

CITY OF PAINTSVILLE, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

The Honorable Bill Mike Runyon, Mayor
Members of the City Council
City of Paintsville, Kentucky

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the City of Paintsville, Kentucky'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, 2018, 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

Implementation of GASB Statement No. 75

As described in Note 8, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. Accordingly, beginning net position of the governmental activities and the business-type activities were restated. Our opinion is not modified with respect to this matter.

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 44-49 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, and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net OPEB Liability and Contributions, on pages 53 and 54, 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 combining and individual nonmajor fund financial statements 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 December 28, 2018 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 the effectiveness of the City of Paintsville, Kentucky's 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
December 28, 2018

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

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	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,758,365	\$ 4,340,774	\$ 6,099,139
Certificates of deposit	100,567	1,790,222	1,890,789
Taxes receivable	79,931	-	79,931
Accounts receivable	130,313	792,549	922,862
Grants receivable	-	32,109	32,109
Other receivable	61,130	-	61,130
Due from Paintsville Utilities	64,824	-	64,824
Unbilled revenues	-	307,128	307,128
Inventory	-	163,422	163,422
Prepaid items	-	133,316	133,316
Capital assets:			
Land and construction-in-progress	1,744,049	6,529,312	8,273,361
Other capital assets, net of accumulated depreciation	7,238,455	74,171,151	81,409,606
Total Assets	11,177,634	88,259,983	99,437,617
DEFERRED OUTFLOWS			
Deferred outflows related to pensions & OPEB	2,164,701	1,287,286	3,451,987
LIABILITIES			
Accounts payable	169,249	732,411	901,660
Retainage payable	-	181,157	181,157
Accrued payroll taxes	37,799	9,305	47,104
Accrued vacation	68,014	61,892	129,906
Other accrued liabilities	67,569	353,757	421,326
Interim loan payable	-	3,559,540	3,559,540
Customer meter deposits payable	-	707,624	707,624
Interest payable on customer meter deposits	-	279,888	279,888
Long-term liabilities:			
Net pension liability	6,066,836	3,513,448	9,580,284
Net OPEB liability	2,083,679	1,206,708	3,290,387
Due within one year	159,681	932,892	1,092,573
Due in more than one year	1,233,046	23,430,090	24,663,136
Total Liabilities	9,885,873	34,968,712	44,854,585
DEFERRED INFLOWS			
Deferred inflows related to pensions & OPEB	386,683	246,587	633,270
NET POSITION			
Net investment in capital assets	7,589,777	52,765,533	60,355,310
Restricted for:			
Public safety	3,372	-	3,372
Streets	72,757	-	72,757
Tourism	176,834	-	176,834
Debt service	44,095	544,092	588,187
Equipment replacement	-	349,046	349,046
Depreciation	-	908,540	908,540
Other purposes	19,714	455,711	475,425
Unrestricted (deficit)	(4,836,770)	(690,952)	(5,527,722)
Total Net Position	\$ 3,069,779	\$ 54,331,970	\$ 57,401,749

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,123,852	\$ 160,455	\$ -	\$ 685,767	\$ (277,630)	\$ -	\$ (277,630)
Public safety	3,678,279	1,801,449	26,318	441,001	(1,409,511)	-	(1,409,511)
Recreation	839,715	196,220	-	-	(643,495)	-	(643,495)
Streets	642,567	-	2,409	-	(640,158)	-	(640,158)
Sanitation	653,084	787,706	-	-	134,622	-	134,622
Tourism	711,989	56,402	-	-	(655,587)	-	(655,587)
Interest on long-term debt	69,447	-	-	-	(69,447)	-	(69,447)
Total governmental activities	<u>7,718,933</u>	<u>3,002,232</u>	<u>28,727</u>	<u>1,126,768</u>	<u>(3,561,206)</u>	<u>-</u>	<u>(3,561,206)</u>
Business-type activities:							
Water, gas, and sewer	9,311,666	8,672,194	-	218,800	-	(420,672)	(420,672)
Total business-type activities	<u>9,311,666</u>	<u>8,672,194</u>	<u>-</u>	<u>218,800</u>	<u>-</u>	<u>(420,672)</u>	<u>(420,672)</u>
Total primary government	<u>\$ 17,030,599</u>	<u>\$ 11,674,426</u>	<u>\$ 28,727</u>	<u>\$ 1,345,568</u>	<u>(3,561,206)</u>	<u>(420,672)</u>	<u>(3,981,878)</u>
General revenues:							
Property taxes					568,723	-	568,723
Occupational taxes					1,721,864	-	1,721,864
Insurance premium taxes					534,037	-	534,037
Motor vehicle taxes					27,550	-	27,550
Restaurant taxes					717,684	-	717,684
Room occupancy taxes					57,799	-	57,799
Franchise fees and taxes					170,488	-	170,488
Payments in lieu of taxes					32,529	-	32,529
ABC fees					147,373	-	147,373
Licenses and permits					3,380	-	3,380
Intergovernmental revenue					324,333	-	324,333
Interest income					1,820	32,703	34,523
Gain/(Loss) on sale of capital assets					11,717	4,124	15,841
Donation/contributions					101,375	-	101,375
Miscellaneous					107,370	-	107,370
Total general revenues and transfers					<u>4,528,042</u>	<u>36,827</u>	<u>4,564,869</u>
Change in net position					966,836	(383,845)	582,991
Net position - beginning, restated					<u>2,102,943</u>	<u>54,715,815</u>	<u>56,818,758</u>
Net position - ending					<u>\$ 3,069,779</u>	<u>\$ 54,331,970</u>	<u>\$ 57,401,749</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

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	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,501,388	\$ 81,282	\$ 175,695	\$ 1,758,365
Certificate of deposit	-	100,567	-	100,567
Receivables:				
Property taxes	2,522	-	-	2,522
Accounts	130,313	-	-	130,313
Other	61,130	-	-	61,130
Due from Paintsville Utilities	64,824	-	-	64,824
Due from 911 Fund	532,643	-	-	532,643
Due from General Fund	-	-	7,521	7,521
Total Assets	<u><u>\$ 2,292,820</u></u>	<u><u>\$ 181,849</u></u>	<u><u>\$ 183,216</u></u>	<u><u>\$ 2,657,885</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 92,566	\$ 2,027	\$ 74,656	\$ 169,249
Accrued payroll taxes	37,799	-	-	37,799
Accrued vacation	58,908	2,988	6,118	68,014
Accrued retirement	54,495	-	-	54,495
Due to General Fund	-	-	532,643	532,643
Due to Coal & Mineral Fund	7,521	-	-	7,521
Total Liabilities	<u>251,289</u>	<u>5,015</u>	<u>613,417</u>	<u>869,721</u>
Fund Balances:				
Restricted for:				
Public Safety	3,372	-	-	3,372
Streets	-	-	72,757	72,757
Tourism	-	176,834	-	176,834
Debt Service	44,095	-	-	44,095
Other	-	-	19,714	19,714
Unassigned	<u>1,994,064</u>	<u>-</u>	<u>(522,672)</u>	<u>1,471,392</u>
Total Fund Balances	<u>2,041,531</u>	<u>176,834</u>	<u>(430,201)</u>	<u>1,788,164</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,292,820</u></u>	<u><u>\$ 181,849</u></u>	<u><u>\$ 183,216</u></u>	<u><u>\$ 2,657,885</u></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, 2018

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Fund Balances - Total Governmental Funds	\$ 1,788,164
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	18,360,751
Less: accumulated depreciation	(9,378,247)
Pension & OPEB contributions after measurement date are reported as a deferred outflow of resources:	509,245
Other OPEB related accruals	(13,074)
Net pension & net OPEB liability is not due and payable in the current period and, therefore, is not reported in governmental funds:	(8,150,515)
Pension & OPEB related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore are not reported in the governmental funds, as follows:	
Deferred pension & OEPB outflows of resources	1,655,456
Deferred pension & OPEB inflows of resources	(386,683)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bond payable	(975,000)
Bond discount	17,293
Loans payable	(377,902)
Leases payable	(57,118)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Delinquent property taxes	77,409
Net Position of Governmental Activities	\$ 3,069,779

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, 2018

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	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 569,499	\$ -	\$ -	\$ 569,499
Occupational	1,721,864	-	-	1,721,864
Insurance premium	534,037	-	-	534,037
Motor vehicle	27,550	-	-	27,550
Franchise	133,115	-	-	133,115
Restaurant	-	717,684	-	717,684
Room occupancy	-	57,799	-	57,799
Payments in lieu of taxes	32,529	-	-	32,529
ABC fees	147,373	-	-	147,373
Franchise fees	37,373	-	-	37,373
Licenses and permits	3,380	-	-	3,380
Intergovernmental revenues	219,836	-	104,497	324,333
Grants	1,057,296	-	98,199	1,155,495
Charges for services	2,583,112	56,402	362,718	3,002,232
Interest income	1,418	401	1	1,820
Contributions	101,375	-	-	101,375
Miscellaneous revenues	67,541	39,829	-	107,370
Total revenues	7,237,298	872,115	565,415	8,674,828
Expenditures:				
Current:				
General government	960,416	-	-	960,416
Public safety	2,624,466	-	407,245	3,031,711
Recreation	718,007	-	9,994	728,001
Streets	472,588	-	8,639	481,227
Sanitation	572,263	-	3,835	576,098
Tourism	-	550,020	-	550,020
Debt service:				
Principal	171,507	31,554	1,788	204,849
Interest	62,714	5,771	-	68,485
Capital outlay	1,065,401	13,724	219,858	1,298,983
Total expenditures	6,647,362	601,069	651,359	7,899,790
Excess of revenues over (under) expenditures	589,936	271,046	(85,944)	775,038
Other financing sources (uses):				
Transfers in from Tourism	283,170	-	-	283,170
Transfers out to General Fund	-	(283,170)	-	(283,170)
Proceeds from sale of capital assets	14,747	-	-	14,747
Proceeds from borrowing	41,444	-	-	41,444
Total other financing sources (uses)	339,361	(283,170)	-	56,191
Net change in fund balances	929,297	(12,124)	(85,944)	831,229
Fund balances - beginning	1,112,234	188,958	(344,257)	956,935
Fund balances - ending	\$ 2,041,531	\$ 176,834	\$ (430,201)	\$ 1,788,164

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, 2018

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Net Change in Fund Balances - Total Governmental Funds **\$ 831,229**

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	1,298,983
Depreciation expense	(645,106)

The net effect of various miscellaneous transactions involving capital assets:	(3,030)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Increase/(decrease) in property taxes	(776)
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Changes in pension & OPEB expense are reported only in the statement of activities	(676,907)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Principal paid	204,849
Loan proceeds	(41,444)
Amortization of bond discount	(962)

Change in Net Position of Governmental Activities	<u>\$ 966,836</u>
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See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND - PAINTSVILLE UTILITIES
JUNE 30, 2018

9

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,329,159
Accounts receivable, net	792,549
Grants receivable	32,109
Unbilled revenues	307,128
Inventory	163,422
Prepaid items	133,316

Total current assets	3,757,683
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Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	250,815
Depreciation reserve fund	375,263
Equipment replacement fund	349,046
Operations and maintenance	1,036,491
Investments:	
Operations and maintenance	723,668
Debt service reserve fund	533,277
Depreciation reserve fund	533,277

Total restricted assets	3,801,837
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Capital assets:

Land and land improvements	816,089
Construction work in progress	5,713,223
Capital assets, net of depreciation	74,171,151

Total capital assets	80,700,463
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Total assets	88,259,983
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DEFERRED OUTFLOWS

Deferred outflows related to pensions	950,974
Deferred outflows related to OPEB	336,312

Total deferred outflows of resources	1,287,286
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See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION (Continued)
PROPRIETARY FUND - PAINTSVILLE UTILITIES
JUNE 30, 2018

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LIABILITIES

Current liabilities:

Accounts payable	732,411
Retainage payable	181,157
Compensated absences	61,892
Accrued interest payable	202,250
Other accrued liabilities	160,812
Interim loan payable	3,559,540
Current portion of long-term liabilities	632,892
Current portion of capital lease obligations	60,000

Total current liabilities	5,590,954
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Payable from restricted assets:

Current portion of bonds	240,000
Customer meter deposits	707,624
Interest payable on customer meter deposits	279,888

Total liabilities payable from restricted assets	1,227,512
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Long-term liabilities:

Net pension liability	3,513,448
Net OPEB liability	1,206,708
Bonds payable, net of premium	12,627,500
Notes payable	11,600,482
Capital lease obligations	135,000
	29,083,138
Less current portion	(932,892)

Total long-term liabilities	28,150,246
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Total liabilities	34,968,712
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DEFERRED INFLOWS

Deferred inflows related to pensions	183,407
Deferred inflows related to OPEB	63,180

Total deferred inflows of resources	246,587
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NET POSITION:

Net investment in capital assets	52,765,533
Restricted	
Debt service	544,092
Depreciation	908,540
Equipment replacement	349,046
Operations and maintenance	455,711
Unrestricted	(690,952)
Total net position	\$ 54,331,970

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, 2018

Operating revenues:

Gas revenues	\$ 2,122,184
Water revenues	3,932,709
Wastewater revenues	2,149,529
Other operating revenues	<u>467,772</u>

Total operating revenues	8,672,194
Cost of sales	<u>690,865</u>

Net operating revenues	<u>7,981,329</u>
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Operating expenses:

Salaries and wages	1,658,569
Payroll taxes	129,803
Employee pension and benefits	1,582,843
Materials and supplies	278,405
Legal and professional	98,746
Miscellaneous general expense	355,112
Telephone and utilities	830,405
Insurance	119,958
Motor vehicle expenses	209,377
Repairs and maintenance	269,345
Depreciation	<u>2,481,239</u>

Total operating expenses	<u>8,013,802</u>
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Utility operating income (loss)	<u>(32,473)</u>
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Non-operating revenues (expenses):

Interest income	32,703
Interest expense	(445,791)
Gain/(loss) on disposition of assets, net	4,124
Loss on in-substance defeasance of debt	<u>(59,833)</u>

Total non-operating revenues (expenses)	<u>(468,797)</u>
--	-------------------------

Net income (loss) before contributions from (to)	(501,270)
---	------------------

Contributions in aid of construction	218,800
Contribution to the City of Paintsville	<u>(101,375)</u>

Change in net position	(383,845)
Net position, beginning of year, restated	<u>54,715,815</u>

Net position, end of year	<u>\$ 54,331,970</u>
----------------------------------	-----------------------------

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - PAINTSVILLE UTILITIES
FOR THE YEAR ENDED JUNE 30, 2018**

12

Cash flows from operating activities:

Cash inflows:

Payments received from customers	<u>\$ 8,448,113</u>
----------------------------------	---------------------

Total cash provided	<u>8,448,113</u>
----------------------------	------------------

Cash outflows:

Payments for salaries and benefits	2,911,071
------------------------------------	-----------

Payments to suppliers for goods and services	<u>2,768,065</u>
--	------------------

Total cash used	<u>5,679,136</u>
------------------------	------------------

Net cash provided (used) by operating activities	<u>2,768,977</u>
---	------------------

Cash flows from noncapital financing activities:

Interest paid on customer deposits	<u>(10,760)</u>
------------------------------------	-----------------

Net cash provided (used) by noncapital financing activities	<u>(10,760)</u>
--	-----------------

Cash flows from capital and related financing activities:

Purchase and construction of utility plant	(4,503,125)
--	-------------

Sale of capital assets	25,336
------------------------	--------

Proceeds from loans and bonds	3,559,540
-------------------------------	-----------

Principal payments on long-term debt	(1,541,507)
--------------------------------------	-------------

Payments on capital leases	(60,000)
----------------------------	----------

In-substance defeasance of debt	(752,070)
---------------------------------	-----------

Interest paid on long-term debt and capital leases	(409,228)
--	-----------

Contributions-in-aid of construction	<u>186,691</u>
--------------------------------------	----------------

Net cash provided (used) by capital and related financing activities	<u>(3,494,363)</u>
---	--------------------

Cash flows from investing activities:

Sale of investments	1000000
---------------------	---------

Interest received	<u>14,853</u>
-------------------	---------------

Net cash provided (used) by investing activities	<u>1,014,853</u>
---	------------------

Net cash inflow (outflow) from all activities

	278,707
--	---------

Cash and cash equivalents at beginning of period	<u>4,062,067</u>
--	------------------

Cash and cash equivalents at end of period	<u><u>\$ 4,340,774</u></u>
---	----------------------------

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

13

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

Utility operating income	\$ (32,473)
Depreciation and amortization	2,481,239
Contribution of utility services	(101,375)
(Increase) decrease in:	
Accounts receivable	(110,707)
Unbilled revenue	(11,999)
Inventory	(27,008)
Other assets and deferred outflows	(464,904)
Increase (decrease) in:	
Accounts payable	155,770
Accrued liabilities and other liabilities	880,434

Net cash provided (used) by operating activities

\$ 2,768,977

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 2,464,790
Restricted cash and cash equivalents	1,597,277
	<u>\$ 4,062,067</u>

End of period:

Unrestricted cash and cash equivalents	\$ 1,631,478
Restricted cash and cash equivalents	2,709,296
	<u>\$ 4,340,774</u>

See accompanying notes to basic financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

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

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

A. Financial Reporting Entity

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

Blended Component Units:

Paintsville Utilities Commission

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

Paintsville Utilities
137 Main Street
Paintsville, Kentucky 41240

Paintsville Tourism Commission

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

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

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, 2018.

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 are considered fully collectible and therefore an allowance for uncollectible accounts is not applicable to those receivables.

Utility receivables at June 30, 2018, are net of allowance for uncollectable. The allowance for uncollectable was \$281,269 at June 30, 2018.

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, 2018, 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 deferred outflows of resources that relate to pension plan and OPEB reporting, see Notes 12 and 13.

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 deferred inflows of resources that relate to pension plan and OPEB reporting, see Notes 12 and 13.

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, 2018 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>\$8,370,746</u>	<u>\$2,373,740</u>	<u>\$5,970,532</u>	<u>\$26,474</u>	<u>\$7,989,928</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.

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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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, 2018, consisted of the following:

Primary Government

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land and land improvements	\$ 1,047,524	\$ 696,525	\$ -	\$ 1,744,049
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,047,524</u>	<u>696,525</u>	<u>-</u>	<u>1,744,049</u>
Capital assets, being depreciated:				
Buildings and improvements	8,099,873	-	-	8,099,873
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,701,683	324,915	153,572	2,873,026
Infrastructure	657,601	106,734	-	764,335
Machinery and equipment	<u>3,858,093</u>	<u>170,809</u>	<u>-</u>	<u>4,028,902</u>
Total capital assets being depreciated	<u>16,167,816</u>	<u>602,458</u>	<u>153,572</u>	<u>16,616,702</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,790,391)	(198,874)	-	(2,989,265)
Improvements other than buildings	(796,183)	(26,089)	-	(822,272)
Automobiles and trucks	(2,139,889)	(161,625)	(150,542)	(2,150,972)
Infrastructure	(274,605)	(57,368)	-	(331,973)
Machinery and equipment	<u>(2,882,615)</u>	<u>(201,150)</u>	<u>-</u>	<u>(3,083,765)</u>
Total accumulated depreciation	<u>(8,883,683)</u>	<u>(645,106)</u>	<u>(150,542)</u>	<u>(9,378,247)</u>
Total capital assets being depreciated, net	<u>7,284,133</u>	<u>(42,648)</u>	<u>3,030</u>	<u>7,238,455</u>
Governmental activities capital assets, net	<u>\$ 8,331,657</u>	<u>\$ 653,877</u>	<u>\$ 3,030</u>	<u>\$ 8,982,504</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 90,939
Public safety	210,183
Recreation	68,527
Streets	101,501
Sanitation	38,741
Tourism	<u>135,215</u>
Total	<u>\$ 645,106</u>

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets, not being depreciated:				
Land and land improvements	\$ 816,089	\$ -	\$ -	\$ 816,089
Construction in progress	<u>1,505,614</u>	<u>4,273,280</u>	<u>65,671</u>	<u>5,713,223</u>
Total capital assets, not being depreciated	<u>2,321,703</u>	<u>4,273,280</u>	<u>65,671</u>	<u>6,529,312</u>
Capital assets, being depreciated:				
Buildings and improvements	1,085,536	12,880	-	1,098,416
Utility plants	103,448,284	871,187	49,399	104,270,072
Automobiles and trucks	1,211,954	3,620	-	1,215,574
Machinery and equipment	<u>443,486</u>	<u>4,424</u>	<u>-</u>	<u>447,910</u>
Total capital assets being depreciated	<u>106,189,260</u>	<u>892,111</u>	<u>49,399</u>	<u>107,031,972</u>
Less accumulated depreciation for:				
Buildings and improvements	(310,478)	(23,352)	-	(333,830)
Utility plants	(28,984,873)	(2,328,255)	(49,399)	(31,263,729)
Automobiles and trucks	(786,899)	(96,310)	-	(883,209)
Machinery and equipment	<u>(346,731)</u>	<u>(33,322)</u>	<u>-</u>	<u>(380,053)</u>
Total accumulated depreciation	<u>(30,428,981)</u>	<u>(2,481,239)</u>	<u>(49,399)</u>	<u>(32,860,821)</u>
Total capital assets being depreciated, net	<u>75,760,279</u>	<u>(1,589,128)</u>	<u>-</u>	<u>74,171,151</u>
Total capital assets, net	<u>\$ 78,081,982</u>	<u>\$ 2,684,152</u>	<u>\$ 65,671</u>	<u>\$ 80,700,463</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 2,481,239</u>
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NOTE 5. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays annual premiums to the Kentucky League of Cities Insurance Agency for its general liability coverage, public officials' liability, auto liability, workers' compensation, and property coverage. The City's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the City. Kentucky League of Cities Insurance Agency pays claims as they arise. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

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.

NOTE 6. CAPITAL LEASES (Continued)

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2018, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2019	\$ 29,497	\$ 62,666
2020	29,496	61,108
2021	-	15,032
Total minimum lease payments	58,993	138,806
Less amount representing interest	(1,875)	(3,806)
Present value of net minimum lease payments	<u>\$ 57,118</u>	<u>\$ 135,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2018:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 139,773	\$1,070,990
Less accumulated depreciation	<u>(48,921)</u>	<u>(794,317)</u>
	<u>\$ 90,852</u>	<u>\$ 276,673</u>

	<u>Amount Outstanding 6/30/2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2018</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 86,555	\$ -	\$ (29,437)	\$ 57,118	\$ 28,251
Business-type activities leases	\$ 195,000	\$ -	\$ (60,000)	\$ 135,000	\$ 60,000

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2018 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 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 \$1,821 to be made beginning August 8, 2014 with final payment due on July 7, 2024. The loan bears interest at 5.00%.

On December 18, 2015, Tourism borrowed \$200,000 from First Commonwealth Bank to fund the purchase of the historic Stafford House. The loan agreement provides for 180 monthly payments of \$1,260 to be made beginning January 18, 2016 with final payment due on December 18, 2030. The loan bears interest at 2.05%.

On June 8, 2017, the City borrowed \$15,000 from First Commonwealth Bank to fund the purchase of a police cruiser. The loan agreement provides for 36 monthly payments of \$438 to be made beginning July 8, 2017 with final payment due on June 8, 2020. The loan bears interest at 3.19%.

On May 9, 2017, the City borrowed \$39,900 from First Commonwealth Bank to fund the purchase of an ambulance and police cruiser. The loan agreement provides for 36 monthly payments of \$1,165 to be made beginning June 9, 2017 with final payment due on May 9, 2020. The loan bears interest at 3.19%.

On August 24, 2017, the City borrowed \$7,939 from First Commonwealth Bank to fund the purchase of a golf course Workman GTX cart. The loan agreement provides for 36 monthly payments of \$232 to be made beginning September 24, 2017 with final payment due on August 24, 2020. The loan bears interest at 3.19%.

On August 2, 2017, the City borrowed \$15,000 from First Commonwealth Bank to fund the purchase of a police cruiser. The loan agreement provides for 36 monthly payments of \$438 to be made beginning September 2, 2017 with final payment due on September 2, 2020. The loan bears interest at 3.19%.

On August 24, 2017, the City borrowed \$18,505 from First Commonwealth Bank to fund the purchase of a golf course greens mower. The loan agreement provides for 36 monthly payments of \$540 to be made beginning September 24, 2017 with final payment due on August 24, 2020. The loan bears interest at 3.19%.

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Revenue Bonds, Series 2011 Issue. Principal due in February of each year, interest payable semi-annually in February and August of each year.	\$975,000	Variable	01/2031
Less:			
Unamortized discount	<u>17,293</u>		
	<u>\$ 957,707</u>		

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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NOTE 7. LONG-TERM DEBT (Continued)

	<u>Amount Outstanding 6/30/2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2018</u>	<u>Amounts Due Within One Year</u>
Revenue Bond – Series 2011	\$ 1,030,000	\$ -	\$ (55,000)	\$ 975,000	\$ 55,000
Sipp Theatre loan payable	45,000	-	(20,000)	25,000	10,000
Ambulance/police cruiser loan payable	38,843	-	(12,907)	25,936	13,331
Police cruiser loan payable	14,603	-	(4,442)	10,161	4,998
Police cruiser loan payable	-	15,000	(4,430)	10,570	4,985
Street sweeper loan payable	41,684	-	(35,644)	6,040	6,040
Stafford House loan payable	178,033	-	(11,553)	166,480	11,795
MACED loan payable	130,076	-	(15,714)	114,362	16,517
Workman cart loan payable	-	7,939	(2,129)	5,810	2,631
Working capital loan payable	-	18,505	(4,962)	13,543	6,133
Pickup truck loan payable	8,631	-	(8,631)	-	-
	<u>1,486,870</u>	<u>41,444</u>	<u>(175,412)</u>	<u>1,352,902</u>	<u>131,430</u>
Unamortized bond discount	<u>(18,255)</u>	<u>-</u>	<u>962</u>	<u>(17,293)</u>	<u>-</u>
Long-Term Debt	<u>\$ 1,468,615</u>	<u>\$ 41,444</u>	<u>\$ (174,450)</u>	<u>\$ 1,335,609</u>	<u>\$ 131,430</u>

Principal and interest payments to be made on all long-term debt at June 30, 2018, 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>
2019	\$ 55,000	\$ 76,430	\$ 131,430	\$ 57,834	\$ 189,264
2020	60,000	76,370	136,370	53,269	189,639
2021	60,000	32,529	92,529	48,513	141,042
2022	65,000	31,734	96,734	44,927	141,661
2023	65,000	32,977	97,977	41,002	138,979
2024-2028	385,000	91,043	476,043	144,079	620,122
2029-2031	285,000	36,819	321,819	32,429	354,248
	<u>\$ 975,000</u>	<u>\$ 377,902</u>	<u>\$ 1,352,902</u>	<u>\$ 422,053</u>	<u>\$ 1,774,955</u>

Business-Type Activities

<u>Bonds:</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	\$ 215,500	4.125%	07/2046
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.	12,412,000 12,627,500	2.00%	01/2051

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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NOTE 7. LONG-TERM DEBT (Continued)

Notes:

Note payable to Citizens National Bank, due in 120 monthly installments of principal and interest of \$5,734. (sewer plant upgrade)	493,000	2.73%	06/2026
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)	3,961,117	1.988%	04/2020
Note payable to First Commonwealth Bank, due in 48 monthly installments of principal and interest of \$6,038. (Kenworth Vac Truck)	17,997	2.56%	10/2018
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest. (B98-02)	913,169	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. (F08-10)	5,622,585	1.00%	06/2035
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year. (A209-34)	410,151	1.00%	12/2032
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year. (A05-04)	<u>182,463</u>	1.00%	06/2026
	<u>11,600,482</u>		
	<u>\$24,227,982</u>		

The Utility Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 1.69 at June 30, 2018.

The Commission defeased Public Projects Revenue Bond Series 2011(B) to reduce debt in order to mitigate rate increases required for additional financing for the I & I sewer system improvement project. The amount of the defeased debt was \$670,000. There was \$752,070 placed in escrow during the year. The amount of cash flows required to service the defeased debt at June 30, 2018 was \$440,328.

	Amount Outstanding 6/30/2017			Amount Outstanding 6/30/2018		Amounts Due Within One Year
		Additions	Deductions			
Combined Utility Refunding Bond – 1978 Issue	\$ 53,000	\$ -	\$ (53,000)	\$ -	\$ -	\$ -
Water Revenue Bond – Series 1994	316,600	-	(315,600)	-	-	-

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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NOTE 7. LONG-TERM DEBT (Continued)

	Amount Outstanding 6/30/2017	Additions	Deductions	Amount Outstanding 6/30/2018	Amounts Due Within One Year
Water Revenue Bond – Series 1998	261,000	-	(261,000)	-	-
Water Revenue Bond – Series 2006	219,500	-	(4,000)	215,500	4,500
Combined Utility Revenue Bonds – Series 2011	12,641,500	-	(229,500)	12,412,000	235,500
Public Projects Revenue Bond – Series 2011 (B)	670,000	-	(670,000)	-	-
Citizens National Bank (sewer plant upgrade)	547,332	-	(54,332)	493,000	55,695
Citizens National Bank (Dept of the Army loan)	4,104,153	-	(143,036)	3,961,117	145,875
First Commonwealth Bank (vac truck)	88,990	-	(70,993)	17,997	17,997
KIA Loan Payable (Honey Branch)	972,274	-	(59,105)	913,169	59,876
KIA Loan Payable (Paintsville Lake water plant)	5,924,566	-	(301,981)	5,622,585	305,008
KIA Loan Payable (wastewater treatment plant)	436,310	-	(26,159)	410,151	26,421
KIA Loan Payable (wastewater treatment plant)	204,264	-	(21,801)	182,463	22,020
	26,439,489	-	(2,211,507)	24,227,982	872,892
Unamortized Bond Premium	23,426	-	(23,426)	-	-
Long-Term Debt	<u>\$26,462,915</u>	<u>\$-</u>	<u>\$ (2,234,933)</u>	<u>\$24,227,982</u>	<u>\$872,892</u>

Principal and interest payments to be made on all long-term debt at June 30, 2018, for each of the next five years and thereafter are as follows:

Year Ending June 30	Bonds	Notes	Total Principal	Total Interest	Total
2019	\$ 240,000	\$ 632,892	\$ 872,892	\$ 421,568	\$ 1,294,460
2020	247,000	4,290,276	4,537,276	395,078	4,932,354
2021	253,500	481,044	734,544	319,800	1,054,344
2022	261,000	487,115	748,115	309,086	1,057,201
2023	267,500	493,281	760,781	297,359	1,058,140
2024-2028	1,454,500	2,373,001	3,827,501	1,306,314	5,133,815
2029-2033	1,668,500	2,130,848	3,799,348	1,021,222	4,820,570
2034-2038	1,913,000	712,025	2,625,025	751,345	3,376,370
2039-2043	2,195,000	-	2,195,000	532,541	2,727,541
2044-2048	2,488,500	-	2,488,500	292,124	2,780,624
2049-2051	1,639,000	-	1,639,000	49,740	1,688,740
	<u>\$12,627,500</u>	<u>\$11,600,482</u>	<u>\$24,227,982</u>	<u>\$ 5,696,177</u>	<u>\$29,924,159</u>

Advances for Construction

On September 20, 2017, the Commission entered into a loan agreement with Kentucky Rural Water Finance Corporation for interim financing on the I & I sewer system improvement project. The loan is for \$4,900,000 at 2.95% interest and matured on October 1, 2018. The balance of the loan at June 30, 2018 was \$3,559,540. Permanent financing for the loan is a City of Paintsville Combined Utilities Revenue Bond, Series 2018 in the amount of \$4,900,000.

NOTE 8. RESTATEMENTS

For the year ended June 30, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures for other postemployment benefits (OPEB). This Statement identifies the methods and assumptions that should be used to project benefit payments, and discount projected benefit payments to their actuarial present value. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the OPEB plan that are within its scope.

The implementation of GASB Statement No. 75 and the prior period adjustment for grant receivables had the following effect:

	Government – Wide Statements	
	Governmental Activities	Business – Type Activities
Net position June 30, 2017	\$3,737,319	\$55,662,321
Recognition of net OPEB liabilities	<u>(1,634,376)</u>	<u>(946,506)</u>
Restated net position June 30, 2017	<u>\$2,102,943</u>	<u>\$54,715,815</u>

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 December 28, 2018, the date the financial statements were available to be issued.

NOTE 12. DEFINED PENSION

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. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability, and death benefits to plan members. CERS issues a publicly available financial report that can be obtained at kyret.ky.gov.

Benefits Provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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, 2018, was 14.48 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 \$611,636 for the year ended June 30, 2018.

NOTE 12. DEFINED PENSION (Continued)

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

At June 30, 2018, the City reported a liability of \$9,580,284 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the City's proportion was 0.164 percent, which was a decrease of 0.004 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$1,563,958. At June 30, 2018, 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	\$ 11,883	\$ 243,188
Changes of assumptions	1,767,822	-
Net difference between projected and actual earnings on pension plan investments	118,497	-
Changes in proportion and differences between City contributions and proportionate share of contributions	27,653	217,806
City contributions subsequent to the measurement date	<u>611,636</u>	<u>-</u>
Total	<u>\$ 2,537,491</u>	<u>\$ 460,994</u>

\$611,636 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, 2019. 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:	
2018	\$ 639,494
2019	650,279
2020	298,103
2021	(123,015)
2022	-
Thereafter	-

NOTE 12. DEFINED PENSION (Continued)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2017 are as follows:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Amortization Period	28 years, closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate 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>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Privacy Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
Total	100.00%	5.56%

NOTE 12. DEFINED PENSION (Continued)

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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 6.25%, 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 (5.25%) or one percentage-point higher (7.25%) than the current rate:

	<u>1.0% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1.0% Increase (7.25%)</u>
City's proportionate share of the net pension liability	\$12,082,809	\$9,580,284	\$7,486,941

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2017 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$84,359 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

NOTE 13. OPEB PLAN

General Information about the OPEB plan

Plan Description and Benefits Provided

The City of Paintsville, Kentucky participates in the County Employees Retirement System (CERS) Insurance Fund, a multiple-employer defined benefit Other Post-Employment Benefits (OPEB) plan for members that cover all regular full-time members employed by the City. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Contributions

The City's contractually required contribution rate for the year ended June 30, 2018, was 4.70 percent of covered payroll. Contributions to the OPEB plan from the City were \$198,529 for the year ended June 30, 2018.

NOTE 13. OPEB PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$3,290,387 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2017, the City's proportion was 0.164 percent, which was a decrease of 0.004 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City recognized OPEB expense of \$374,952. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 9,139
Changes of assumptions	715,967	-
Net difference between projected and actual earnings On OPEB plan investments	-	155,502
Changes in proportion and differences between City contributions and proportionate share of contributions	-	7,635
City contributions subsequent to the measurement date	<u>198,529</u>	<u>-</u>
Total	<u>\$ 914,496</u>	<u>\$ 172,276</u>

\$198,529 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$93,547
2020	27,470
2021	27,470
2022	27,470
2023	132,423
Thereafter	37,080

NOTE 13. OPEB PLAN (Continued)

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total OPEB liability as of June 30, 2017 are as follows:

Inflation	2.30%
Payroll Growth Rate	2.0% for CERS non-hazardous
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Pre - 65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Post - 65	

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate 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>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Privacy Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
Total	100.00%	6.56%

NOTE 13. OPEB PLAN (Continued)

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend

	<u>1.0% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1.0% Increase</u>
City's proportionate share of the net OPEB liability	\$2,523,896	\$3,290,387	\$4,286,780

Discount Rate

The projection of cash flows used to determine the discount rate of 5.84% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 - Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

The following presents the City's proportionate share of the Net OPEB Liability using the discount rate of 5.84%, as well as what the City's proportionate share of the Net OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower (4.84%) or one percentage-point higher (6.84%) than the current rate:

	<u>1.0% Decrease (4.84%)</u>	<u>Current Discount Rate (5.84%)</u>	<u>1.0% Increase (6.84%)</u>
City's proportionate share of the net OPEB liability	\$4,186,835	\$3,290,387	\$2,544,401

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued KRS 2017 Comprehensive Annual Financial Report at kyret.ky.gov

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

The Honorable Bill Mike Runyon, 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, 2018, 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 December 28, 2018, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paintsville, Kentucky's financial statements are free 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

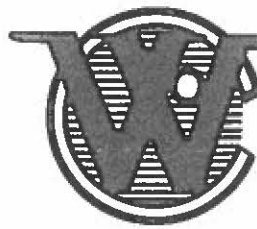
The City of Paintsville, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Paintsville, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, 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
December 28, 2018



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

The Honorable Bill Mike Runyon, 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 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, 2018. 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 federal statutes, regulations, and the terms and condition of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 Uniform Guidance, 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
December 28, 2018

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

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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 federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of major federal programs:

CFDA Number(s)

97.039

Name of Federal Program or Cluster

Hazard Mitigation Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2018**

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SECTION II - FINANCIAL STATEMENT FINDINGS

2018 – 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: Due to its small size and budget restrictions the City has limited options for establishing an adequate segregation of duties.

Effect: An improper segregation of duties can subject the City to intentional or unintentional losses due to errors or irregularities.

Views of Responsible Officials: The City should continue to review the internal control structure and segregate duties where possible.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**CITY OF PAINTSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018**

43

There were no findings and recommendations for the year ended June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

44

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 644,800	\$ 644,800	\$ 569,499	\$ (75,301)
Payments in lieu of taxes	-	-	32,529	32,529
Franchise fees and taxes	123,000	123,000	170,488	47,488
Police court revenue	10,000	10,000	8,489	(1,511)
Police services	5,000	5,000	6,004	1,004
Building permits	10,000	10,000	2,201	(7,799)
Licenses	500	500	1,179	679
ABC fees	150,000	150,000	147,373	(2,627)
Garbage collection fees	800,000	800,000	787,706	(12,294)
Taxes on insurance premiums	520,000	520,000	534,037	14,037
Occupational taxes	1,670,000	1,670,000	1,721,864	51,864
Motor vehicle tax	25,000	25,000	27,550	2,550
Ambulance receipts	1,320,000	1,320,000	1,432,727	112,727
Firefighter and police incentive pay	116,000	116,000	143,246	27,246
Rental/Lease revenue	149,000	149,000	160,455	11,455
City pool and concession revenue	5,000	5,000	13,243	8,243
Golf course revenue	192,000	192,000	182,977	(9,023)
Miscellaneous intergovernmental revenue	76,725	76,725	68,101	(8,624)
Grants	43,000	43,000	1,057,296	1,014,296
Contributions	-	-	101,375	101,375
Other receipts	24,000	24,000	68,959	44,959
Total revenues	<u>5,884,025</u>	<u>5,884,025</u>	<u>7,237,298</u>	<u>1,353,273</u>
Expenditures:				
General government:				
Administrative salaries	316,500	316,500	318,940	(2,440)
Payroll tax expense	28,000	28,000	35,004	(7,004)
Employee benefits	139,000	139,000	109,448	29,552
City attorney's fees	30,000	30,000	30,989	(989)
Mayor's expense	3,000	3,000	64	2,936
Postage	4,000	4,000	4,670	(670)
Advertising	7,500	7,500	6,240	1,260
Office supplies and printing	16,000	16,000	15,871	129
Telephone	12,000	12,000	13,367	(1,367)
Workmen's compensation insurance	2,000	2,000	1,188	812
Audit and accounting fees	13,500	13,500	2,000	11,500
Insurance and bonding	15,800	15,800	18,142	(2,342)
Utilities	215,000	215,000	240,120	(25,120)
Preparation of property tax bills	16,000	16,000	14,658	1,342

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

45

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Senior Citizens	57,240	57,240	53,486	3,754
Big Sandy ADD dues	1,500	1,500	1,500	-
Equipment lease expense	7,500	7,500	7,001	499
Main Street Program	15,000	15,000	14,005	995
Capital expenditures	-	-	712,042	(712,042)
Debt service:				
Interest expense	-	-	57,498	(57,498)
Principal retirement	127,606	127,606	70,714	56,892
Other general expenses	180,230	180,230	72,814	107,416
Building inspector expense	1,500	1,500	909	591
Total general government	<u>1,208,876</u>	<u>1,208,876</u>	<u>1,800,670</u>	<u>(591,794)</u>
Police:				
Salaries and wages	317,000	317,000	315,476	1,524
Payroll tax expense	27,000	27,000	22,088	4,912
Employee benefits	162,000	162,000	133,263	28,737
Gasoline and oil	22,500	22,500	22,057	443
Repairs and maintenance	5,000	5,000	6,349	(1,349)
Workmen's compensation insurance	26,500	26,500	6,456	20,044
Insurance and bonding	36,500	36,500	33,636	2,864
Utilities	-	-	7,695	(7,695)
Training	2,500	2,500	1,530	970
Telephone	15,000	15,000	11,943	3,057
Uniforms and uniforms cleaning	5,000	5,000	2,400	2,600
Debt service:				
Interest expense	-	-	1,161	(1,161)
Principal retirement	16,000	16,000	13,724	2,276
Other expenditures	10,000	10,000	6,262	3,738
Total police	<u>645,000</u>	<u>645,000</u>	<u>584,040</u>	<u>60,960</u>
Fire/EMS:				
Salaries and wages	1,040,000	1,040,000	1,183,011	(143,011)
Payroll tax expense	81,000	81,000	84,597	(3,597)
Employee benefits	452,000	452,000	425,036	26,964
Gasoline and oil	42,000	42,000	42,287	(287)
Repairs and maintenance	33,000	33,000	22,239	10,761
Insurance	42,000	42,000	30,757	11,243
Telephone	15,000	15,000	12,030	2,970
Utilities	13,000	13,000	22,754	(9,754)
Uniforms and uniforms cleaning	10,000	10,000	3,144	6,856
Training	3,000	3,000	365	2,635
Training center expenses	5,000	5,000	5,525	(525)
Workmen's compensation insurance	101,000	101,000	73,596	27,404

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

46

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Billing service	85,800	85,800	91,672	(5,872)
Medical supplies	36,000	36,000	30,186	5,814
Capital expenditures	-	-	324,915	(324,915)
Debt service:				
Interest expense	-	-	666	(666)
Principal retirement	24,000	24,000	8,054	15,946
Other expenses	21,400	21,400	28,112	(6,712)
Total fire	2,004,200	2,004,200	2,388,946	(384,746)
Recreation:				
Recreation salaries	127,500	127,500	128,392	(892)
Payroll tax expense	13,100	13,100	10,530	2,570
Employee benefits	52,000	52,000	42,056	9,944
Insurance	17,120	17,120	15,948	1,172
Supplies	16,500	16,500	18,033	(1,533)
Recreational programs	10,000	10,000	2,369	7,631
Workmen's compensation insurance	12,600	12,600	3,756	8,844
Utilities	30,000	30,000	52,641	(22,641)
Other expenses	57,500	57,500	47,551	9,949
Total recreation	336,320	336,320	321,276	15,044
Streets:				
Salaries and wages	250,000	250,000	233,778	16,222
Payroll tax expense	24,500	24,500	18,778	5,722
Employee benefits	148,500	148,500	110,319	38,181
Uniforms	6,000	6,000	3,433	2,567
Gasoline and oil	20,000	20,000	21,595	(1,595)
Insurance	26,500	26,500	32,017	(5,517)
Supplies and parts	18,000	18,000	20,945	(2,945)
Workmen's compensation insurance	24,500	24,500	10,812	13,688
Debt service:				
Interest expense	-	-	884	(884)
Principal retirement	45,500	45,500	44,276	1,224
Other expenses	18,500	18,500	20,911	(2,411)
Total streets	582,000	582,000	517,748	64,252
Sanitation:				
Salaries and wages	228,000	228,000	168,383	59,617
Payroll tax expense	20,000	20,000	13,878	6,122
Employee benefits	134,000	134,000	95,236	38,764

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

47

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Gasoline and oil	20,000	20,000	20,610	(610)
Truck repairs and maintenance	15,000	15,000	25,132	(10,132)
Workmen's compensation insurance	31,000	31,000	12,192	18,808
Hauling and dumping expense	195,000	195,000	201,633	(6,633)
Insurance	10,250	10,250	16,212	(5,962)
Uniforms	5,000	5,000	2,605	2,395
Utilities	-	-	6,088	(6,088)
Garage expenses	8,000	8,000	4,526	3,474
Debt service:				
Interest expense	-	-	1,848	(1,848)
Principal retirement	30,000	30,000	27,649	2,351
Other expenses	6,800	6,800	5,768	1,032
Total sanitation	<u>703,050</u>	<u>703,050</u>	<u>601,760</u>	<u>101,337</u>
Golf Course:				
Salaries and wages	166,000	166,000	153,891	12,109
Payroll tax expense	15,700	15,700	12,907	2,793
Employee benefits	67,500	67,500	39,592	27,908
Workmen's compensation insurance	8,750	8,750	2,592	6,158
Maintenance and repairs	47,500	47,500	47,613	(113)
Gasoline and oil	10,000	10,000	11,127	(1,127)
Insurance	11,000	11,000	12,924	(1,924)
Utilities and telephone	16,000	16,000	40,326	(24,326)
Debt service:				
Interest expense	-	-	657	(657)
Principal retirement	-	-	7,090	(7,090)
Capital expenditures	15,000	15,000	28,444	(13,444)
Other expenses	47,500	47,500	75,759	(28,259)
Total golf course	<u>404,950</u>	<u>404,950</u>	<u>432,922</u>	<u>(27,972)</u>
Total Expenditures	<u>5,884,396</u>	<u>5,884,396</u>	<u>6,647,362</u>	<u>(762,966)</u>
Excess of revenues over (under) expenditures	<u>(371)</u>	<u>(371)</u>	<u>589,936</u>	<u>590,307</u>
Other Financing Sources/(Uses):				
Transfer in from Tourism	313,118	313,118	283,170	(29,948)
Proceeds from sale of capital assets	-	-	14,747	14,747
Proceeds from borrowing	-	-	41,444	41,444
Total other financing sources (uses)	<u>313,118</u>	<u>313,118</u>	<u>339,361</u>	<u>26,243</u>
Net change in fund balance	<u>\$ 312,747</u>	<u>\$ 312,747</u>	<u>929,297</u>	<u>\$ 616,550</u>
Fund balance - beginning			<u>1,112,234</u>	
Fund balance - ending			<u>2,041,531</u>	

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
PAINTSVILLE TOURISM COMMISSION
FOR THE YEAR ENDED JUNE 30, 2018

48

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes:				
Restaurant tax	\$ 732,200	\$ 732,200	\$ 717,684	\$ (14,516)
Room occupancy tax	60,000	60,000	57,799	(2,201)
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	66,000	66,000	56,402	(9,598)
Interest	-	-	401	401
Miscellaneous revenues	26,574	26,574	39,829	13,255
Total revenues	884,774	884,774	872,115	(12,659)
Expenditures:				
Salaries and wages	186,500	186,500	170,942	15,558
Payroll tax expense	16,200	16,200	15,957	243
Employee benefits	34,000	34,000	41,705	(7,705)
Contract labor	11,000	11,000	4,795	6,205
Administration	7,100	7,100	12,563	(5,463)
Telephone and utilities	40,450	40,450	40,361	89
Donations	31,500	31,500	34,382	(2,882)
Postage	1,200	1,200	610	590
General office expense	5,500	5,500	7,227	(1,727)
Gift shop expense	10,000	10,000	5,323	4,677
Advertising and promotional	79,950	79,950	68,714	11,236
Membership dues	2,325	2,325	4,044	(1,719)
Van and bus expense	1,700	1,700	3,771	(2,071)
Legal and professional expense	7,000	7,000	14,025	(7,025)
Taxes and licenses	800	800	440	360
Maintenance and repairs	14,959	14,959	16,108	(1,149)
Mountain Homeplace	10,000	10,000	10,000	-
Bank charges	600	600	621	(21)
Insurance	18,610	18,610	18,610	-
Security	1,310	1,310	1,532	(222)
Sipp expenses	16,130	16,130	28,926	(12,796)
Stafford house expenses	5,000	5,000	4,663	337
Other expense	24,815	24,815	44,701	(19,886)
Debt service:	-	-		
Interest expense	-	-	5,771	(5,771)
Principal retirement	31,925	31,925	31,554	371
Capital outlay	9,200	9,200	13,724	(4,524)
Total expenditures	567,774	567,774	601,069	(33,295)
Excess of revenues over (under) expenditures	317,000	317,000	271,046	(45,954)

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2018

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing sources (uses):				
Proceeds from borrowing	-	-	-	-
Transfer out to General Fund	<u>(317,000)</u>	<u>(317,000)</u>	<u>(283,170)</u>	<u>33,830</u>
Total other financing sources (uses)	<u>(317,000)</u>	<u>(317,000)</u>	<u>(283,170)</u>	<u>33,830</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(12,124)	<u>\$ (12,124)</u>
Fund balance - beginning			<u>188,958</u>	
Fund balance - ending			<u>\$ 176,834</u>	

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2018

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	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
City's proportion of the net pension liability (asset)	0.169852%	0.173853%	0.167811%
City's proportionate share of the net pension liability (asset)	\$ 5,510,000	\$ 7,474,872	\$ 8,262,404
City's covered-employee payroll	\$ 4,078,483	\$ 4,030,252	\$ 4,006,221
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	135.10%	185.47%	206.24%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%
	<u>6/30/2018</u>		
City's proportion of the net pension liability (asset)	0.163673%		
City's proportionate share of the net pension liability (asset)	\$ 9,580,284		
City's covered-employee payroll	\$ 4,224,008		
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	226.81%		
Plan fiduciary net position as a percentage of the total pension liability	53.30%		

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 PENSION CONTRIBUTIONS (CERS)
JUNE 30, 2018

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	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Contractually required contribution	\$ 520,007	\$ 500,557	\$ 558,868
Contributions in relation to the contractually required contribution	<u>520,007</u>	<u>500,557</u>	<u>558,868</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,078,483	\$ 4,030,252	\$ 4,006,221
Contributions as a percentage of covered-employee payroll	12.75%	12.42%	13.95%

	<u>6/30/2018</u>
Contractually required contribution	\$ 611,636
Contributions in relation to the contractually required contribution	<u>611,636</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 4,224,008
Contributions as a percentage of covered-employee payroll	14.48%

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 PENSION SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2018

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NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total Pension Liability as of June 30, 2017 was determined using a 2.30% price inflation assumption for the non-hazardous and hazardous systems, and the assumed rate of return is 6.25% for the non-hazardous system and hazardous system.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2017

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Amortization Period	28 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50% for CERS non-hazardous, and hazardous, and KERS hazardous, 6.75% for KERS non-hazardous

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY (CERS)
JUNE 30, 2018

53

	<u>6/30/2018</u>
City's proportion of the net OPEB liability (asset)	0.163673%
City's proportionate share of the net OPEB liability (asset)	\$ 3,290,387
City's covered-employee payroll	\$ 4,224,008
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	77.90%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

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 OPEB CONTRIBUTIONS (CERS)
JUNE 30, 2018

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	<u>6/30/2018</u>
Contractually required contribution	\$ 198,529
Contributions in relation to the contractually required contribution	<u>198,529</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 4,224,008
Contributions as a percentage of covered-employee payroll	4.70%

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 OPEB SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2018**

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NOTE A – CHANGES OF BENEFIT TERMS

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for CERS.

NOTE B – CHANGES OF ASSUMPTIONS

Subsequent to the actuarial valuation date, but prior to the measurement date, the KRS Board of Trustees adopted updated actuarial assumptions which were used in performing the actuarial valuation as of June 30, 2017. Specifically, the Total OPEB Liability as of June 30, 2017 was determined using a 2.30% price inflation assumption and an assumed rate of return is 6.25%.

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2017

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Amortization Period	28 years, closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.0%, average
Investment Rate of Return	7.50%
Healthcare Trend Rates	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Pre – 65	
Post - 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
JUNE 30, 2018

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Special Revenue Funds

	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 28,489	\$ 128,298	\$ 18,908	\$ 175,695
Due from General Fund	7,521	-	-	7,521
Total Assets	<u>\$ 36,010</u>	<u>\$ 128,298</u>	<u>\$ 18,908</u>	<u>\$ 183,216</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 16,296	\$ 55,541	\$ 2,819	\$ 74,656
Accrued vacation	-	-	6,118	6,118
Due to General Fund	-	-	532,643	532,643
Total Liabilities	<u>16,296</u>	<u>55,541</u>	<u>541,580</u>	<u>613,417</u>
Fund Balances:				
Restricted for:				
Streets	-	72,757	-	72,757
Other	19,714	-	-	19,714
Unassigned	-	-	(522,672)	(522,672)
Total Fund Balances	<u>19,714</u>	<u>72,757</u>	<u>(522,672)</u>	<u>(430,201)</u>
Total Liabilities and Fund Balances	<u>\$ 36,010</u>	<u>\$ 128,298</u>	<u>\$ 18,908</u>	<u>\$ 183,216</u>

CITY OF PAINTSVILLE, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

57

	Special Revenue Funds			
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	Total Non-Major Governmental Funds
Revenues:				
Intergovernmental revenues	\$ 36,750	\$ 67,747	\$ 98,199	\$ 202,696
Charges for services	-	-	362,718	362,718
Interest	-	-	1	1
Total revenues	36,750	67,747	460,918	565,415
Expenditures:				
Current:				
Public safety	-	-	407,245	407,245
Streets	7,625	1,014	-	8,639
Sanitation	5,623	-	-	5,623
Recreation	9,994	-	-	9,994
Capital outlay	9,425	112,234	98,199	219,858
Total expenditures	32,667	113,248	505,444	651,359
Excess of revenues over (under) expenditures	4,083	(45,501)	(44,526)	(85,944)
Other financing sources (uses):				
Proceeds from borrowing	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	4,083	(45,501)	(44,526)	(85,944)
Fund balances - beginning	15,631	118,258	(478,146)	(344,257)
Fund balances - ending	\$ 19,714	\$ 72,757	\$(522,672)	\$ (430,201)

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	PASSED THROUGH TO SUBRECIPIENTS	TOTAL FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-through program from Kentucky Transportation Cabinet				
State and Community Highway Safety	20.600	625-1800001680	\$ -	\$ 18,039
State and Community Highway Safety	20.600	625-1800002202	-	135,290
Total U.S. Department of Transportation			-	153,329
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Direct funding:				
Assistance to Firefighters Grant	97.044	EMW-2015-FV-01888	-	320,819
Pass-through program from Kentucky Dept of Military Affairs				
Hazard Mitigation Grant Program	97.039	DR-4218-0003	-	591,131
Pass-through program from Johnson County Fiscal Court				
Emergency Management Performance Grants	97.042	EMPG-3	-	15,189
Pass-through program from Kentucky Office of Homeland Security				
Homeland Security Grant Program	97.067	094-1600005263	-	11,983
Total U.S. Department of Homeland Security			-	939,122
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 1,092,451

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED June 30, 2018

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NOTE A. – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Paintsville, Kentucky under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, 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.

NOTE C – INDIRECT COST RATE

The City of Paintsville, Kentucky has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.