

CITY OF PAINTSVILLE, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paintsville, Kentucky, as of and for the year ended June 30, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 December 28, 2012, 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

December 28, 2012

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 40 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 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

December 28, 2012

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 366,387	\$ 7,552,177	\$ 7,918,564
Certificate of deposit	-	645,739	645,739
Taxes receivable	65,286	-	65,286
Accounts receivable	92,243	705,279	797,522
Grants receivable	8,947	-	8,947
Other receivable	13,574	-	13,574
Due from Paintsville Utilities	62,977	-	62,977
Unbilled revenues	-	292,783	292,783
Inventory	-	109,117	109,117
Prepaid and other assets	20,186	88,414	108,600
Capital assets:			
Land and construction-in-progress	664,448	31,856,877	32,521,325
Other capital assets, net of accumulated depreciation	6,251,345	42,033,669	48,285,014
Total Assets	7,545,393	83,284,055	90,829,448
LIABILITIES			
Accounts payable	294,370	2,040,249	2,334,619
Accrued payroll taxes	14,869	7,523	22,392
Accrued vacation	56,562	43,751	100,313
Other accrued liabilities	43,861	272,055	315,916
Customer meter deposits payable	-	919,315	919,315
Interest payable on customer meter deposits	-	315,201	315,201
Long-term liabilities:			
Due within one year	1,629,981	568,813	2,198,794
Due in more than one year	-	26,060,871	26,060,871
Total Liabilities	2,039,643	30,227,778	32,267,421
NET ASSETS			
Invested in capital assets, net of related debt	6,538,337	47,260,862	53,799,199
Restricted for:			
Public safety	4,565	-	4,565
Streets	49,565	-	49,565
Tourism	166,647	-	166,647
Debt service	43,464	3,178,313	3,221,777
Equipment replacement	-	1,558,840	1,558,840
Other purposes	22,725	-	22,725
Unrestricted (deficit)	(1,319,553)	1,058,262	(261,291)
Total Net Assets	\$ 5,505,750	\$ 53,056,277	\$ 58,562,027

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

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	\$ 1,038,569	\$ 28,625	\$ 750	\$ 11,492	\$ (997,702)	\$ -	\$ (997,702)
Public safety	2,977,374	1,767,121	76,535	87,334	(1,046,384)	-	(1,046,384)
Recreation	761,933	256,329	-	-	(505,604)	-	(505,604)
Streets	570,812	-	-	-	(570,812)	-	(570,812)
Sanitation	663,782	742,035	-	-	78,253	-	78,253
Tourism	1,015,116	50,466	-	-	(964,650)	-	(964,650)
Interest on long-term debt	54,379	-	-	-	(54,379)	-	(54,379)
Total governmental activities	<u>7,081,965</u>	<u>2,844,576</u>	<u>77,285</u>	<u>98,826</u>	<u>(4,061,278)</u>	<u>-</u>	<u>(4,061,278)</u>
Business-type activities:							
Water, gas, and sewer	7,202,649	7,945,535	-	4,362,382	-	5,105,268	5,105,268
Total business-type activities	<u>7,202,649</u>	<u>7,945,535</u>	<u>-</u>	<u>4,362,382</u>	<u>-</u>	<u>5,105,268</u>	<u>5,105,268</u>
Total primary government	\$ 14,284,614	\$ 10,790,111	\$ 77,285	\$ 4,461,208	(4,061,278)	5,105,268	1,043,990
General revenues:							
Property taxes					535,555	-	535,555
Occupational taxes					1,316,009	-	1,316,009
Insurance premium taxes					451,400	-	451,400
Motor vehicle taxes					21,570	-	21,570
Restaurant taxes					668,876	-	668,876
Room occupancy taxes					79,786	-	79,786
Franchise fees and taxes					65,789	-	65,789
Payments in lieu of taxes					31,068	-	31,068
ABC fees					165,044	-	165,044
Licenses and permits					10,813	-	10,813
Intergovernmental revenue					417,810	-	417,810
Interest income					474	25,238	25,712
Gain/(Loss) on sale of capital assets					1,576	1,205	2,781
Donation/contributions					121,030	-	121,030
Miscellaneous					64,867	-	64,867
Total general revenues and transfers					<u>3,951,667</u>	<u>26,443</u>	<u>3,978,110</u>
Change in net assets					(109,611)	5,131,711	5,022,100
Net assets - beginning					5,615,361	47,924,566	53,539,927
Net assets - ending					\$ 5,505,750	\$ 53,056,277	\$ 58,562,027

CITY OF PAINTSVILLE, KENTUCKY
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2012

	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 132,233	\$ 179,530	\$ 54,624	\$ 366,387
Receivables:				
Property taxes	4,332	-	-	4,332
Accounts	92,243	-	-	92,243
Grants	8,947	-	-	8,947
Other	13,574	-	-	13,574
Due from Paintsville Utilities	62,977	-	-	62,977
Due from 911 Fund	134,607	-	-	134,607
Due from General Fund	-	-	59,000	59,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 448,913</u>	<u>\$ 179,530</u>	<u>\$ 113,624</u>	<u>\$ 742,067</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 253,561	\$ 9,159	\$ 31,650	\$ 294,370
Accrued payroll taxes	14,869	-	-	14,869
Accrued vacation	48,573	3,724	4,265	56,562
Other accrued liabilities	43,861	-	-	43,861
Due to General Fund	-	-	134,607	134,607
Due to Road Aid	59,000	-	-	59,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>419,864</u>	<u>12,883</u>	<u>170,522</u>	<u>603,269</u>
Fund Balances:				
Restricted for:				
Public Safety	4,565	-	-	4,565
Streets	-	-	49,565	49,565
Tourism	-	166,647	-	166,647
Debt Service	43,464	-	-	43,464
Other	-	-	22,725	22,725
Unassigned	(18,980)	-	(129,188)	(148,168)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>29,049</u>	<u>166,647</u>	<u>(56,898)</u>	<u>138,798</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 448,913</u>	<u>\$ 179,530</u>	<u>\$ 113,624</u>	<u>\$ 742,067</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, 2012

Fund Balances - Total Governmental Funds \$ 138,798

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	13,118,606
Less: accumulated depreciation	(6,202,813)

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

Bond payable	(1,275,000)
Bond discount	22,475
Loans payable	(204,285)
Leases payable	(173,171)

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

Bond issue costs	20,186
Delinquent property taxes	60,954
	<hr/>

Net Assets of Governmental Activities \$ 5,505,750

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 542,441	\$ -	\$ -	\$ 542,441
Occupational	1,316,009	-	-	1,316,009
Insurance premium	451,400	-	-	451,400
Motor vehicle	21,570	-	-	21,570
Franchise	27,942	-	-	27,942
Restaurant	-	668,876	-	668,876
Room occupancy	-	79,786	-	79,786
Payments in lieu of taxes	31,068	-	-	31,068
ABC fees	165,044	-	-	165,044
Franchise fees	37,847	-	-	37,847
Licenses and permits	10,813	-	-	10,813
Intergovernmental revenues	257,618	-	160,192	417,810
Grants	176,111	-	-	176,111
Charges for services	2,473,549	50,466	320,561	2,844,576
Interest income	2	467	5	474
Contributions	121,030	-	-	121,030
Miscellaneous revenues	17,109	47,758	-	64,867
Total revenues	5,649,553	847,353	480,758	6,977,664
Expenditures:				
Current:				
General government	977,987	-	-	977,987
Public safety	2,415,383	-	367,218	2,782,601
Recreation	686,477	-	13,184	699,661
Streets	443,759	-	56,084	499,843
Sanitation	632,560	-	-	632,560
Tourism	-	883,200	-	883,200
Debt service:				
Principal	133,586	-	-	133,586
Interest	54,379	-	-	54,379
Capital outlay	244,174	112,228	104,638	461,040
Total expenditures	5,588,305	995,428	541,124	7,124,857
Excess (deficiency) of revenues over expenditures	61,248	(148,075)	(60,366)	(147,193)
Other financing sources (uses):				
Proceeds from sale of capital assets	1,576	-	-	1,576
Transfers in	52,000	-	-	52,000
Transfers out	-	-	(52,000)	(52,000)
Proceeds from borrowing	129,412	-	-	129,412
Total other financing sources (uses)	182,988	-	(52,000)	130,988
Net change in fund balances	244,236	(148,075)	(112,366)	(16,205)
Fund balances - beginning	(215,187)	314,722	55,468	155,003
Fund balances - ending	\$ 29,049	\$ 166,647	\$ (56,898)	\$ 138,798

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, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (16,205)

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	461,040
Depreciation expense	(550,073)

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

Increase/(decrease) in property taxes	(6,886)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Principal paid	133,586
Loan proceeds	(35,422)
Capital lease transactions	(93,990)
Amortization of bond discount	(587)
Amortization of bond issue costs	(1,074)
	<hr/>

Change in Net Assets of Governmental Activities \$ (109,611)

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,226,247
Accounts receivable, no allowance considered necessary	705,279
Unbilled revenues	292,783
Inventory	109,117
Prepaid expenses	15,824

Total current assets	3,349,250
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Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	296,658
Debt service reserve fund	185,096
Depreciation reserve fund	1,558,840
Operations and maintenance fund	3,285,336
Certificate of deposit - debt service reserve fund	645,739

Total restricted assets	5,971,669
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Utility Plant:

Plant in service	63,373,243
Less accumulated depreciation	(20,817,985)
	42,555,258
Construction work in progress	31,335,288

Net utility plant	73,890,546
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Other non-current assets:

Bond issuance costs, net	72,590
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Total other non-current assets	72,590
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Total assets	\$ 83,284,055
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CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET ASSETS (Continued)
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2012

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 1,109,790
Retainage payable	930,459
Compensated absences	43,751
Accrued interest payable	117,188
Other accrued liabilities	162,390
Current portion of long-term liabilities	238,513
Current portion of capital lease obligations	40,000

Total current liabilities 2,642,091

Payable from restricted assets:

Current portion of bonds	290,300
Customer meter deposits	919,315
Interest payable on customer meter deposits	315,201

Total liabilities payable from restricted assets 1,524,816

Long-term liabilities:

Advances for construction	3,540,225
Bonds payable, net of discount	16,621,964
Notes payable	6,057,495
Capital lease obligations	410,000

Less current portion 26,629,684
(568,813)

Total long-term liabilities 26,060,871

Total liabilities 30,227,778

Net assets:

Investments in capital assets, net of related debt	47,260,862
Restricted for debt service and equipment replacement	4,737,153
Unrestricted	1,058,262

Total net assets 53,056,277

Total liabilities and net assets \$ 83,284,055

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 FOR THE YEAR ENDED JUNE 30, 2012

Operating revenues:	
Gas revenues	\$ 2,074,180
Water revenues	3,417,353
Wastewater revenues	2,237,790
Other operating revenues	<u>216,212</u>
Total operating revenues	7,945,535
Cost of sales	<u>1,145,648</u>
Net operating revenues	<u>6,799,887</u>
Operating expenses:	
Salaries and wages	1,320,531
Payroll taxes	98,822
Employee pension and benefits	687,737
Materials and supplies	475,531
Legal and professional	124,588
Miscellaneous general expense	305,834
Utilities	1,051,120
Insurance	119,403
Motor vehicle expenses	99,326
Contract labor	21,530
Amortization of debt issuance costs	5,563
Depreciation	<u>1,360,573</u>
Total operating expenses	<u>5,670,558</u>
Utility operating income (loss)	<u>1,129,329</u>
Non-operating revenues (expenses):	
Interest income	25,238
Gain on sale of equipment	1,205
Interest expense	<u>(265,413)</u>
Total non-operating revenues (expenses)	<u>(238,970)</u>
Net income (loss) before contributions from (to)	890,359
Contributions in aid of construction	4,362,382
Contribution to the City of Paintsville	<u>(121,030)</u>
Change in net assets	5,131,711
Net assets, beginning of year	<u>47,924,566</u>
Net assets, end of year	<u><u>\$ 53,056,277</u></u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 FOR THE YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:

Cash inflows:

Payments received from customers \$ 7,810,810

Total cash provided 7,810,810

Cash outflows:

Payments for salaries and benefits 2,095,185

Payments to suppliers for goods and services 3,248,660

Total cash used 5,343,845

Net cash provided (used) by operating activities 2,466,965

Cash flows from noncapital financing activities:

Interest paid on customer deposits (2,810)

Net cash provided (used) by noncapital financing activities (2,810)

Cash flows from capital and related financing activities:

Purchase and construction of utility plant (21,701,061)

Proceeds from loans and bonds 29,309,294

Principal payments on long-term debt (13,847,915)

Payments on capital leases (40,000)

Interest paid on long-term debt and capital leases (net of interest capitalized) (147,480)

Proceeds from sale of capital assets 1,205

Contributions-in-aid of construction 4,572,012

Net cash provided (used) by capital and related financing activities (1,853,945)

Cash flows from investing activities:

Interest received 9,548

Net cash provided (used) by investing activities 9,548

Net cash inflow (outflow) from all activities

619,758

Cash and cash equivalents at beginning of period

6,932,419

Cash and cash equivalents at end of period

\$ 7,552,177

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
 FOR THE YEAR ENDED JUNE 30, 2012

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

Utility operating income	\$ 1,129,329
Depreciation and amortization	1,366,136
Contribution of utility services	(121,030)
(Increase) decrease in:	
Accounts receivable	(59,870)
Unbilled revenue	46,175
Inventory	14,326
Prepaid expenses and other assets	100,351
Increase (decrease) in:	
Accounts payable	(62,536)
Accrued liabilities and other liabilities	54,084

Net cash provided (used) by operating activities

\$ 2,466,965

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 2,316,178
Restricted cash and cash equivalents	4,616,241

\$ 6,932,419

End of period:

Unrestricted cash and cash equivalents	\$ 2,226,247
Restricted cash and cash equivalents	5,325,930

\$ 7,552,177

Supplemental disclosure of noncash capital and related financing activities:

The utilities had accounts payable for capital expenditures of \$1,857,459 at June 30, 2012.

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 Mayor. Financial information for the Commission is reported as part of the primary government as a component unit under the blending method.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Governmental Funds

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

a. General Fund

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

b. Special Revenue Fund

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. PROPRIETARY FUNDS

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net assets and cash flows. Operating revenues include charges for services. Operating expenses include costs of services as well as, materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. The City 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	3-40 years
Equipment	3-20 years

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

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

H. Compensated Absences

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Estimates

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

J. Restricted Assets

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

K. Prepaid Items

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

L. Net 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. Retirement Plan

Substantially all City full-time regular employees participate in the Statewide Kentucky Retirement Systems ("System"), a multiple-employer public employee retirement system. Kentucky Retirement Systems is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the City but are the liability of the State of Kentucky.

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

Covered employees are required by State statute to contribute 5 percent, or 6 percent for employees hired after August 31, 2008, of creditable compensation to the System. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service cost per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennial. The City contributed at 18.96% percent for all covered employees. The contribution requirement for the year ended June 30, 2012 was \$481,274, which consisted of \$376,630 from the City and \$104,644 from employees.

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

P. Fund Equity

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

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

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

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

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

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

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

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

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

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

Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2012 are as follows:

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$8,779,258</u>	<u>\$1,082,009</u>	<u>\$7,697,249</u>	<u>\$ 0</u>	<u>\$8,564,303</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, 2012, consisted of the following:

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 4. CAPITAL ASSETS (Continued)

Primary Government

Governmental Activities	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 664,448	\$ -	\$ -	\$ 664,448
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>664,448</u>	<u>-</u>	<u>-</u>	<u>664,448</u>
Capital assets, being depreciated:				
Buildings and improvements	5,861,061	6,528	-	5,867,589
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,266,783	157,749	41,964	2,382,568
Infrastructure	170,931	78,303	-	249,234
Machinery and equipment	<u>2,885,741</u>	<u>218,460</u>	<u>-</u>	<u>3,104,201</u>
Total capital assets being depreciated	12,035,082	461,040	41,964	12,454,158
Less accumulated depreciation for:				
Buildings and improvements	(1,716,223)	(144,018)	-	(1,860,241)
Improvements other than buildings	(609,397)	(35,555)	-	(644,952)
Automobiles and trucks	(1,585,438)	(126,970)	(41,964)	(1,670,444)
Infrastructure	(92,961)	(21,008)	-	(113,969)
Machinery and equipment	<u>(1,690,685)</u>	<u>(222,522)</u>	<u>-</u>	<u>(1,913,207)</u>
Total accumulated depreciation	<u>(5,694,704)</u>	<u>(550,073)</u>	<u>(41,964)</u>	<u>(6,202,813)</u>
Total capital assets being depreciated, net	<u>6,340,378</u>	<u>(89,033)</u>	<u>-</u>	<u>6,251,345</u>
Governmental activities capital assets, net	<u>\$ 7,004,826</u>	<u>\$ (89,033)</u>	<u>\$ -</u>	<u>\$ 6,915,793</u>
Depreciation was charged to governmental activities as follows:				
General government				\$ 58,921
Public safety				194,773
Recreation				62,272
Streets				70,969
Sanitation				31,222
Tourism				<u>131,916</u>
Total				<u>\$ 550,073</u>
Business-Type Activities				
	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 521,589	\$ -	\$ -	\$ 521,589
Construction in progress	<u>13,825,397</u>	<u>21,696,872</u>	<u>4,186,981</u>	<u>31,335,288</u>
Total capital assets, not being depreciated	<u>14,346,986</u>	<u>21,696,872</u>	<u>4,186,981</u>	<u>31,856,877</u>

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 4. CAPITAL ASSETS (Continued)

Capital assets, being depreciated:				
Buildings and improvements	633,933	-	-	633,933
Utility plants	56,789,298	4,452,210	-	61,241,508
Automobiles and trucks	716,999	52,489	16,639	752,849
Machinery and equipment	<u>214,743</u>	<u>8,621</u>	<u>-</u>	<u>223,364</u>
Total capital assets being depreciated	58,354,973	4,513,320	16,639	62,851,654
Less accumulated depreciation for:				
Buildings and improvements	(191,564)	(12,604)	-	(204,168)
Utility plants	(18,579,420)	(1,273,174)	-	(19,852,594)
Automobiles and trucks	(541,730)	(57,200)	(16,639)	(582,291)
Machinery and equipment	<u>(161,337)</u>	<u>(17,595)</u>	<u>-</u>	<u>(178,932)</u>
Total accumulated depreciation	(19,474,051)	(1,360,573)	(16,639)	(20,817,985)
Total capital assets being depreciated, net	<u>38,880,922</u>	<u>3,152,747</u>	<u>-</u>	<u>42,033,669</u>
Total utilities capital assets, net	<u>\$53,227,908</u>	<u>\$24,849,619</u>	<u>\$ 4,186,981</u>	<u>\$ 73,890,546</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 1,360,573</u>
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NOTE 5. RISK MANAGEMENT

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

NOTE 6. CAPITAL LEASES

The City has entered into various lease agreements for financing capital assets. The lease agreements qualify as capital leases for accounting purposes, therefore 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, 2012, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2013	\$ 88,579	\$ 50,253
2014	66,296	49,232
2015	25,204	48,192

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 6. CAPITAL LEASES (Continued)

2016	-	57,132
2017	-	65,647
2018-2020	-	<u>187,615</u>
Total minimum lease payments	180,079	458,071
Less amount representing interest	<u>(6,908)</u>	<u>(48,071)</u>
Present value of net minimum lease payments	<u>\$ 173,171</u>	<u>\$ 410,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2012:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Building	\$ 283,063	\$ -
Equipment	235,990	1,070,990
Less accumulated depreciation	<u>(112,351)</u>	<u>(537,280)</u>
	<u>\$ 406,702</u>	<u>\$ 533,710</u>

	Amount Outstanding 6/30/2011	Additions	Deductions	Amount Outstanding 6/30/2012	Amounts Due Within One Year
Governmental activities leases	\$ 158,037	\$ 93,990	\$ (78,856)	\$ 173,171	\$ 83,790
Business-type activities leases	\$ 450,000	\$ -	\$ (40,000)	\$ 410,000	\$ 40,000

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2012 consists of the following:

Governmental Activities

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

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

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

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 7. LONG-TERM DEBT (Continued)

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

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

Bonds:	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>
City of Paintsville, Kentucky Revenue Bonds, Series 2011 Issue. Principal due in February of each year, interest payable semi-annually in February and August of each year.	\$ 1,275,000	Variable	01/2031

Less:

Unamortized discount	<u>22,475</u>
	<u>\$1,252,525</u>

	<u>Amount</u> <u>Outstanding</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount</u> <u>Outstanding</u> <u>6/30/2012</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Revenue Bond – Series 2011	\$ 1,290,556	\$ -	\$ (15,556)	\$ 1,275,000	\$ 45,000
Sipp Theatre loan payable	135,000	-	(15,000)	120,000	15,000
Ambulance loan payable	73,037	-	(19,351)	53,686	18,429
Ambulance loan payable	-	15,211	(2,750)	12,461	4,936
Ambulance loan payable	-	20,211	(2,073)	18,138	6,469
Long-Term Debt	<u>\$ 1,498,593</u>	<u>\$ 35,422</u>	<u>\$ (54,730)</u>	<u>\$ 1,479,285</u>	<u>\$ 89,834</u>

Principal and interest payments to be made on all long-term debt at June 30, 2012, for each of the next five years and thereafter are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u> <u>Principal</u>	<u>Total</u> <u>Interest</u>	<u>Total</u>
2013	\$ 45,000	\$ 44,834	\$ 89,834	\$ 62,965	\$ 152,799
2014	50,000	46,098	96,098	60,144	156,242
2015	50,000	38,353	88,353	56,801	145,154
2016	50,000	15,000	65,000	54,325	119,325
2017	50,000	15,000	65,000	52,225	117,225
2018-2022	295,000	45,000	340,000	224,825	564,825
2023-2027	365,000	-	365,000	153,269	518,269
2028-2031	370,000	-	370,000	51,125	421,125
	<u>\$ 1,275,000</u>	<u>\$ 204,285</u>	<u>\$ 1,479,285</u>	<u>\$ 715,679</u>	<u>\$ 2,194,964</u>

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 7. LONG-TERM DEBT (Continued)

Business-Type Activities

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville Combined Utility Revenue Bonds, Series 2011 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	\$13,500,000	2.00%	01/2051
City of Paintsville Combined Utility Revenue Bond, Series 1978 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	285,000	5.00%	02/2026
City of Paintsville Public Projects Revenue Bond, Series 2011 (B) Issue. Principal installments due in February of each year, interest payable semi-annually in February and August of each year.	\$ 1,895,000	2.65%	02/2026
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	365,300	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	294,500	4.50%	07/2038
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>238,000</u> 16,577,800	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.	8,435	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.	2,766	7.00%	07/2013
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,256,579	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.	53,416	3.00%	06/2012
Note Payable to U. S. Department of the Army, due in annual Installments of principal and interest. (Paintsville Lake Water storage space)	4,426,233	4.125%	05/2039

CITY OF PAINTSVILLE, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE 7. LONG-TERM DEBT (Continued)

Notes (Continued)

Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year.

<u>310,066</u>	1.00%	06/2026
<u>6,057,495</u>		
22,635,295		

Add:

Unamortized premium

<u>44,164</u>

\$22,679,459

The Utility Refunding Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 2.53 at June 30, 2012.

	Amount Outstanding <u>6/30/2011</u>	<u>Additions</u>	<u>Deductions</u>	Amount Outstanding <u>6/30/2012</u>	Amounts Due Within <u>One Year</u>
Combined Utility Refunding Bond – 1978 Issue	\$ 325,000	\$ -	\$ (40,000)	\$ 285,000	\$ 42,000
Combined Utility Refunding Bonds – Series 2011	-	13,500,000	-	13,500,000	-
Public Projects Revenue Bond – 2011 Issue (B)	2,045,000	-	(150,000)	1,895,000	230,000
Water Revenue Bond – Series 1994	373,700	-	(8,400)	365,300	8,800
Water Revenue Bond – Series 1998	300,500	-	(6,000)	294,500	6,000
Water Revenue Bond – Series 2006	241,000	-	(3,000)	238,000	3,500
Department of the Army Note Payable	-	4,774,940	(348,707)	4,426,233	97,759
EDA Loans Payable	23,315	-	(12,114)	11,201	11,201
KIA Loan Payable	1,311,263	-	(54,684)	1,256,579	55,397
KIA Loan Payable (water treatment plant)	157,891	-	(104,475)	53,416	53,416
KIA Loan Payable (wastewater treatment plant)	<u>330,601</u>	<u>-</u>	<u>(20,535)</u>	<u>310,066</u>	<u>20,740</u>
Long-Term Debt	<u>\$5,108,270</u>	<u>\$18,274,940</u>	<u>\$ (747,915)</u>	<u>\$22,635,295</u>	<u>\$528,813</u>

Principal and interest payments to be made on all long-term debt at June 30, 2012, 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>
2013	\$ 290,300	\$ 238,513	\$ 528,813	\$ 591,419	\$ 1,120,232
2014	504,300	178,860	683,160	573,940	1,257,100
2015	522,200	184,001	706,201	555,136	1,261,337
2016	542,700	189,326	732,026	535,011	1,267,037

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7. LONG-TERM DEBT (Continued)

2017	556,700	194,843	751,543	513,454	1,264,997
2018-2022	1,987,200	1,064,263	3,051,463	2,251,345	5,302,808
2023-2027	1,621,900	1,211,930	2,833,830	1,866,420	4,700,250
2028-2032	1,789,900	1,318,660	3,108,560	1,464,030	4,572,590
2033-2037	2,017,600	1,191,374	3,208,974	1,013,766	4,222,740
2038-2042	2,154,500	285,725	2,440,225	589,529	3,029,754
2043-2047	2,434,000	-	2,434,000	342,437	2,776,437
2048-2051	2,156,500	-	2,156,500	87,695	2,224,195
	<u>\$16,577,800</u>	<u>\$ 6,057,495</u>	<u>\$22,635,295</u>	<u>\$10,384,182</u>	<u>\$33,019,477</u>

Advances for Construction

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

The future loan to the Commission is \$6,519,566 of which \$3,003,888 was received through June 30, 2012. 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.

The future loan to the Commission is \$550,850 of which \$536,337 was received through June 30, 2012. 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.

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10. SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through December 28, 2012, the date the financial statements were available to be issued.

CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through program from USDA Rural Development Water and Waste Disposal Systems for Rural Communities	10.760	20-058-616000521	\$ 1,816,362
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Pass-through program from Kentucky Dept of Natural Resources Division of Abandoned Mine Lands Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-0800004839	25,752
Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-0900023503	2,500,000
			<u>2,525,752</u>
Total U.S. Department of the Interior			<u>2,525,752</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct programs: ARRA - Rural Law Enforcement Assistance: Combating Rural Crime	16.810	2009-SD-B9-0044	39,254
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-through program from Kentucky Transportation Cabinet State and Community Highway Safety	20.600	AL-12-30	1,619
<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	2,945,687
ARRA - Capitalization Grants For Clean Water State Revolving Funds	66.458	A2 09-34	75,106
Total - Capitalization Grants For Clean Water State Revolving Funds	66.458		<u>3,020,793</u>
Total U.S. Environmental Protection Agency			<u>3,020,793</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct programs: Assistance to Firefighters Grant	97.044	EMW-2010-F0-04696	31,915
Pass-through program from Kentucky Office of Homeland Security Homeland Security Grant Program	97.067	P02-094-1100002167	37,000
Pass-through program from Kentucky Dept of Military Affairs, Division of Emergency Management Disaster Grants - Public Assistance	97.036	DR-4057-KY	22,530
Pass-through program from Johnson County Fiscal Court Emergency Management Performance Grants	97.042	EMPG-3	19,532
Total U.S. Department of Homeland Security			<u>110,977</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,514,757</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, 2012**

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 accrual 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, 2012, which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated December 28, 2012, 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

Management of the City of Paintsville, Kentucky is responsible for establishing and maintaining effective 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 2012-1 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 2012-2 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 December 28, 2012.

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
December 28, 2012



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, 2012. 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, 2012.

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 on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Paintsville, Kentucky's internal control over compliance.

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

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.

Halls & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
December 28, 2012

**CITY OF PAINTSVILLE, KENTUCKY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2012**

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
Water and Waste Disposal Systems for Rural Communities	10.760

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

Auditee qualified as low-risk auditee? yes no

FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2012 - 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

2012 - 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, 2012**

There were no findings and recommendations for the year ended June 30, 2011.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 474,000	\$ 474,000	\$ 542,441	\$ 68,441
Payments in lieu of taxes	-	-	31,068	31,068
Franchise fees and taxes	138,350	138,350	65,789	(72,561)
Police court revenue	10,000	10,000	15,731	5,731
Police services	15,000	15,000	13,483	(1,517)
Building permits	5,000	5,000	9,848	4,848
Licenses	1,000	1,000	965	(35)
Interest	-	-	2	2
ABC fees	145,000	145,000	165,044	20,044
Garbage collection fees	760,000	760,000	742,035	(17,965)
Taxes on insurance premiums	500,000	500,000	451,400	(48,600)
Occupational taxes	1,325,000	1,325,000	1,316,009	(8,991)
Motor vehicle tax	24,000	24,000	21,570	(2,430)
Ambulance receipts	1,266,000	1,266,000	1,433,077	167,077
Firefighter and police incentive pay	99,200	99,200	106,308	7,108
Rental/Lease revenue	25,000	25,000	32,332	7,332
City pool and concession revenue	26,000	26,000	21,998	(4,002)
Country Club revenue	276,720	276,720	216,899	(59,821)
Advertising	30,000	30,000	13,725	(16,275)
Miscellaneous intergovernmental revenue	170,000	170,000	135,579	(34,421)
Grants	63,500	63,500	176,111	112,611
Contributions	-	-	121,030	121,030
Other receipts	16,050	16,050	17,109	1,059
	<u>5,369,820</u>	<u>5,369,820</u>	<u>5,649,553</u>	<u>279,733</u>
Total revenues				
Expenditures:				
General government:				
Administrative salaries	295,000	295,000	311,527	(16,527)
Payroll tax expense	29,300	29,300	32,195	(2,895)
Employee benefits	105,000	105,000	116,802	(11,802)
City attorney's fees	30,000	30,000	27,845	2,155
Mayor's expense	6,000	6,000	6,630	(630)
Postage	5,000	5,000	5,244	(244)
Advertising	5,000	5,000	12,849	(7,849)
Office supplies and printing	12,000	12,000	12,813	(813)
Telephone	13,000	13,000	11,830	1,170
Workmen's compensation insurance	2,575	2,575	16,717	(14,142)
Audit and accounting fees	14,000	14,000	3,400	10,600
Insurance and bonding	12,200	12,200	15,103	(2,903)
Utilities	175,000	175,000	213,835	(38,835)
Preparation of property tax bills	13,500	13,500	13,615	(115)

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Senior Citizens	50,000	50,000	54,437	(4,437)
Big Sandy ADD dues	1,500	1,500	1,500	-
Equipment lease expense	10,000	10,000	7,371	2,629
Main Street Program	12,000	12,000	12,413	(413)
Capital expenditures	5,000	5,000	5,646	(646)
Debt service:				
Interest expense	-	-	41,470	(41,470)
Principal retirement	107,000	107,000	30,555	76,445
Other general expenses	56,900	56,900	99,181	(42,281)
Building inspector expense	3,000	3,000	2,680	320
Total general government	<u>962,975</u>	<u>962,975</u>	<u>1,055,658</u>	<u>(92,683)</u>
Police:				
Salaries and wages	343,400	343,400	329,763	13,637
Payroll tax expense	31,000	31,000	23,688	7,312
Employee benefits	154,000	154,000	139,179	14,821
Gasoline and oil	43,500	43,500	38,099	5,401
Vehicle repairs and maintenance	10,000	10,000	14,740	(4,740)
Workmen's compensation insurance	20,250	20,250	20,172	78
Insurance and bonding	53,025	53,025	53,028	(3)
Utilities	-	-	9,187	(9,187)
Training	-	-	3,808	(3,808)
Telephone	10,000	10,000	13,444	(3,444)
Uniforms and uniforms cleaning	10,000	10,000	3,990	6,010
Capital expenditures	-	-	44,204	(44,204)
Other expenditures	37,200	37,200	41,967	(4,767)
Total police	<u>712,375</u>	<u>712,375</u>	<u>735,269</u>	<u>(22,894)</u>
Fire:				
Salaries and wages	258,800	258,800	274,010	(15,210)
Payroll tax expense	23,525	23,525	19,708	3,817
Employee benefits	94,000	94,000	109,904	(15,904)
Gasoline and oil	8,000	8,000	8,992	(992)
Repairs and maintenance	10,000	10,000	7,338	2,662
Insurance	19,175	19,175	19,176	(1)
Telephone	10,000	10,000	15,260	(5,260)
Utilities	-	-	13,654	(13,654)
Uniforms and uniforms cleaning	8,000	8,000	6,104	1,896
Training	750	750	1,302	(552)
Training center expenses	5,000	5,000	6,746	(1,746)
Workmen's compensation insurance	14,800	14,800	14,712	88

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Capital expenditures	18,865	18,865	48,334	(29,469)
Other expenses	11,780	11,780	21,721	(9,941)
Debt service:				
Interest expense	-	-	534	(534)
Principal retirement	14,000	14,000	13,156	844
Total fire	<u>496,695</u>	<u>496,695</u>	<u>580,651</u>	<u>(83,956)</u>
Ambulance:				
Salaries and wages	549,000	549,000	674,396	(125,396)
Payroll tax expense	49,500	49,500	53,521	(4,021)
Employee benefits	115,000	115,000	153,925	(38,925)
Medical supplies	40,000	40,000	43,064	(3,064)
Vehicle repairs and maintenance	42,000	42,000	45,217	(3,217)
Gasoline and oil	72,000	72,000	82,227	(10,227)
Uniforms	5,000	5,000	7,942	(2,942)
Telephone	1,500	1,500	4,388	(2,888)
Training	1,500	1,500	1,449	51
Insurance/bonding	28,000	28,000	25,807	2,193
Billing service	63,300	63,300	61,605	1,695
Debt service:				
Interest expense	-	-	3,497	(3,497)
Principal retirement	33,800	33,800	37,330	(3,530)
Workmen's compensation insurance	35,000	35,000	34,284	716
Capital expenditures	80,000	80,000	52,000	28,000
Other expenses	5,500	5,500	17,866	(12,366)
Total ambulance	<u>1,121,100</u>	<u>1,121,100</u>	<u>1,298,518</u>	<u>(177,418)</u>
Recreation:				
Recreation salaries	187,450	187,450	160,304	27,146
Payroll tax expense	20,400	20,400	14,352	6,048
Employee benefits	47,000	47,000	54,493	(7,493)
Insurance	14,250	14,250	15,805	(1,555)
Supplies	21,000	21,000	21,916	(916)
Recreational programs	-	-	2,358	(2,358)
Workmen's compensation insurance	13,500	13,500	13,572	(72)
Utilities	-	-	23,224	(23,224)
Other expenses	13,500	13,500	16,795	(3,295)
Total recreation	<u>317,100</u>	<u>317,100</u>	<u>322,819</u>	<u>(5,719)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Streets:				
Salaries and wages	234,000	234,000	211,260	22,740
Payroll tax expense	24,150	24,150	17,384	6,766
Employee benefits	103,700	103,700	90,426	13,274
Uniforms	6,500	6,500	5,772	728
Gasoline and oil	35,000	35,000	32,798	2,202
Insurance	29,425	29,425	29,623	(198)
Supplies and parts	5,000	5,000	12,795	(7,795)
Workmen's compensation insurance	32,000	32,000	32,004	(4)
Other expenses	11,000	11,000	11,697	(697)
Total streets	<u>480,775</u>	<u>480,775</u>	<u>443,759</u>	<u>37,016</u>
Sanitation:				
Salaries and wages	213,000	213,000	211,056	1,944
Payroll tax expense	22,275	22,275	17,796	4,479
Employee benefits	94,525	94,525	85,890	8,635
Gasoline and oil	30,000	30,000	29,581	419
Truck repairs and maintenance	5,000	5,000	10,636	(5,636)
Workmen's compensation insurance	30,000	30,000	29,424	576
Hauling and dumping expense	190,000	190,000	192,985	(2,985)
Insurance	29,500	29,500	33,276	(3,776)
Uniforms	7,000	7,000	8,584	(1,584)
Utilities	-	-	7,268	(7,268)
Garage expenses	5,000	5,000	2,882	2,118
Debt service:				
Interest expense	-	-	8,362	(8,362)
Principal retirement	52,500	52,500	45,193	7,307
Capital expenditures	-	-	93,990	(93,990)
Other expenses	2,500	2,500	3,182	(682)
Total sanitation	<u>681,300</u>	<u>681,300</u>	<u>780,105</u>	<u>(98,805)</u>
Golf Course:				
Salaries and wages	148,500	148,500	159,542	(11,042)
Payroll tax expense	15,800	15,800	14,510	1,290
Employee benefits	36,500	36,500	30,416	6,084
Workmen's compensation insurance	8,500	8,500	8,460	40
Maintenance and repairs	14,500	14,500	19,941	(5,441)
Gasoline and oil	14,000	14,000	15,751	(1,751)
Insurance	14,200	14,200	14,016	184
Utilities and telephone	20,000	20,000	50,281	(30,281)
Debt service:				
Interest expense	-	-	516	(516)
Principal retirement	7,700	7,700	7,352	348
Other expenses	73,675	73,675	50,741	22,934
Total golf course	<u>353,375</u>	<u>353,375</u>	<u>371,526</u>	<u>(18,151)</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Total Expenditures	5,125,695	5,125,695	5,588,305	(462,610)
Revenues over (under) expenditures	244,125	244,125	61,248	(182,877)
Other Financing Sources/(Uses):				
Proceeds from sales of capital assets	-	-	1,576	1,576
Proceeds from borrowing	-	-	129,412	129,412
Transfers In	-	-	52,000	52,000
Total other financing sources (uses)	-	-	182,988	182,988
Net change in fund balance	<u>\$ 244,125</u>	<u>\$ 244,125</u>	244,236	<u>\$ 111</u>
Fund balance - beginning			(215,187)	
Fund balance - ending			<u>29,049</u>	

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
Restaurant tax	\$ 674,650	\$ 674,650	\$ 668,876	\$ (5,774)
Room occupancy tax	65,000	65,000	79,786	14,786
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	64,500	64,500	50,466	(14,034)
Interest	-	-	467	467
Miscellaneous revenues	65,000	65,000	47,758	(17,242)
Total revenues	<u>869,150</u>	<u>869,150</u>	<u>847,353</u>	<u>(21,797)</u>
Expenditures:				
Salaries and wages	123,000	123,000	112,730	10,270
Payroll tax expense	15,000	15,000	15,310	(310)
Employee benefits	52,600	52,600	55,297	(2,697)
Contract labor	5,000	5,000	4,675	325
Administration	11,000	11,000	11,230	(230)
Travel	11,500	11,500	9,119	2,381
Telephone and utilities	41,800	41,800	34,460	7,340
Donations	244,500	244,500	217,850	26,650
Postage	1,500	1,500	1,079	421
General office expense	11,720	11,720	11,363	357
Gift shop expense	5,000	5,000	6,174	(1,174)
Advertising and promotional	142,700	142,700	161,079	(18,379)
Membership dues	4,500	4,500	3,863	637
Van and bus expense	6,750	6,750	6,442	308
Legal and professional expense	9,000	9,000	8,608	392
Taxes and licenses	1,000	1,000	898	102
Maintenance and repairs	45,452	45,452	63,305	(17,853)
Mountain Homeplace	50,000	50,000	81,921	(31,921)
Bank charges	480	480	483	(3)
Insurance	41,000	41,000	40,351	649
Security	1,880	1,880	1,584	296
Other expense	41,268	41,268	35,379	5,889
Capital outlay	2,500	2,500	112,228	(109,728)
Total expenditures	<u>869,150</u>	<u>869,150</u>	<u>995,428</u>	<u>(126,278)</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(148,075)</u>	<u>(148,075)</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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing sources (uses):				
Operating transfers	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(148,075)	<u>\$ (148,075)</u>
Fund balance - beginning			<u>314,722</u>	
Fund balance - ending			<u>\$ 166,647</u>	

See accompanying notes to basic financial statements.

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2012

	<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	\$ 35,270	\$ 5,794	\$ 13,560	\$ 54,624
Due from General Fund	-	59,000	-	59,000
Total Assets	<u>\$ 35,270</u>	<u>\$ 64,794</u>	<u>\$ 13,560</u>	<u>\$ 113,624</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 12,545	\$ 15,229	\$ 3,876	\$ 31,650
Accrued vacation	-	-	4,265	4,265
Due to General Fund	-	-	134,607	134,607
Total Liabilities	<u>12,545</u>	<u>15,229</u>	<u>142,748</u>	<u>170,522</u>
Fund Balances:				
Restricted for:				
Streets	-	49,565	-	49,565
Other	22,725	-	-	22,725
Unassigned	-	-	(129,188)	(129,188)
Total Fund Balances	<u>22,725</u>	<u>49,565</u>	<u>(129,188)</u>	<u>(56,898)</u>
Total Liabilities and Fund Balances	<u>\$ 35,270</u>	<u>\$ 64,794</u>	<u>\$ 13,560</u>	<u>\$ 113,624</u>

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	<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	\$ 69,384	\$ 90,808	\$ -	\$ 160,192
Charges for services	-	-	320,561	320,561
Interest	4	-	1	5
	<u>69,388</u>	<u>90,808</u>	<u>320,562</u>	<u>480,758</u>
Total revenues				
	69,388	90,808	320,562	480,758
Expenditures:				
Current:				
Public safety	832	-	366,386	367,218
Streets	1,978	54,106	-	56,084
Recreation	13,184	-	-	13,184
Capital outlay	<u>26,335</u>	<u>78,303</u>	<u>-</u>	<u>104,638</u>
	42,329	132,409	366,386	541,124
Total expenditures				
	42,329	132,409	366,386	541,124
Excess (deficiency) of revenues over expenditures	27,059	(41,601)	(45,824)	(60,366)
Other financing sources (uses):				
Operating transfers	<u>(52,000)</u>	<u>-</u>	<u>-</u>	<u>(52,000)</u>
	(52,000)	-	-	(52,000)
Total other financing sources (uses)				
	(52,000)	-	-	(52,000)
Net change in fund balances	(24,941)	(41,601)	(45,824)	(112,366)
Fund balances - beginning	<u>47,666</u>	<u>91,166</u>	<u>(83,364)</u>	<u>55,468</u>
Fund balances - ending	<u>\$ 22,725</u>	<u>\$ 49,565</u>	<u>\$(129,188)</u>	<u>\$ (56,898)</u>

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2012**

CITY COUNCIL

NAME

Fran Jarrell
Mark McKenzie
Jim Meek
Rick Roberts
David Trimble
David VanHoose

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, 2012

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount of Coverage</u>	<u>Policy Expiration</u>
KLC Insurance Agency	Commercial Property Coverage	\$11,705,651	7/1/13
KLC Insurance Agency	Workers Compensation	4,000,000	7/1/13
KLC Insurance Agency	Automobile Property and Liability	1,000,000	7/1/13
KLC Insurance Agency	Public Officials Liability	2,000,000	7/1/13
KLC Insurance Agency	Law Enforcement Liability	1,000,000	7/1/13
KLC Insurance Agency	General Liability	2,000,000	7/1/13
The Hartford	Flood Damage		
	Community Center	171,400	1/19/13
	City Hall	300,000	12/5/12
Elite Insurance	Surety Bonds		
	City Clerk, Treasurer, and Assistant Treasurer	25,000	4/14/13
	Deputy Administration of Alcohol Sales	25,000	7/15/12
	Assistant Clerk	25,000	7/10/12
	Mayor	10,000	7/15/12