65,647
2018	30,390	64,098
2019	29,496	62,538
2020	<u>29,496</u>	<u>60,979</u>
Total minimum lease payments	170,720	310,394
Less amount representing interest	<u>(7,708)</u>	<u>(20,394)</u>
Present value of net minimum lease payments	<u>\$ 163,012</u>	<u>\$ 290,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2015:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 182,676	\$1,070,990
Less accumulated depreciation	<u>(13,424)</u>	<u>(665,799)</u>
	<u>\$ 169,252</u>	<u>\$ 405,191</u>

	<u>Amount Outstanding 6/30/2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2015</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 59,099	\$ 139,773	\$ (35,860)	\$ 163,012	\$ 39,567
Business-type activities leases	\$ 330,000	\$ -	\$ (40,000)	\$ 290,000	\$ 50,000

**NOTE 7. LONG-TERM DEBT**

Long-term debt at June 30, 2015 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 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.

**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 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%.

On July 8, 2014, the City borrowed \$160,000 from Mountain Association for Community Economic Development, Inc. to upgrade city properties. The loan agreement provides for 120 monthly payments of \$1,698 to be made beginning August 8, 2014 with final payment due on July 7, 2024. The loan bears interest at 5.00%. The City had drawn down \$101,801 as of June 30, 2015.

On April 8, 2015, the City borrowed \$500,000 from First Commonwealth Bank for working capital to pay down delinquent accounts payable. The loan agreement provides for 8 quarterly payments of \$64,511 to be made beginning July 25, 2015 with final payment due on April 25, 2017. The loan bears interest at 2.68%.

On June 19, 2015, the City borrowed \$25,000 from First Commonwealth Bank to partially fund the purchase of a 2015 Ford F-250. The loan agreement provides for 36 monthly payments of \$733 to be made beginning July 19, 2015 with final payment due on June 19, 2018. The loan bears interest at 3.50%.

<b>Bonds:</b>	<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.	\$1,130,000	Variable	01/2031
<b>Less:</b>			
Unamortized discount	<u>20,056</u>		
	<u>\$1,109,944</u>		

	<u>Amount Outstanding 6/30/2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2015</u>	<u>Amounts Due Within One Year</u>
Revenue Bond – Series 2011	\$ 1,180,000	\$ -	\$ (50,000)	\$1,130,000	\$ 50,000
Sipp Theatre loan payable	90,000	-	(15,000)	75,000	15,000
Ambulance loan payable	16,268	-	(16,268)	-	-
Ambulance loan payable	2,281	-	(2,281)	-	-



CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015

NOTE 7. LONG-TERM DEBT (Continued)

	<u>Amount Outstanding 6/30/2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2015</u>	<u>Amounts Due Within One Year</u>
Ambulance loan payable	4,806	-	(4,806)	-	-
Ambulance loan payable	9,821	-	(6,859)	2,962	2,962
Ambulance loan payable	12,328	-	(8,114)	4,214	4,214
Street sweeper loan payable	142,769	-	(32,747)	110,022	33,686
Golf carts loan payable	62,503	-	(62,503)	-	-
MACED loan payable	-	101,801	(5,419)	96,382	8,687
Working capital loan payable	-	500,000	-	500,000	246,287
Pickup truck loan payable	-	25,000	-	25,000	8,039
	<u>1,520,776</u>	<u>626,801</u>	<u>(203,997)</u>	<u>1,943,580</u>	<u>368,875</u>
Unamortized bond discount	(20,898)	-	842	(20,056)	-
Long-Term Debt	<u>\$ 1,499,878</u>	<u>\$ 626,801</u>	<u>\$ (203,155)</u>	<u>\$ 1,923,524</u>	<u>\$ 368,875</u>

Principal and interest payments to be made on all long-term debt at June 30, 2015, 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>
2016	\$ 50,000	\$ 318,875	\$ 368,875	\$ 62,715	\$ 431,590
2017	50,000	320,747	370,747	57,503	428,250
2018	55,000	68,778	123,778	53,939	177,717
2019	55,000	31,028	86,028	51,145	137,173
2020	60,000	25,498	85,498	47,896	133,394
2021-2025	335,000	48,654	383,654	197,969	581,623
2026-2030	425,000	-	425,000	117,144	542,144
2031	100,000	-	100,000	16,106	116,106
	<u>\$ 1,130,000</u>	<u>\$ 813,580</u>	<u>\$ 1,943,580</u>	<u>\$ 604,417</u>	<u>\$ 2,547,997</u>

Business-Type Activities

<u>Bonds:</u>	<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.	\$13,082,500	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.	153,000	5.00%	02/2026

**CITY OF PAINTSVILLE, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

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.	1,185,000	2.65%	02/2026
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	337,500	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	275,500	4.50%	07/2038
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>227,500</u>	4.125%	07/2046
	<u>15,261,000</u>		

**Notes:**

Note payable to Citizens National Bank, due in monthly installments of principal and interest. (Rt. 40 shop building)	252,557	2.95%	12/2022
Note payable to First Commonwealth Bank, due in 48 monthly installments of principal and interest of \$6,038. (Kenworth Vac Truck)	231,108	2.56%	10/2018
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,088,211	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.	487,852	1.00%	12/2032
Note Payable to Citizens National Bank, due in 59 monthly installments of principal and interest of \$18,704 and one final payment of \$3,710,145. (Paintsville Lake water storage space-Dept of Army)	4,381,489	1.988%	04/2020
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year.	<u>247,220</u>	1.00%	06/2026
	<u>6,688,437</u>		
	<u>21,949,437</u>		
<b>Add:</b>			
Unamortized premium	<u>30,594</u>		
	<u>\$21,980,031</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

CITY OF PAINTSVILLE, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015

NOTE 7. LONG-TERM DEBT (Continued)

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 1.78 at June 30, 2015.

	Amount Outstanding <u>6/30/2014</u>	Additions	Deductions	Amount Outstanding <u>6/30/2015</u>	Amounts Due Within <u>One Year</u>
Combined Utility Refunding Bond – 1978 Issue	\$ 199,000	\$ -	\$ (46,000)	\$ 153,000	\$ 49,000
Water Revenue Bond – Series 1994	347,200	-	(9,700)	337,500	10,200
Water Revenue Bond – Series 1998	282,000	-	(6,500)	275,500	7,000
Water Revenue Bond – Series 2006	231,000	-	(3,500)	227,500	4,000
Combined Utility Revenue Bonds – Series 2011	13,294,000	-	(211,500)	13,082,500	217,500
Public Projects Revenue Bond – Series 2011 (B)	1,430,000	-	(245,000)	1,185,000	255,000
Department of the Army Note Payable	4,226,682	-	(4,226,682)	-	-
Citizens National Bank (Rt 40 shop building)	282,175	-	(29,618)	252,557	30,465
Citizens National Bank (Dept of the Army loan)	-	4,404,810	(23,321)	4,381,489	137,401
First Commonwealth Bank (Vac Truck)	-	275,000	(43,892)	231,108	67,233
KIA Loan Payable	1,145,062	-	(56,851)	1,088,211	57,593
KIA Loan Payable (wastewater treatment plant)	513,240	-	(25,388)	487,852	25,643
KIA Loan Payable (wastewater treatment plant)	<u>268,378</u>	<u>-</u>	<u>(21,158)</u>	<u>247,220</u>	<u>21,370</u>
	22,218,737	4,679,810	(4,949,110)	21,949,437	882,405
Unamortized Bond Premium	35,014	-	(4,420)	30,594	-
Long-Term Debt	<u>\$ 22,253,751</u>	<u>\$ 4,679,810</u>	<u>\$ (4,953,530)</u>	<u>\$ 21,980,031</u>	<u>\$ 882,405</u>

Principal and interest payments to be made on all long-term debt at June 30, 2015, for each of the next five years and thereafter are as follows:

Year Ending <u>June 30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total</u>
2016	\$ 542,700	\$ 339,705	\$ 882,405	\$ 469,394	\$ 1,351,799
2017	556,700	346,350	903,050	446,612	1,349,662
2018	575,300	353,207	928,507	422,641	1,351,148
2019	539,800	311,541	851,341	398,998	1,250,339
2020	282,900	3,959,190	4,242,090	364,288	4,606,378
2021-2025	1,545,000	658,010	2,203,010	1,365,140	3,568,150
2026-2030	1,708,500	504,610	2,213,110	1,133,282	3,346,392
2031-2035	1,954,600	215,824	2,170,424	897,771	3,068,195
2036-2040	2,075,000	-	2,075,000	666,910	2,741,910
2041-2045	2,318,000	-	2,318,000	440,079	2,758,079
2046-2050	2,602,000	-	2,602,000	188,850	2,790,850
2051	560,500	-	560,500	5,605	566,105
	<u>\$15,261,000</u>	<u>\$ 6,688,437</u>	<u>\$21,949,437</u>	<u>\$ 6,799,570</u>	<u>\$28,749,007</u>

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

**Advances for Construction**

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

The future loan to the Commission is \$6,519,566 of which \$6,489,164 was received through June 30, 2015. 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 26, 2015, the City borrowed \$331,634 from Citizens National Bank to fund the payment of the 2015-2016 insurance premiums for property, liability, and workers' comp. The loan agreement provides for 11 monthly payments of \$30,757 to be made beginning August 5, 2015 with final payment due on June 5, 2016. The loan bears interest at 3.75%.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

**Litigation**

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

**NOTE 10. GRANTS**

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

**NOTE 11. SUBSEQUENT EVENT**

Management has evaluated and has not recognized any subsequent events through January 11, 2016, the date the financial statements were available to be issued.

**NOTE 12. DEFINED PENSION**

**Summary of Significant Accounting Policies**

*Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employee's Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

**NOTE 12. DEFINED PENSION (Continued)**

**General Information about the Pension Plan**

*Plan Description*

Employees of the City of Paintsville, Kentucky are provided with pensions through a cost-sharing multiple-employer defined benefit plan administered by the County Employee's Retirement System. Section 61.645 of the Kentucky Revised Statutes grants to CERS Board of Trustees and the Kentucky Legislature the authority to review administration, benefit terms, investments, and funding of the plan. CERS issues a publicly available financial report that can be obtained at [kyret.ky.gov](http://kyret.ky.gov).

*Benefits Provided*

The following is a description of the plan and its benefits and is provided for general information purposes only. Participants should refer to the appropriate statutes for more complete information.

**1. Retirement Benefit**

CERS is designed to provide three types of benefits: a monthly retirement benefit for life based on the employee's salary and service (the pension benefit), health insurance benefits after retirement, and disability/death benefits.

Monthly retirement benefits are based on a formula established by statute which is (final compensation x benefit factor x years of service credit). Participants hired before 8/1/04 have their monthly benefit calculated at the average of highest five years salary which must contain at least 48 months of service and includes lump-sum payments for compensatory time times 2.2% benefit factor times years of service credit. Participants hired after 8/1/04 but before 9/1/08 have a reduced benefit factor of 2.0%.

Participants hired after 9/1/08 have their monthly benefit calculated at the average of the five complete fiscal years immediately preceding retirement which must contain 60 months of service and does not include lump-sum payments for compensatory time. The benefit factor is 1.10% for 10 years or less of service, 1.30% for more than 10 years but no more than 20 years, 1.50% for greater than 20 years but no more than 26 years, 1.75% for greater than 26 years but no more than 30 years, and 2.00% for greater than 30 years.

At retirement, a retiree may choose to take a reduced monthly benefit in order to provide a monthly benefit to a beneficiary upon their death, either for a period certain or for the life of the beneficiary. The system also provides for a statutory 1.5% annual increase to monthly benefits after retirement, often referred to as the cost of living adjustment (COLA).

**2. Health Insurance**

CERS also provides access to group rates on medical insurance for retired members, their spouse, and dependents. Coverage for retirees not eligible for Medicare is provided through the Kentucky Employees Health Plan, the same health plan provided to state and school board employees. Coverage for Medicare eligible retirees is provided through a plan administered by or contracted through the retirement systems which then coordinates with Medicare for delivery of health benefits.

**NOTE 12. DEFINED PENSION (Continued)**

As provided by state statute, CERS also subsidizes medical coverage for the retiree. In general, employees participating prior to 7/1/03 receive a percentage of the premium paid based upon service credit, while employees who begin participating after that date receive a set dollar amount for each year of service credit.

**3. Disability and Death Benefits**

Like most defined benefit plans, CERS provides benefits for those employees who become disabled or who die prior to retirement. Participants have to have a minimum of 5 years of service to apply for benefits and approval determined by systems under criteria established by state statute. CERS also provides death before retirement and special death in the line of duty benefits. After retirement, the benefits left to the retiree's beneficiary vary based upon the payment option selected at retirement. In addition, CERS provides a \$5,000 lump sum death benefit for members who retire with at least 4 years of service.

*Contributions*

Per State Statutes, contribution requirements of the active employees are established and may be amended by the CERS Board. Employees hired before 9/1/08 are required to contribute 5.00 percent of their annual pay and employees hired after 9/1/08 are required to contribute 6.00 percent of their annual pay. The City's contractually required contribution rate for the year ended June 30, 2015, was 17.67 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$720,668 for the year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the City reported a liability of \$5,510,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the City's proportion was 0.170 percent, which was an increase of 0.013 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$626,802. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-



**NOTE 12. DEFINED PENSION (Continued)**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	-	616,000
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	<u>720,668</u>	<u>-</u>
Total	<u>\$ 720,668</u>	<u>\$ 616,000</u>

\$720,668 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$ (123,200)
2017	(123,200)
2018	(123,200)
2019	(123,200)
2020	(123,200)
Thereafter	-

***Actuarial Methods and Assumptions***

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2014 are as follows:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

**NOTE 12. DEFINED PENSION (Continued)**

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	8.45%
International Equity	22	8.85
Emerging Market Equity	5	10.50
Private Equity	7	11.25
Real Estate	5	7.00
Core US Fixed Income	10	5.25
High Yield US Fixed Income	5	7.25
Non US Fixed Income	5	5.50
Commodities	5	7.75
TIPS	5	5.00
Cash	1	3.25
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



**NOTE 12. DEFINED PENSION (Continued)**

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

The following presents the City's proportionate share of the Net Pension Liability using the discount rate of 7.75%, as well as what the City's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

	<u>1.0% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1.0% Increase (8.75%)</u>
City's proportionate share of the net pension liability	\$7,251,000	\$5,510,000	\$3,972,000

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2014 Comprehensive Annual Financial Report at [kyret.ky.gov](http://kyret.ky.gov).

*Payable to the Pension Plan*

At June 30, 2015, the City reported a payable of \$89,182 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**NOTE 13. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT**

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, for the employees' pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

The implementation of GASB Statement No. 68 had the following effect:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position, June 30, 2014	\$ 7,156,982	\$58,102,508
Recognition of net pension liabilities, deferred pension inflows and outflows	<u>(3,608,095)</u>	<u>(1,891,823)</u>
Restated net position, June 30, 2014	<u>\$ 3,548,887</u>	<u>\$56,210,685</u>

**NOTE 14. DEFICIT FUND BALANCE – 911 FUND**

The deficit balance in the 911 Fund is primarily the result of insufficient revenues to fund the yearly operations. The City's General Fund pays the expenditures in excess of revenues and the disbursements are recorded as expenditures of the 911 Fund with a corresponding liability for funds due to the General Fund.

**AUDITOR'S REPORTS**



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

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

(606) 789-3588

Fax (606) 789-3326

**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, 2015, 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 11, 2016.

**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 2015-001 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 2015-002 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**City of Paintsville, Kentucky's Response to Findings**

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

**Purpose of this Report**

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

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
January 11, 2016



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*  
865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

(606) 789-3588  
Fax (606) 789-3326

**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, 2015. 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, 2015.

### Report on Internal Control Over Compliance

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

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

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

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

*Wells & Company, PSC*

Certified Public Accountants  
Paintsville, Kentucky  
January 11, 2016



CITY OF PAINTSVILLE, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2015

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:

Name of Federal Program or Cluster CFDA Number(s)

Abandoned Mine Land Reclamation (AMLR) Program 15.252

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**

**2015 – 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.

**2015 – 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.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**CITY OF PAINTSVILLE, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2015**

There were no findings and recommendations for the year ended June 30, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Property taxes	\$ 600,000	\$ 600,000	\$ 555,823	\$ (44,177)
Payments in lieu of taxes	-	-	29,598	29,598
Franchise fees and taxes	100,000	100,000	153,930	53,930
Police court revenue	15,000	15,000	10,806	(4,194)
Police services	10,000	10,000	6,732	(3,268)
Building permits	8,000	8,000	3,738	(4,262)
Licenses	1,200	1,200	452	(748)
ABC fees	160,000	160,000	164,439	4,439
Garbage collection fees	760,000	760,000	761,052	1,052
Taxes on insurance premiums	520,000	520,000	479,172	(40,828)
Occupational taxes	1,375,000	1,375,000	1,317,033	(57,967)
Motor vehicle tax	20,000	20,000	27,464	7,464
Ambulance receipts	1,500,000	1,500,000	1,325,485	(174,515)
Firefighter and police incentive pay	105,400	105,400	113,875	8,475
Rental/Lease revenue	31,000	31,000	36,977	5,977
City pool and concession revenue	15,000	15,000	14,279	(721)
Golf course revenue	310,600	310,600	217,837	(92,763)
Sipp Theatre revenue	14,000	14,000	5,110	(8,890)
Advertising	10,000	10,000	2,075	(7,925)
Miscellaneous intergovernmental revenue	52,000	52,000	50,715	(1,285)
Grants	37,500	37,500	273,023	235,523
Contributions	-	-	87,126	87,126
Other receipts	21,000	21,000	98,087	77,087
	<u>5,665,700</u>	<u>5,665,700</u>	<u>5,734,828</u>	<u>69,128</u>
<b>Total revenues</b>				
<b>Expenditures:</b>				
<b>General government:</b>				
Administrative salaries	308,100	308,100	305,100	3,000
Payroll tax expense	26,800	26,800	31,979	(5,179)
Employee benefits	113,000	113,000	105,829	7,171
City attorney's fees	32,000	32,000	34,192	(2,192)
Mayor's expense	2,000	2,000	250	1,750
Postage	5,000	5,000	3,368	1,632
Advertising	5,000	5,000	6,570	(1,570)
Office supplies and printing	11,000	11,000	11,790	(790)
Telephone	13,000	13,000	9,104	3,896
Workmen's compensation insurance	2,000	2,000	1,656	344
Audit and accounting fees	15,000	15,000	2,000	13,000
Insurance and bonding	15,400	15,400	22,383	(6,983)
Utilities	205,000	205,000	212,494	(7,494)
Preparation of property tax bills	14,000	14,000	13,659	341

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Senior Citizens	55,240	55,240	52,530	2,710
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	6,717	3,283
Main Street Program	15,000	15,000	15,000	-
Capital expenditures	5,000	5,000	151,059	(146,059)
Debt service:				
Interest expense	-	-	63,178	(63,178)
Principal retirement	124,200	124,200	70,419	53,781
Other general expenses	185,085	185,085	167,714	17,371
Building inspector expense	2,000	2,000	1,321	679
Total general government	<u>1,166,325</u>	<u>1,166,325</u>	<u>1,289,812</u>	<u>(123,487)</u>
Police:				
Salaries and wages	330,000	330,000	348,720	(18,720)
Payroll tax expense	28,000	28,000	25,637	2,363
Employee benefits	127,500	127,500	128,969	(1,469)
Gasoline and oil	36,000	36,000	21,813	14,187
Repairs and maintenance	8,500	8,500	10,026	(1,526)
Workmen's compensation insurance	18,500	18,500	15,480	3,020
Insurance and bonding	56,000	56,000	40,554	15,446
Utilities	-	-	6,613	(6,613)
Training	2,500	2,500	1,316	1,184
Telephone	10,000	10,000	12,542	(2,542)
Uniforms and uniforms cleaning	5,000	5,000	4,875	125
Capital expenditures	-	-	11,682	(11,682)
Other expenditures	6,000	6,000	12,469	(6,469)
Total police	<u>628,000</u>	<u>628,000</u>	<u>640,696</u>	<u>(12,696)</u>
Fire:				
Salaries and wages	303,900	303,900	289,260	14,640
Payroll tax expense	22,600	22,600	21,693	907
Employee benefits	122,000	122,000	132,863	(10,863)
Gasoline and oil	9,500	9,500	6,781	2,719
Repairs and maintenance	11,000	11,000	14,580	(3,580)
Insurance	20,000	20,000	24,322	(4,322)
Telephone	10,000	10,000	11,028	(1,028)
Utilities	13,000	13,000	20,044	(7,044)
Uniforms and uniforms cleaning	6,000	6,000	473	5,527
Training	1,000	1,000	548	452
Training center expenses	3,000	3,000	4,459	(1,459)
Workmen's compensation insurance	14,000	14,000	12,624	1,376

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Capital expenditures	-	-	7,852	(7,852)
Other expenses	9,700	9,700	8,165	1,535
Total fire	<u>545,700</u>	<u>545,700</u>	<u>554,692</u>	<u>(8,992)</u>
<b>Ambulance:</b>				
Salaries and wages	770,600	770,600	800,090	(29,490)
Payroll tax expense	67,000	67,000	59,811	7,189
Employee benefits	243,000	243,000	216,508	26,492
Medical supplies	40,000	40,000	35,412	4,588
Vehicle repairs and maintenance	25,000	25,000	12,755	12,245
Gasoline and oil	75,000	75,000	41,447	33,553
Uniforms	5,000	5,000	561	4,439
Telephone	6,000	6,000	3,653	2,347
Training	2,000	2,000	570	1,430
Insurance/bonding	56,000	56,000	55,200	800
Billing service	97,500	97,500	87,087	10,413
Debt service:				
Interest expense	-	-	1,735	(1,735)
Principal retirement	41,000	41,000	38,328	2,672
Workmen's compensation insurance	45,000	45,000	46,344	(1,344)
Capital expenditures	-	-	23,116	(23,116)
Other expenses	13,225	13,225	18,381	(5,156)
Total ambulance	<u>1,486,325</u>	<u>1,486,325</u>	<u>1,440,998</u>	<u>45,327</u>
<b>Recreation:</b>				
Recreation salaries	161,500	161,500	140,067	21,433
Payroll tax expense	16,400	16,400	13,096	3,304
Employee benefits	70,000	70,000	46,871	23,129
Insurance	15,000	15,000	19,869	(4,869)
Supplies	13,000	13,000	17,978	(4,978)
Recreational programs	2,000	2,000	1,387	613
Workmen's compensation insurance	10,000	10,000	10,320	(320)
Utilities	19,000	19,000	31,557	(12,557)
Other expenses	12,500	12,500	20,871	(8,371)
Total recreation	<u>319,400</u>	<u>319,400</u>	<u>302,016</u>	<u>17,384</u>



CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Streets:</b>				
Salaries and wages	247,000	247,000	241,523	5,477
Payroll tax expense	23,000	23,000	20,743	2,257
Employee benefits	115,000	115,000	91,704	23,296
Uniforms	9,000	9,000	10,878	(1,878)
Gasoline and oil	35,000	35,000	25,472	9,528
Insurance	32,250	32,250	28,052	4,198
Supplies and parts	10,000	10,000	20,302	(10,302)
Workmen's compensation insurance	22,000	22,000	13,860	8,140
Debt service:				
Interest expense	-	-	4,225	(4,225)
Principal retirement	36,500	36,500	32,747	3,753
Capital expenditures	-	-	26,672	(26,672)
Other expenses	19,500	19,500	18,910	590
<b>Total streets</b>	<u>549,250</u>	<u>549,250</u>	<u>535,088</u>	<u>14,162</u>
<b>Sanitation:</b>				
Salaries and wages	238,000	238,000	216,629	21,371
Payroll tax expense	21,000	21,000	18,727	2,273
Employee benefits	122,000	122,000	100,590	21,410
Gasoline and oil	32,000	32,000	21,460	10,540
Truck repairs and maintenance	12,000	12,000	12,652	(652)
Workmen's compensation insurance	24,000	24,000	18,960	5,040
Hauling and dumping expense	195,000	195,000	194,094	906
Insurance	32,500	32,500	28,931	3,569
Uniforms	7,500	7,500	9,462	(1,962)
Utilities	-	-	5,232	(5,232)
Garage expenses	3,000	3,000	4,087	(1,087)
Debt service:				
Interest expense	-	-	1,581	(1,581)
Principal retirement	25,500	25,500	25,134	366
Capital expenditures	-	-	139,773	(139,773)
Other expenses	9,500	9,500	4,373	5,127
<b>Total sanitation</b>	<u>722,000</u>	<u>722,000</u>	<u>801,685</u>	<u>(79,685)</u>
<b>Golf Course:</b>				
Salaries and wages	171,000	171,000	164,416	6,584
Payroll tax expense	15,500	15,500	15,821	(321)
Employee benefits	36,500	36,500	28,748	7,752
Workmen's compensation insurance	6,000	6,000	5,436	564
Maintenance and repairs	12,500	12,500	61,818	(49,318)
Gasoline and oil	15,500	15,500	9,106	6,394
Insurance	17,000	17,000	17,841	(841)
Utilities and telephone	21,500	21,500	47,958	(26,458)
Other expenses	60,000	60,000	91,271	(31,271)
<b>Total golf course</b>	<u>355,500</u>	<u>355,500</u>	<u>442,415</u>	<u>(86,915)</u>

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Total Expenditures	<u>5,772,500</u>	<u>5,772,500</u>	<u>6,007,402</u>	<u>(234,902)</u>
Excess of revenues over (under) expenditures	<u>(106,800)</u>	<u>(106,800)</u>	<u>(272,574)</u>	<u>(165,774)</u>
<b>Other Financing Sources/(Uses):</b>				
Transfer in from Tourism	135,000	135,000	163,000	28,000
Proceeds from insurance	-	-	18,134	18,134
Proceeds from borrowing	<u>-</u>	<u>-</u>	<u>766,574</u>	<u>766,574</u>
Total other financing sources (uses)	<u>135,000</u>	<u>135,000</u>	<u>947,708</u>	<u>812,708</u>
Net change in fund balance	<u>\$ 28,200</u>	<u>\$ 28,200</u>	675,134	<u>\$ 646,934</u>
Fund balance - beginning			<u>(87,806)</u>	
Fund balance - ending			<u>587,328</u>	

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 PAINTSVILLE TOURISM COMMISSION  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Taxes:				
Restaurant tax	\$ 679,835	\$ 679,835	\$ 728,144	\$ 48,309
Room occupancy tax	68,835	68,835	66,979	(1,856)
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	39,500	39,500	58,912	19,412
Interest	-	-	100	100
Miscellaneous revenues	53,100	53,100	47,938	(5,162)
	<u>841,270</u>	<u>841,270</u>	<u>902,073</u>	<u>60,803</u>
<b>Expenditures:</b>				
Salaries and wages	173,528	173,528	167,617	5,911
Payroll tax expense	16,400	16,400	17,111	(711)
Employee benefits	52,642	52,642	47,710	4,932
Contract labor	5,000	5,000	4,313	687
Administration	11,000	11,000	11,927	(927)
Travel	6,000	6,000	4,561	1,439
Telephone and utilities	38,875	38,875	36,199	2,676
Donations	112,819	112,819	134,966	(22,147)
Postage	1,500	1,500	923	577
General office expense	6,050	6,050	5,412	638
Gift shop expense	5,500	5,500	5,351	149
Advertising and promotional	103,000	103,000	84,932	18,068
Membership dues	1,900	1,900	3,284	(1,384)
Van and bus expense	3,000	3,000	3,153	(153)
Legal and professional expense	7,000	7,000	5,070	1,930
Taxes and licenses	750	750	602	148
Maintenance and repairs	33,988	33,988	27,071	6,917
Mountain Homeplace	14,250	14,250	3,125	11,125
Bank charges	700	700	682	18
Insurance	35,700	35,700	31,060	4,640
Security	1,310	1,310	641	669
Other expense	22,358	22,358	19,459	2,899
Debt service:				
Interest expense	-	-	1,299	(1,299)
Principal retirement	37,000	37,000	62,503	(25,503)
Capital outlay	1,000	1,000	18,985	(17,985)
	<u>691,270</u>	<u>691,270</u>	<u>697,956</u>	<u>(6,686)</u>
<b>Total expenditures</b>	<u>691,270</u>	<u>691,270</u>	<u>697,956</u>	<u>(6,686)</u>
<b>Excess of revenues over (under) expenditures</b>	<u>150,000</u>	<u>150,000</u>	<u>204,117</u>	<u>54,117</u>

CITY OF PAINTSVILLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE (Continued)  
 PAINTSVILLE TOURISM COMMISSION  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Other financing sources (uses):</b>				
Transfer out to General Fund	(150,000)	(150,000)	(163,000)	(13,000)
<b>Total other financing sources (uses)</b>	<u>(150,000)</u>	<u>(150,000)</u>	<u>(163,000)</u>	<u>(13,000)</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	41,117	<u>\$ 41,117</u>
<b>Fund balance - beginning</b>			<u>284,039</u>	
<b>Fund balance - ending</b>			<u>\$ 325,156</u>	

CITY OF PAINTSVILLE, KENTUCKY  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY (CERS)  
JUNE 30, 2015

	<u>6/30/2015</u>
City's proportion of the net pension liability (asset)	0.169852%
City's proportionate share of the net pension liability (asset)	\$ 5,510,000
City's covered-employee payroll	\$ 4,078,483
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	135.10%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF PAINTSVILLE, KENTUCKY  
SCHEDULE OF CITY CONTRIBUTIONS (CERS)  
JUNE 30, 2015

	<u>6/30/2015</u>
Contractually required contribution	\$ 720,668
Contributions in relation to the contractually required contribution	<u>720,668</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 4,078,483
Contributions as a percentage of covered-employee payroll	17.67%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF PAINTSVILLE, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CERS)  
FOR THE YEAR ENDED JUNE 30, 2015**

There were no changes of benefit terms or assumptions.



**SUPPLEMENTARY  
AND  
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY  
 COMBINING BALANCE SHEET  
 NON-MAJOR FUNDS  
 JUNE 30, 2015

	<u>Special Revenue Funds</u>			<u>Total Non-Major Governmental Funds</u>
	<u>Coal and Mineral Tax Severance Fund</u>	<u>Municipal Road Aid Fund</u>	<u>911 Fund</u>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 8,075	\$ 8,661	\$ 20,902	\$ 37,638
Due from General Fund	-	97,632	-	97,632
<b>Total Assets</b>	<u>\$ 8,075</u>	<u>\$ 106,293</u>	<u>\$ 20,902</u>	<u>\$ 135,270</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 1,106	\$ 9,121	\$ 10,227
Accrued vacation	-	-	4,951	4,951
Due to General Fund	-	-	302,327	302,327
<b>Total Liabilities</b>	<u>-</u>	<u>1,106</u>	<u>316,399</u>	<u>317,505</u>
<b>Fund Balances:</b>				
Restricted for:				
Streets	-	105,187	-	105,187
Other	8,075	-	-	8,075
Unassigned	-	-	(295,497)	(295,497)
<b>Total Fund Balances</b>	<u>8,075</u>	<u>105,187</u>	<u>(295,497)</u>	<u>(182,235)</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 8,075</u>	<u>\$ 106,293</u>	<u>\$ 20,902</u>	<u>\$ 135,270</u>

CITY OF PAINTSVILLE, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 NON-MAJOR FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>Special Revenue Funds</u>			<u>Total Non-Major Governmental Funds</u>
	<u>Coal and Mineral Tax Severance Fund</u>	<u>Municipal Road Aid Fund</u>	<u>911 Fund</u>	
<b>Revenues:</b>				
Intergovernmental revenues	\$ 36,491	\$ 77,477	\$ -	\$ 113,968
Charges for services	-	-	293,793	293,793
Interest	1	-	1	2
<b>Total revenues</b>	<u>36,492</u>	<u>77,477</u>	<u>293,794</u>	<u>407,763</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Public safety	10,000	-	378,193	388,193
Streets	6,393	73,983	-	80,376
Recreation	17,726	-	-	17,726
<b>Capital outlay</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total expenditures</b>	<u>34,119</u>	<u>73,983</u>	<u>378,193</u>	<u>486,295</u>
Excess of revenues over (under) expenditures	2,373	3,494	(84,399)	(78,532)
<b>Other financing sources (uses):</b>				
Proceeds from borrowing	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,373	3,494	(84,399)	(78,532)
Fund balances - beginning	5,702	101,693	(211,098)	(103,703)
<b>Fund balances - ending</b>	<u>\$ 8,075</u>	<u>\$ 105,187</u>	<u>\$(295,497)</u>	<u>\$ (182,235)</u>

CITY OF PAINTSVILLE, KENTUCKY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2015

<u>FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b><u>U.S. DEPARTMENT OF THE INTERIOR</u></b>			
Pass-through program from Kentucky Dept of Natural Resources Division of Abandoned Mine Lands			
Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-13000009591	474,531
Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-14000040802	37,475
Total Abandoned Mine Land Reclamation (AMLR) Program			<u>512,006</u>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Pass-through program from Kentucky Transportation Cabinet State and Community Highway Safety	20.600	625-1400005206	<u>606</u>
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY</u></b>			
Pass-through program from Kentucky Dept of Military Affairs Disaster Grants - Public Assistance	97.036	FEMA-DR-4196-KY	97,832
Hazard Mitigation Grant Program	97.039	DR-4057-0007	2,954
Pass-through program from Johnson County Fiscal Court Emergency Management Performance Grants	97.042	EMPG-3	12,981
Pass-through program from Kentucky Office of Homeland Security Homeland Security Grant Program	97.067	094-1400002866	11,682
Homeland Security Grant Program	97.067	094-1500002446	7,852
Total Homeland Security Grant Program			<u>19,534</u>
Total U.S. Department of Homeland Security			<u>133,301</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 645,913</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, 2015**

**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, 2015. 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.