

CITY OF PAINTSVILLE, KENTUCKY

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2010



WELLS & COMPANY, P.S.C.

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paintsville, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paintsville, Kentucky's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2011, on our consideration of the City of Paintsville, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City of Paintsville, Kentucky

January 11, 2011

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The City of Paintsville, Kentucky has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information on pages through is not a required part of the basic financial statements but is supplementary information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paintsville, Kentucky's financial statements as a whole. The accompanying supplemental information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying supplemental information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wells & Company, PSC

Certified Public Accountants

Paintsville, Kentucky

January 11, 2011

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS
 JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 423,025	\$ 6,332,291	\$ 6,755,316
Investments	-	611,417	611,417
Taxes receivable	64,051	-	64,051
Accounts receivable	34,479	593,178	627,657
Grants receivable	8,928	4,428	13,356
Other receivable	13,574	-	13,574
Due from Paintsville Utilities	61,011	-	61,011
Unbilled revenues	-	366,824	366,824
Inventory	-	152,305	152,305
Prepaid and other assets	-	82,342	82,342
Capital assets:			
Land and construction-in-progress	858,515	5,069,494	5,928,009
Other capital assets, net of accumulated depreciation	7,941,652	39,780,532	47,722,184
	<u>9,405,235</u>	<u>52,992,811</u>	<u>62,398,046</u>
Total Assets			
LIABILITIES			
Accounts payable	495,793	344,367	840,160
Accrued payroll taxes	14,681	6,541	21,222
Accrued vacation	45,716	41,377	87,093
Other accrued liabilities	30,833	170,987	201,820
Deferred grant revenues	-	12,313	12,313
Customer meter deposits payable	-	845,751	845,751
Interest payable on customer meter deposits	-	268,569	268,569
Long-term liabilities:			
Due within one year	628,068	489,532	1,117,600
Due in more than one year	155,784	7,089,453	7,245,237
	<u>1,370,875</u>	<u>9,268,890</u>	<u>10,639,765</u>
Total Liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	8,016,315	37,271,041	45,287,356
Restricted for:			
Other purposes	332,233	4,009,486	4,341,719
Unrestricted	(314,188)	2,443,394	2,129,206
	<u>\$ 8,034,360</u>	<u>\$ 43,723,921</u>	<u>\$ 51,758,281</u>
Total Net Assets			

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,114,783	\$ 85,165	\$ 911	\$ 11,528	\$ (1,017,179)	\$ -	\$ (1,017,179)
Public safety	2,406,744	906,415	117,770	61,616	(1,320,943)	-	(1,320,943)
Recreation	703,976	245,292	-	-	(458,684)	-	(458,684)
Streets	729,833	-	-	-	(729,833)	-	(729,833)
Sanitation	659,477	748,604	-	42,000	131,127	-	131,127
Tourism	980,113	40,362	-	-	(939,751)	-	(939,751)
Interest on long-term debt	45,146	-	-	-	(45,146)	-	(45,146)
Total governmental activities	6,640,072	2,025,838	118,681	115,144	(4,380,409)	-	(4,380,409)
Business-type activities:							
Water, gas, and sewer	7,050,939	7,938,124	-	933,528	-	1,820,713	1,820,713
Total business-type activities	7,050,939	7,938,124	-	933,528	-	1,820,713	1,820,713
Total primary government	\$ 13,691,011	\$ 9,963,962	\$ 118,681	\$ 1,048,672	(4,380,409)	1,820,713	(2,559,696)
General revenues:							
Property taxes					500,648	-	500,648
Occupational taxes					1,284,740	-	1,284,740
Insurance premium taxes					492,036	-	492,036
Motor vehicle taxes					20,835	-	20,835
Restaurant taxes					675,793	-	675,793
Room occupancy taxes					54,242	-	54,242
Franchise fees and taxes					50,959	-	50,959
ABC fees					98,477	-	98,477
Licenses and permits					10,010	-	10,010
Intergovernmental revenue					525,730	-	525,730
Investment income					5,175	30,409	35,584
Gain/(Loss) on sale of capital assets					-	3,736	3,736
Donation/contributions					100,123	-	100,123
Miscellaneous					107,756	-	107,756
Total general revenues and transfers					3,926,524	34,145	3,960,669
Change in net assets					(453,885)	1,854,858	1,400,973
Net assets - beginning					8,488,245	41,869,063	50,357,308
Net assets - ending					\$ 8,034,360	\$ 43,723,921	\$ 51,758,281

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2010

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 51,976	\$ 344,974	\$ 26,075	\$ 423,025
Receivables:				
Property taxes	3,274	-	-	3,274
Accounts	34,479	-	-	34,479
Grants	8,928	-	-	8,928
Other	13,574	-	-	13,574
Due from Paintsville Utilities	61,011	-	-	61,011
Due from General Fund	-	-	125,000	125,000
Total Assets	<u>\$ 173,242</u>	<u>\$ 344,974</u>	<u>\$ 151,075</u>	<u>\$ 669,291</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 343,917	\$ 9,674	\$ 142,202	\$ 495,793
Accrued payroll taxes	9,353	5,328	-	14,681
Accrued vacation	39,104	3,085	3,527	45,716
Other accrued liabilities	30,833	-	-	30,833
Due to Coal & Mineral	30,000	-	-	30,000
Due to Road Aid	95,000	-	-	95,000
Total Liabilities	<u>548,207</u>	<u>18,087</u>	<u>145,729</u>	<u>712,023</u>
Fund Balances:				
Unreserved reported in:				
General Fund	(374,965)	-	-	(374,965)
Special Revenue Funds	-	326,887	5,346	332,233
Total Fund Balances	<u>(374,965)</u>	<u>326,887</u>	<u>5,346</u>	<u>(42,732)</u>
Total Liabilities and Fund Balances	<u>\$ 173,242</u>	<u>\$ 344,974</u>	<u>\$ 151,075</u>	<u>\$ 669,291</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Fund Balances - Total Governmental Funds \$ (42,732)

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

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

Governmental capital assets	14,227,004
Less: accumulated depreciation	(5,426,837)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(783,852)
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Delinquent property taxes	<u>60,777</u>
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Net Assets of Governmental Activities	<u><u>\$ 8,034,360</u></u>
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CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 498,071	\$ -	\$ -	\$ 498,071
Occupational	1,284,740	-	-	1,284,740
Insurance premium	492,036	-	-	492,036
Motor vehicle	20,835	-	-	20,835
Franchise	12,614	-	-	12,614
Restaurant	-	675,793	-	675,793
Room occupancy	-	54,242	-	54,242
ABC fees	98,477	-	-	98,477
Franchise fees	38,345	-	-	38,345
Licenses and permits	10,010	-	-	10,010
Intergovernmental revenues	251,288	-	274,442	525,730
Grants	196,409	-	37,416	233,825
Charges for services	1,654,219	40,362	331,257	2,025,838
Investment income	11	5,156	8	5,175
Contributions	100,123	-	-	100,123
Miscellaneous revenues	67,836	39,920	-	107,756
Total revenues	<u>4,725,014</u>	<u>815,473</u>	<u>643,123</u>	<u>6,183,610</u>
Expenditures:				
General government	1,025,827	-	-	1,025,827
Public safety	1,850,574	-	379,691	2,230,265
Recreation	625,111	-	12,365	637,476
Streets	462,676	-	200,755	663,431
Sanitation	626,057	-	-	626,057
Tourism	-	847,588	-	847,588
Debt service:				
Principal retirement	216,369	-	32,638	249,007
Interest	44,695	-	451	45,146
Capital outlay	173,025	28,020	82,450	283,495
Total expenditures	<u>5,024,334</u>	<u>875,608</u>	<u>708,350</u>	<u>6,608,292</u>
Excess (deficiency) of revenues over expenditures	(299,320)	(60,135)	(65,227)	(424,682)
Other financing sources (uses):				
Operating transfers in	5,498	-	32,908	38,406
Operating transfers out	(32,908)	-	(5,498)	(38,406)
Proceeds from borrowing	22,000	-	-	22,000
Total other financing sources (uses)	<u>(5,410)</u>	<u>-</u>	<u>27,410</u>	<u>22,000</u>
Net change in fund balances	(304,730)	(60,135)	(37,817)	(402,682)
Fund balances - beginning as restated	<u>(70,235)</u>	<u>387,022</u>	<u>43,163</u>	<u>359,950</u>
Fund balances - ending	<u>\$ (374,965)</u>	<u>\$ 326,887</u>	<u>\$ 5,346</u>	<u>\$ (42,732)</u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
 OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ (402,682)

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	283,495
Depreciation expense	(564,282)

The net effect of various miscellaneous transactions involving capital assets -

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

Increase in property taxes	2,577
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Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:

Capital debt proceeds	(22,000)
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Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities:

Loans payable	23,059
Capital leases payable	225,948

Change in Net Assets of Governmental Activities \$ (453,885)

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,819,902
Accounts receivable, no allowance considered necessary	593,178
Grant funds receivable	4,428
Unbilled revenues	366,824
Inventory	152,305
Prepaid expenses	16,028

Total current assets 2,952,665

Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	217,942
Debt service reserve fund	173,029
Depreciation reserve fund	784,446
Operations and maintenance fund	3,336,972
Investments - debt service reserve fund	611,417

Total restricted assets 5,123,806

Utility Plant:

Plant in service	58,505,569
Less accumulated depreciation	<u>(18,203,448)</u>
	40,302,121
Construction work in progress	<u>4,547,905</u>

Net utility plant 44,850,026

Other non-current assets:

Bond issuance costs, net	<u>66,314</u>
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Total other non-current assets 66,314

Total assets \$ 52,992,811

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS (Continued)
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2010

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 309,046
Retainage payable	35,321
Deferred grant revenue	12,313
Compensated absences	41,377
Accrued interest payable	39,105
Other accrued liabilities	138,423
Current portion of long-term liabilities	187,132
Current portion of capital lease obligations	40,000

Total current liabilities 802,717

Payable from restricted assets:

Current portion of bonds	262,400
Customer meter deposits	845,751
Interest payable on customer meter deposits	268,569

Total liabilities payable from restricted assets 1,376,720

Long-term liabilities:

Advances for construction	987,211
Bonds payable, net of discount	4,091,566
Notes payable	2,010,208
Capital lease obligations	490,000
	<u>7,578,985</u>
Less current portion	(489,532)

Total long-term liabilities 7,089,453

Total liabilities 9,268,890

Net assets:

Investments in capital assets, net of related debt	37,271,041
Restricted	4,009,486
Unrestricted	2,443,394

Total net assets 43,723,921

Total liabilities and net assets \$ 52,992,811

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 YEAR ENDED JUNE 30, 2010

Operating revenues:

Gas revenues	\$ 2,779,521
Water revenues	2,691,004
Wastewater revenues	2,252,821
Other operating revenues	<u>214,778</u>

Total operating revenues	7,938,124
Cost of sales	<u>1,536,715</u>

Net operating revenues	<u>6,401,409</u>
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Operating expenses:

Salaries and wages	1,216,898
Payroll taxes	91,333
Employee pension and benefits	624,896
Materials and supplies	390,651
Legal and professional	95,410
Miscellaneous general expense	294,348
Utilities	943,939
Insurance	132,836
Motor vehicle expenses	74,257
Contract labor	29,296
Amortization of debt issuance costs	7,483
Depreciation	<u>1,251,960</u>

Total operating expenses	<u>5,153,307</u>
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Utility operating income (loss)	<u>1,248,102</u>
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Non-operating revenues (expenses):

Interest income	30,409
Gain on sale of equipment	3,736
Interest expense	<u>(260,794)</u>

Total non-operating revenues (expenses)	<u>(226,649)</u>
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Net income (loss) before contributions from (to)	1,021,453
Contributions in aid of construction	933,528
Contribution to the City of Paintsville	<u>(100,123)</u>

Change in net assets	1,854,858
Net assets, beginning of year	<u>41,869,063</u>

Net assets, end of year	<u><u>\$ 43,723,921</u></u>
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See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 YEAR ENDED JUNE 30, 2010

Cash flows from operating activities:

Cash inflows:

Payments received from customers	<u>\$ 7,764,697</u>
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Total cash provided	<u>7,764,697</u>
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Cash outflows:

Payments for salaries and benefits	1,927,178
Payments to suppliers for goods and services	<u>3,416,798</u>

Total cash used	<u>5,343,976</u>
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Net cash provided (used) by operating activities	<u>2,420,721</u>
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Cash flows from noncapital financing activities:

Interest paid on customer deposits	<u>(3,820)</u>
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Net cash provided (used) by noncapital financing activities	<u>(3,820)</u>
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Cash flows from capital and related financing activities:

Purchase and construction of utility plant	(2,588,504)
Proceeds from loans	987,211
Principal payments on long-term debt	(430,109)
Payments on capital leases	(40,000)
Interest paid on long-term debt and capital leases (net of interest capitalized)	(236,962)
Proceeds from sale of capital assets	29,477
Contributions-in-aid of construction	<u>1,298,169</u>

Net cash provided (used) by capital and related financing activities	<u>(980,718)</u>
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Cash flows from investing activities:

Interest received	<u>9,924</u>
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Net cash provided (used) by investing activities	<u>9,924</u>
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Net cash inflow (outflow) from all activities

1,446,107

Cash and cash equivalents at beginning of period

4,886,184

Cash and cash equivalents at end of period

\$ 6,332,291

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
 YEAR ENDED JUNE 30, 2010

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

Utility operating income	\$ 1,248,102
Depreciation and amortization	1,259,443
Contribution of utility services	(100,123)
(Increase) decrease in:	
Accounts receivable	29,431
Unbilled revenue	(102,735)
Inventory	(35,234)
Prepaid expenses and other assets	113,769
Increase (decrease) in:	
Accounts payable	(30,583)
Accrued liabilities and other liabilities	38,651

Net cash provided (used) by operating activities

\$ 2,420,721

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 930,760
Restricted cash and cash equivalents	<u>3,955,424</u>
	<u>\$ 4,886,184</u>

End of period:

Unrestricted cash and cash equivalents	\$ 1,819,902
Restricted cash and cash equivalents	<u>4,512,389</u>
	<u>\$ 6,332,291</u>

Supplemental disclosure of noncash capital and related financing activities:

The utilities had accounts payable for capital expenditures of \$157,993 at June 30, 2010.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

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

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

A. Financial Reporting Entity

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

Blended Component Units:

Paintsville Utilities Commission

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

Paintsville Tourism Commission

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

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

Paintsville Utilities
137 Main Street
Paintsville, Kentucky 41240

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excluded From Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

1. Governmental Funds

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

a. General Fund

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

b. Special Revenue Fund

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. PROPRIETARY FUNDS

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

a. Enterprise Fund or Business Funds

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

b. Internal Service Fund

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

3. Fiduciary Funds

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

C. Basis of Accounting

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Budgets and Budgetary Accounting

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

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

E. Cash and Investments

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Allowance for Uncollectible Accounts

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

G. Capital Assets

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

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

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

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

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

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

H. Compensated Absences

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Estimates

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

J. Restricted Assets

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

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net assets consists of all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Accrued Liabilities and Long-Term Obligations

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

N. Interfund Activity

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

O. Defined Benefit Pension Plan

Substantially all City full-time regular employees participate in the Statewide Kentucky Retirement Systems ("System"), a multiple-employer public employee retirement system. Kentucky Retirement Systems is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the City but are the liability of the State of Kentucky. The payroll for employees covered by the System for the year ended June 30, 2010 was \$1,825,771 the City's total payroll was \$2,417,861.

All City full-time employees are eligible to participate in the System. The Plan provides for retirement, disability and death benefits.

Covered employees are required by State statute to contribute 5 percent, or 6 percent for employees hired after August 31, 2008, of creditable compensation to the System. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service cost per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 16.16% percent for all covered employees. The contribution requirement for the year ended June 30, 2010 was \$388,350, which consisted of \$295,045 from the City and \$93,305 from employees.

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

NOTE 2. DEPOSITS 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.

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Deposits categorized by level of risk at June 30, 2010 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>\$7,737,572</u>	<u>\$886,551</u>	<u>\$6,665,597</u>	<u>\$185,424</u>	<u>\$7,366,733</u>

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

NOTE 3. PROPERTY TAXES

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

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. Delinquent taxes are considered fully collectible and therefore no allowance for uncollected taxes is provided.

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, consisted of the following:

Primary Government

Governmental Activities	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Capital assets, not being depreciated:				
Land and land improvements	\$ 858,515	\$ -	\$ -	\$ 858,515
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>858,515</u>	<u>-</u>	<u>-</u>	<u>858,515</u>
Capital assets, being depreciated:				
Buildings and improvements	7,547,642	18,000	-	7,565,642
Improvements other than buildings	821,882	28,684	-	850,566
Automobiles and trucks	2,112,558	43,927	-	2,156,485
Infrastructure	170,931	-	-	170,931
Machinery and equipment	<u>2,431,981</u>	<u>192,884</u>	<u>-</u>	<u>2,624,865</u>
Total capital assets being depreciated	<u>13,084,994</u>	<u>283,495</u>	<u>-</u>	<u>13,368,489</u>

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4. CAPITAL ASSETS (Continued)

Less accumulated depreciation for:

Buildings and improvements	(1,632,773)	(188,771)	-	(1,821,544)
Improvements other than buildings	(536,871)	(35,785)	-	(572,656)
Automobiles and trucks	(1,334,620)	(134,905)	-	(1,469,525)
Infrastructure	(58,774)	(17,093)	-	(75,867)
Machinery and equipment	<u>(1,299,517)</u>	<u>(187,728)</u>	-	<u>(1,487,245)</u>
Total accumulated depreciation	<u>(4,862,555)</u>	<u>(564,282)</u>	-	<u>(5,426,837)</u>
Total capital assets being depreciated, net	<u>8,222,439</u>	<u>(280,787)</u>	-	<u>7,941,652</u>
Governmental activities capital assets, net	<u>\$ 9,080,954</u>	<u>(\$280,787)</u>	<u>\$ -</u>	<u>\$ 8,800,167</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 88,956
Public safety	176,479
Recreation	66,500
Streets	66,402
Sanitation	33,420
Tourism	<u>132,525</u>
Total	<u>\$564,282</u>

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land and land improvements	\$ 521,589	\$ -	\$ -	\$ 521,589
Construction in progress	<u>3,929,014</u>	<u>1,798,486</u>	<u>1,179,595</u>	<u>4,547,905</u>
Total capital assets, not being depreciated	<u>4,450,603</u>	<u>1,798,486</u>	<u>1,179,595</u>	<u>5,069,494</u>
Capital assets, being depreciated:				
Buildings and improvements	629,780	4,153	-	633,933
Utility plants	55,027,723	1,453,052	-	56,480,775
Automobiles and trucks	589,672	99,715	28,600	660,787
Machinery and equipment	<u>187,928</u>	<u>20,556</u>	<u>-</u>	<u>208,484</u>
Total capital assets being depreciated	56,435,103	1,577,476	28,600	57,983,979
Less accumulated depreciation for:				
Buildings and improvements	(166,397)	(12,562)	-	(178,959)
Utility plants	(16,182,238)	(1,188,506)	-	(17,370,744)
Automobiles and trucks	(477,989)	(35,058)	(2,860)	(510,187)
Machinery and equipment	<u>(127,723)</u>	<u>(15,834)</u>	<u>-</u>	<u>(143,557)</u>
Total accumulated depreciation	<u>(16,954,347)</u>	<u>(1,251,960)</u>	<u>(2,860)</u>	<u>(18,203,447)</u>
Total capital assets being depreciated, net	<u>39,480,756</u>	<u>325,516</u>	<u>25,740</u>	<u>39,780,532</u>
Total utilities capital assets, net	<u>\$43,931,359</u>	<u>\$2,124,002</u>	<u>\$1,205,335</u>	<u>\$44,850,026</u>

NOTE 4. CAPITAL ASSETS (Continued)

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$1,251,960</u>
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NOTE 5. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City pays annual premiums to the Kentucky League of Cities Insurance Agency for its general liability coverage, public officials' liability, auto liability, workers' compensation, and property coverage. The City's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the experience of the City. Kentucky League of Cities Insurance Agency pays claims as they arise.

NOTE 6. CAPITAL LEASES

The City has entered into various lease agreements for financing capital assets. The lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2010, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2011	\$ 74,326	\$ 52,352
2012	62,869	51,332
2013	61,070	50,253
2014	41,092	49,232
2015	-	48,192
2016-2020	<u>-</u>	<u>310,394</u>
Total minimum lease payments	239,357	561,755
Less amount representing interest	<u>(16,558)</u>	<u>(71,755)</u>
Present value of net minimum lease payments	<u>\$222,799</u>	<u>\$490,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2010:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Building	\$283,063	\$ -
Equipment	240,436	1,070,990
Less accumulated depreciation	<u>(109,393)</u>	<u>(451,601)</u>
	<u>\$414,106</u>	<u>\$ 619,389</u>

NOTE 7. LONG-TERM DEBT

Governmental Activities

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

	<u>Amount Outstanding 6/30/2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2010</u>	<u>Amounts Due Within One Year</u>
Entrepreneur Center loan payable (CNB)	\$584,112	\$ -	(\$23,059)	\$561,053	\$561,053
Long-Term Debt	\$584,112	\$ -	(\$23,059)	\$561,053	\$561,053

Principal and interest payments to be made on all long-term debt at June 30, 2010, for each of the next five years and thereafter are as follows:

<u>Year Ending 6/30</u>	<u>Notes</u>	<u>Total Interest</u>	<u>Total</u>
2011	\$561,053	\$23,995	\$585,048
	\$561,053	\$23,995	\$585,048

Business-Type Activities

Long-term debt at June 30, 2010 consists of the following:

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville Combined Utility Refunding Bonds, Series 1978 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	\$ 363,000	5.00%	09/2017
City of Paintsville Combined Utility Refunding Revenue Bonds, Series 1998 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	2,015,000	4.50%	09/2018
City of Paintsville, Kentucky Water Revenue Bond, Series 1989. Principal installments and interest payable in July of each year.	804,000	5.00%	07/2029

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 7. LONG-TERM DEBT (Continued)

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	373,700	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	300,500	4.50%	07/2037
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>244,000</u> 4,100,200	4.125%	07/2046
Notes:			
Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.	26,972	5.75%	07/2013
Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.	7,760	7.00%	07/2013
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,365,243	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.	259,301	3.00%	06/2012
Note payable to Kentucky Infrastructure Authority, due in semi- annual installments of principal and interest, in June and December of each year.	<u>350,932</u> <u>2,010,208</u> 6,110,408	1.00%	06/2026
Less: Unamortized discount	<u>8,634</u>		
	<u>\$6,101,774</u>		

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7. LONG-TERM DEBT (Continued)

The Utility Refunding Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 3.34 at June 30, 2010.

	<u>Amount Outstanding 6/30/2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2010</u>	<u>Amounts Due Within One Year</u>
Combined Utility Refunding Bond – 1978 Issue	\$ 399,000	\$ -	(\$ 36,000)	\$ 363,000	\$ 38,000
Combined Utility Refunding Bond – 1998 Issue	2,185,000	-	(170,000)	2,015,000	180,000
Water Revenue Bond – Series 1989	829,000	-	(25,000)	804,000	27,000
Water Revenue Bond – Series 1994	381,700	-	(8,000)	373,700	8,400
Water Revenue Bond – Series 1998	306,000	-	(5,500)	300,500	6,000
Water Revenue Bond – Series 2006	247,000	-	(3,000)	244,000	3,000
EDA Loans Payable	45,492	-	(10,760)	34,732	11,411
KIA Loan Payable	1,418,528	-	(53,285)	1,365,243	53,980
KIA Loan Payable (water treatment plant)	357,736	-	(98,435)	259,301	101,410
KIA Loan Payable (wastewater treatment plant)	<u>371,061</u>	<u>-</u>	<u>(20,129)</u>	<u>350,932</u>	<u>20,331</u>
Long-Term Debt	<u>\$6,540,517</u>	<u>\$ -</u>	<u>(\$430,109)</u>	<u>\$6,110,408</u>	<u>\$449,532</u>

Principal and interest payments to be made on all long-term debt at June 30, 2010, 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>
2011	\$ 262,400	\$ 187,135	\$ 449,535	\$ 235,388	\$ 684,923
2012	274,800	191,805	466,605	218,807	685,412
2013	291,300	140,759	432,059	201,388	633,447
2014	303,700	77,068	380,768	183,147	563,915
2015	323,700	78,010	401,710	167,086	568,796
2016-2020	1,469,200	404,591	1,873,791	587,597	2,461,388
2021-2025	389,200	429,950	819,150	314,038	1,133,188
2026-2030	423,500	360,079	783,579	187,091	970,670
2031-2035	211,900	140,811	352,711	74,097	426,808
2036-2040	83,000	-	83,000	26,525	109,525
2041-2045	56,000	-	56,000	11,676	67,676
2046-2048	11,500	-	11,500	1,445	12,945
	<u>\$4,100,200</u>	<u>\$2,010,208</u>	<u>\$6,110,408</u>	<u>\$2,208,285</u>	<u>\$8,318,693</u>

NOTE 7. LONG-TERM DEBT (Continued)

Advances for Construction

On November 1, 2009, the Commission entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the Paintsville Lake Water Treatment Plant. This project is anticipated to be completed in December 2012.

The future loan to the Commission is \$6,519,566 of which \$593,397 was received through June 30, 2010. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

On January 1, 2010, the Commission entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the Package Treatment Plants Replacement Project. This project is anticipated to be completed in June 2011.

The future loan to the Commission is \$1,150,000 of which \$393,814 was received through June 30, 2010. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 9. GRANTS

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

NOTE 10. PRIOR PERIOD ADJUSTMENT

During 2010, the following prior period adjustment was made to the financials:

Governmental funds

In the governmental funds, a short term loan for \$419,776 borrowed in the prior period for prepaid insurance was recorded as proceeds from borrowings on the statement of revenues, expenditures, and changes in fund balance when it should have been recorded as a liability on the governmental fund balance sheet. This results in a \$419,776 fund balance decrease.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 10. PRIOR PERIOD ADJUSTMENT (Continued)

	<u>Fund Balance As Previously Reported</u>	<u>Prior Period Adjustment</u>	<u>Fund Balance As Restated</u>
General Fund	<u>\$349,541</u>	<u>(\$419,776)</u>	<u>(\$70,235)</u>

Government wide

The prior period adjustment above in the governmental funds had no effect on the government wide financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through program from USDA Rural Development Community Facilities Loans and Grants	10.766	20-058-616001892	\$ <u>54,918</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Pass-through program from Kentucky Dept of Natural Resources Division of Abandoned Mine Lands			
Abandoned Mine Land Reclamation (AMLR) Program	15.252	595-0800016826	28,826
Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-0800020573	32,060
Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-0800023501	<u>444,548</u>
Total - Abandoned Mine Land Reclamation (AMLR) Program	15.252		<u>505,434</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct programs:			
ARRA - Rural Law Enforcement Assistance: Combating Rural Crime	16.810	2009-SD-B9-0044	<u>72,643</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through program from Kentucky Transportation Cabinet Highway Planning & Construction - US 460 Project	20.205	NCPD 3000 (647)	3,009
State and Highway Community Safety	20.600	AL-09-34	<u>1,198</u>
Total U.S. Department of Transportation			<u>4,207</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from Kentucky Infrastructure Authority Capitalization Grants For Clean Water State Revolving Funds	66.458	F08-10	909,152
ARRA - Capitalization Grants For Clean Water State Revolving Funds	66.458	A2 09-34	<u>485,943</u>
Total - Capitalization Grants For Clean Water State Revolving Funds	66.458		<u>1,395,095</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-through program from Kentucky Department of Military Affairs Disaster Grants - Public Assistance	97.036	FEMA-DR-1818-KY	37,137
Pass-through program from Johnson County Fiscal Court Emergency Management Performance Grants	97.042	EMPG-3	<u>33,995</u>
Total U.S. Department of Homeland Security			<u>71,132</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>2,103,429</u>

See accompanying note to schedule of expenditures of federal awards.

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Paintsville and is presented on the annual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

Certified Public Accountants

865 South Mayo Trail, Suite 7
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the 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, 2010, which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated January 11, 2011, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2010-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2010-2 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Paintsville, Kentucky, in a separate letter dated January 11, 2011.

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

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 11, 2011



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Paintsville, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Paintsville, Kentucky's major federal programs for the year ended June 30, 2010. The City of Paintsville, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Paintsville, Kentucky's management. Our responsibility is to express an opinion on the City of Paintsville, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Paintsville, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Paintsville, Kentucky's compliance with those requirements.

In our opinion, the City of Paintsville, Kentucky, complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a control 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 11, 2011

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued *unqualified*:

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Abandoned Mine Land Reclamation (AMLR) Program	15.252
Clean Water State Revolving Funds	66.458
ARRA –Clean Water State Revolving Funds	66.458
ARRA – Rural Law Enforcement Assistance: Combating Rural Crime	16.810

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

Auditee qualified as low-risk auditee? yes no

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2010 - 1 Segregation of Duties

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

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

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

Recommendation: Mayor and City Council should continue its strong oversight.

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

SIGNIFICANT DEFICIENCY

2010 - 2 Financial Reporting

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

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

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

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

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

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

**CITY OF PAINTSVILLE, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010**

There were no findings and recommendations for the year ended June 30, 2009.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Property taxes	\$ 485,000	\$ 498,071	\$ 13,071
Franchise fees and taxes	68,000	50,959	(17,041)
Police court revenue	15,000	19,029	4,029
Police services	18,000	13,333	(4,667)
Building permits	10,000	8,624	(1,376)
Licenses	2,500	1,386	(1,114)
Interest earned on investments	-	11	11
ABC fees	-	98,477	98,477
Garbage collection fees	760,000	748,604	(11,396)
Taxes on insurance premiums	500,000	492,036	(7,964)
Occupational taxes	1,200,000	1,284,740	84,740
Motor vehicle tax	24,000	20,835	(3,165)
Ambulance receipts	850,000	561,825	(288,175)
Firefighter and police incentive pay	94,000	90,545	(3,455)
Rental/Lease revenue	93,200	72,085	(21,115)
City pool and concession revenue	28,000	13,384	(14,616)
Country Club revenue	319,500	231,908	(87,592)
Advertising	30,000	13,080	(16,920)
Miscellaneous intergovernmental revenue	100,000	141,714	41,714
Grants	88,950	196,409	107,459
Contributions	-	100,123	100,123
Other receipts	21,700	67,836	46,136
Total revenues	<u>4,707,850</u>	<u>4,725,014</u>	<u>17,164</u>
Expenditures:			
General government:			
Administrative salaries	341,100	343,237	(2,137)
Payroll tax expense	23,850	34,170	(10,320)
Employee benefits	103,200	110,544	(7,344)
City attorney's fees	25,000	25,689	(689)
Mayor's expense	9,000	8,677	323
Postage	3,500	3,867	(367)
Advertising	5,000	11,444	(6,444)
Office supplies and printing	15,000	15,086	(86)
Telephone	10,000	14,011	(4,011)
Workmen's compensation insurance	5,100	5,094	6
Audit and accounting fees	14,000	2,975	11,025
Insurance and bonding	12,500	13,714	(1,214)
Utilities	130,000	199,406	(69,406)
Preparation of property tax bills	13,750	13,690	60

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Senior Citizens	48,927	49,056	(129)
Big Sandy ADD dues	1,500	1,500	-
Equipment lease expense	8,000	10,576	(2,576)
Main Street Program	12,000	12,548	(548)
Capital expenditures	-	70,687	(70,687)
Debt service:			
Interest expense	-	293	(293)
Principal retirement	2,100	3,314	(1,214)
Other general expenses	82,800	76,954	5,846
Building inspector expense	3,000	3,120	(120)
Total general government	<u>869,327</u>	<u>1,029,652</u>	<u>(160,325)</u>
Police:			
Salaries and wages	300,000	343,575	(43,575)
Payroll tax expense	25,500	25,739	(239)
Employee benefits	120,500	115,433	5,067
Gasoline and oil	36,000	37,638	(1,638)
Vehicle repairs and maintenance	10,000	19,356	(9,356)
Workmen's compensation insurance	23,200	23,100	100
Insurance and bonding	35,000	35,761	(761)
Utilities	-	7,600	(7,600)
Training	4,500	2,529	1,971
Telephone	7,500	15,251	(7,751)
Uniforms and uniforms cleaning	6,000	14,721	(8,721)
Capital expenditures	-	3,050	(3,050)
Debt service:			
Interest expense	-	1,342	(1,342)
Principal retirement	14,000	16,222	(2,222)
Other expenditures	7,530	54,056	(46,526)
Total police	<u>589,730</u>	<u>715,373</u>	<u>(125,643)</u>
Fire:			
Salaries and wages	241,700	241,147	553
Payroll tax expense	18,950	17,126	1,824
Employee benefits	84,000	77,732	6,268
Gasoline and oil	9,400	6,266	3,134
Repairs and maintenance	10,000	21,232	(11,232)
Insurance	18,750	18,405	345
Telephone	8,500	8,746	(246)
Utilities	-	8,876	(8,876)
Uniforms and uniforms cleaning	3,500	5,476	(1,976)
Training	1,000	648	352

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Training center expenses	4,500	6,393	(1,893)
Workmen's compensation insurance	19,000	18,888	112
Other expenses	10,800	20,632	(9,832)
Debt service:			
Interest expense	-	1,692	(1,692)
Principal retirement	12,500	12,640	(140)
Total fire	<u>442,600</u>	<u>465,899</u>	<u>(23,299)</u>
Ambulance:			
Salaries and wages	479,000	383,949	95,051
Payroll tax expense	37,750	30,650	7,100
Employee benefits	101,250	98,646	2,604
Medical supplies	20,000	26,223	(6,223)
Vehicle repairs and maintenance	23,000	34,951	(11,951)
Gasoline and oil	35,000	19,145	15,855
Uniforms	4,500	2,534	1,966
Telephone	1,000	1,236	(236)
Training	2,000	7,080	(5,080)
Insurance/bonding	22,750	21,572	1,178
Billing service	40,000	27,190	12,810
Debt service:			
Interest expense	-	2,907	(2,907)
Principal retirement	31,750	32,012	(262)
Workmen's compensation insurance	44,500	43,956	544
Capital expenditures	-	47,105	(47,105)
Other expenses	3,500	7,116	(3,616)
Total ambulance	<u>846,000</u>	<u>786,272</u>	<u>59,728</u>
Recreation:			
Recreation salaries	130,500	106,282	24,218
Payroll tax expense	13,100	10,222	2,878
Employee benefits	34,500	32,174	2,326
Repairs and maintenance	-	5,488	(5,488)
Insurance	13,146	12,217	929
Supplies	20,500	29,546	(9,046)
Pool concessions	5,000	2,937	2,063
Recreational programs	10,000	1,571	8,429
Workmen's compensation insurance	12,650	12,588	62

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Debt service:			
Interest expense	-	936	(936)
Principal retirement	15,500	20,000	(4,500)
Utilities	-	19,212	(19,212)
Capital expenditures	-	30,183	(30,183)
Other expenses	21,900	26,213	(4,313)
Total recreation	<u>276,796</u>	<u>309,569</u>	<u>(32,773)</u>
Streets:			
Salaries and wages	235,000	243,978	(8,978)
Payroll tax expense	19,525	20,569	(1,044)
Employee benefits	75,000	75,680	(680)
Uniforms	4,000	6,531	(2,531)
Gasoline and oil	30,000	26,474	3,526
Insurance	24,600	25,267	(667)
Supplies and parts	10,000	12,071	(2,071)
Workmen's compensation insurance	40,500	40,176	324
Debt service:			
Interest expense	-	1,517	(1,517)
Principal retirement	33,000	39,910	(6,910)
Other expenses	25,500	11,930	13,570
Total streets	<u>497,125</u>	<u>504,103</u>	<u>(6,978)</u>
Sanitation:			
Salaries and wages	197,500	207,315	(9,815)
Payroll tax expense	17,500	18,002	(502)
Employee benefits	81,000	82,010	(1,010)
Gasoline and oil	30,000	19,672	10,328
Truck repairs and maintenance	10,000	12,404	(2,404)
Workmen's compensation insurance	38,000	37,860	140
Hauling and dumping expense	195,000	195,523	(523)
Insurance	32,500	31,653	847
Uniforms	6,000	7,303	(1,303)
Utilities	-	6,013	(6,013)
Garage expenses	4,000	4,917	(917)
Debt service:			
Interest expense	-	7,136	(7,136)
Principal retirement	52,407	50,436	1,971
Other expenses	3,000	3,385	(385)
Total sanitation	<u>666,907</u>	<u>683,629</u>	<u>(16,722)</u>

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Golf Course:			
Salaries and wages	141,000	154,054	(13,054)
Payroll tax expense	13,350	14,090	(740)
Employee benefits	24,500	29,760	(5,260)
Workmen's compensation insurance	10,900	10,824	76
Maintenance and repairs	20,500	33,145	(12,645)
Gasoline and oil	15,000	12,014	2,986
Insurance	13,400	13,714	(314)
Utilities and telephone	22,500	45,773	(23,273)
Capital expenditures	-	22,000	(22,000)
Debt service:			
Interest expense	-	1,597	(1,597)
Principal retirement	22,500	18,776	3,724
Other expenses	106,000	53,287	52,713
Total golf course	<u>389,650</u>	<u>409,034</u>	<u>(19,384)</u>
Entrepreneur Center:			
Office expense	5,000	8,802	(3,802)
Insurance	1,215	1,185	30
Utilities and telephone	55,000	47,134	7,866
Debt service:			
Interest expense	-	27,275	(27,275)
Principal retirement	50,000	23,059	26,941
Other expenses	18,500	13,348	5,152
Total entrepreneur center	<u>129,715</u>	<u>120,803</u>	<u>8,912</u>
Total expenditures	<u>4,707,850</u>	<u>5,024,334</u>	<u>(316,484)</u>
Revenues over (under) expenditures	<u>-</u>	<u>(299,320)</u>	<u>(299,320)</u>
Other Financing Sources/(Uses):			
Operating transfers	-	(27,410)	(27,410)
Proceeds from borrowing	-	22,000	22,000
Total other financing sources (uses)	<u>-</u>	<u>(5,410)</u>	<u>(5,410)</u>
Net change in fund balance	<u>\$ -</u>	<u>(304,730)</u>	<u>\$ (304,730)</u>
Fund balance - beginning as restated		<u>(70,235)</u>	
Fund balance - ending		<u>\$ (374,965)</u>	

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Taxes:			
Restaurant tax	\$ 575,000	\$ 675,793	\$ 100,793
Room occupancy tax	50,000	54,242	4,242
Country Music Museum:			
Gift Shop/Rental/Ticket Sales	-	40,362	40,362
Interest earned on investments	-	5,156	5,156
Miscellaneous revenues	-	39,920	39,920
	<u>625,000</u>	<u>815,473</u>	<u>190,473</u>
Expenditures:			
Salaries and wages	200,000	190,137	9,863
Payroll tax expense	14,500	16,568	(2,068)
Employee benefits	20,000	41,067	(21,067)
Contract labor	-	15,159	(15,159)
Administration	10,500	10,324	176
Travel	6,000	5,238	762
Telephone and utilities	20,000	42,862	(22,862)
Donations	30,000	171,885	(141,885)
Entertainment	-	2,730	(2,730)
Postage	-	1,892	(1,892)
General office expense	20,000	17,206	2,794
Janitorial	-	1,539	(1,539)
Gift shop expense	-	6,460	(6,460)
Advertising and promotional	155,000	146,712	8,288
Membership dues	3,000	3,300	(300)
Van and bus expense	3,000	5,331	(2,331)
Legal and professional expense	23,000	6,310	16,690
Taxes and licenses	-	645	(645)
Maintenance and repairs	5,000	65,013	(60,013)
Mountain Homeplace	50,000	6,041	43,959
Bank charges	-	270	(270)
Insurance	50,000	54,220	(4,220)
Security	-	1,308	(1,308)
Other expense	65,000	35,371	29,629
Capital outlay	-	28,020	(28,020)
	<u>675,000</u>	<u>875,608</u>	<u>(200,608)</u>
Total expenditures			
Revenues over (under) expenditures	<u>(50,000)</u>	<u>(60,135)</u>	<u>(10,135)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2010

Other financing sources (uses):

Operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(50,000)	(60,135)	<u>\$ (10,135)</u>
Fund balance - beginning	<u>350,000</u>	<u>387,022</u>	
Fund balance - ending	<u><u>\$ 300,000</u></u>	<u><u>\$ 326,887</u></u>	

See accompanying notes to basic financial statements.

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2010

	<u>Special Revenue Funds</u>			<u>Total Non-Major Governmental Funds</u>
	<u>Coal and Mineral Tax Severance Fund</u>	<u>Municipal Road Aid Fund</u>	<u>911 Fund</u>	
ASSETS				
Cash and cash equivalents	\$ 21,121	\$ 1,227	\$ 3,727	\$ 26,075
Due from General Fund	30,000	95,000	-	125,000
Total Assets	<u>\$ 51,121</u>	<u>\$ 96,227</u>	<u>\$ 3,727</u>	<u>\$ 151,075</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 27,173	\$ 58,650	\$ 56,379	\$ 142,202
Accrued vacation	-	-	3,527	3,527
Total Liabilities	<u>27,173</u>	<u>58,650</u>	<u>59,906</u>	<u>145,729</u>
Fund Balances:				
Unreserved	<u>23,948</u>	<u>37,577</u>	<u>(56,179)</u>	<u>5,346</u>
Total Fund Balances	<u>23,948</u>	<u>37,577</u>	<u>(56,179)</u>	<u>5,346</u>
Total Liabilities and Fund Balances	<u>\$ 51,121</u>	<u>\$ 96,227</u>	<u>\$ 3,727</u>	<u>\$ 151,075</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Special Revenue Funds</u>			Total Non-Major Governmental Funds
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	
Revenues:				
Intergovernmental revenues	\$ 73,759	\$ 200,683	\$ -	\$ 274,442
Charges for services	-	-	331,257	331,257
Grants	-	-	37,416	37,416
Investment income	6	1	1	8
	<u>73,765</u>	<u>200,684</u>	<u>368,674</u>	<u>643,123</u>
Total revenues				
	<u>73,765</u>	<u>200,684</u>	<u>368,674</u>	<u>643,123</u>
Expenditures:				
Public safety	17,084	-	362,607	379,691
Streets	26,084	174,671	-	200,755
Recreation	12,365	-	-	12,365
Debt service:				
Interest expense	-	-	451	451
Principal retirement	-	-	32,638	32,638
Capital outlay	19,300	21,577	41,573	82,450
	<u>74,833</u>	<u>196,248</u>	<u>437,269</u>	<u>708,350</u>
Total expenditures				
	<u>74,833</u>	<u>196,248</u>	<u>437,269</u>	<u>708,350</u>
Excess (deficiency) of revenues over expenditures	(1,068)	4,436	(68,595)	(65,227)
Other financing sources (uses):				
Operating transfers	-	-	27,410	27,410
	<u>-</u>	<u>-</u>	<u>27,410</u>	<u>27,410</u>
Total other financing sources (uses)				
	<u>-</u>	<u>-</u>	<u>27,410</u>	<u>27,410</u>
Net change in fund balances	(1,068)	4,436	(41,185)	(37,817)
Fund balances - beginning	25,016	33,141	(14,994)	43,163
Fund balances - ending	<u>\$ 23,948</u>	<u>\$ 37,577</u>	<u>\$ (56,179)</u>	<u>\$ 5,346</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF SAVINGS ACCOUNT INVESTMENTS
 FOR THE YEAR ENDED JUNE 30, 2010

	TOTAL INVESTED FUNDS	GENERAL FUND	911 FUND	COAL AND MINERAL SEVERANCE TAX	MUNICIPAL ROAD AID FUND
BALANCE, JUNE 30, 2009	\$ 18,164	\$ 10,779	\$ 1,012	\$ 5,774	\$ 599
RECEIPTS:					
Interest earned	19	11	1	6	1
Other	-	-	-	-	-
Transfers	-	-	-	-	-
	<u>19</u>	<u>11</u>	<u>1</u>	<u>6</u>	<u>1</u>
TOTAL AVAILABLE FUNDS	18,183	10,790	1,013	5,780	600
DISBURSEMENTS:					
Transfers	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
BALANCE, JUNE 30, 2010	<u>\$ 18,183</u>	<u>\$ 10,790</u>	<u>\$ 1,013</u>	<u>\$ 5,780</u>	<u>\$ 600</u>

**CITY OF PAINTSVILLE, KENTUCKY
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2010**

CITY COUNCIL

NAME

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

ADMINISTRATIVE PERSONNEL

NAME

Bob Porter
Virgie Castle
Jackie Miller
Jeffrey M. Baldwin

Mayor
City Clerk
City Treasurer
City Attorney

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF INSURANCE
 JUNE 30, 2010

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount of Coverage</u>	<u>Policy Expiration</u>
KLC Insurance Agency	Commercial Property Coverage	\$11,415,487	7/1/11
KLC Insurance Agency	Workers Compensation	4,000,000	7/1/11
KLC Insurance Agency	Automobile Property and Liability	1,000,000	7/1/11
KLC Insurance Agency	Public Officials Liability	1,000,000	7/1/11
KLC Insurance Agency	Law Enforcement Liability	1,000,000	7/1/11
KLC Insurance Agency	General Liability	1,000,000	7/1/11
The Hartford	Flood Damage		
	Community Center	171,400	1/19/11
	City Hall	300,000	12/5/10
Wells Insurance	Surety Bonds		
	City Clerk, Treasurer, and Finance Officer	25,000	4/14/11
	Deputy Administration of Alcohol Sales		7/15/11
Elite Insurance	Surety Bonds		
	Assistant Clerk	25,000	7/10/10
	Mayor	10,000	1/01/11

MANAGEMENT LETTER



WELLS & COMPANY, P.S.C.

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

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

January 11, 2011

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

In planning and performing our audit of the financial statements of the City of Paintsville, Kentucky ("City") for the year ended June 30, 2010, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the City's internal control in our report dated January 11, 2011. This letter does not affect our report dated January 11, 2011, on the financial statements of the City of Paintsville, Kentucky.

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

Purchases

The City had numerous invoices that were not paid in a timely manner. KRS 65.140 states that all bills for goods and services shall be paid within thirty days of receipt of a vendor's invoice. The City needs to keep working on improving its cash flow in order to get bills paid in a timely manner. Of the \$486,119 of total accounts payable at June 30, 2010 for the General Fund, 911 Fund, Road Aid Fund, and Coal & Mineral Fund, \$283,037 or 58% was over thirty days old.

Fund Balance

The audited financial statements of the City show fund deficits of \$374,965 in the General Fund and \$56,179 in the 911 Fund. The City's General Fund had a decrease in fund balance of \$304,730 for fiscal year ended June 30, 2010. The ambulance service accounted for \$224,447 of the decrease with revenues of \$561,825 and expenses of \$786,272. There should not be fund deficits. Cities must pass a balanced budget where appropriations do not exceed revenues plus any prior year fund surpluses. The City should adhere to the balanced budget ordinance adopted by the City Council and amend the budget when it becomes apparent that there will be a revenue shortfall. The City needs to come up with a workable plan that will eliminate the fund deficits in both the General Fund and 911 Fund.

Bank Reconciliations of Country Club Account

It is recommended, in order to improve the reconciliation of the Country Club bank account, that the personnel at the Country Club provide a daily credit card report that shows the credit card sales and the breakdown of the revenue of the daily credit card sales to the treasurer's office. This will enable the person reconciling the account to more easily match up the credit card deposits to the bank statement.

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

This report is intended solely for the information and use of the City Council, Mayor, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
January 11, 2011