

CITY OF PAINTSVILLE, KENTUCKY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2017



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Paintsville, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

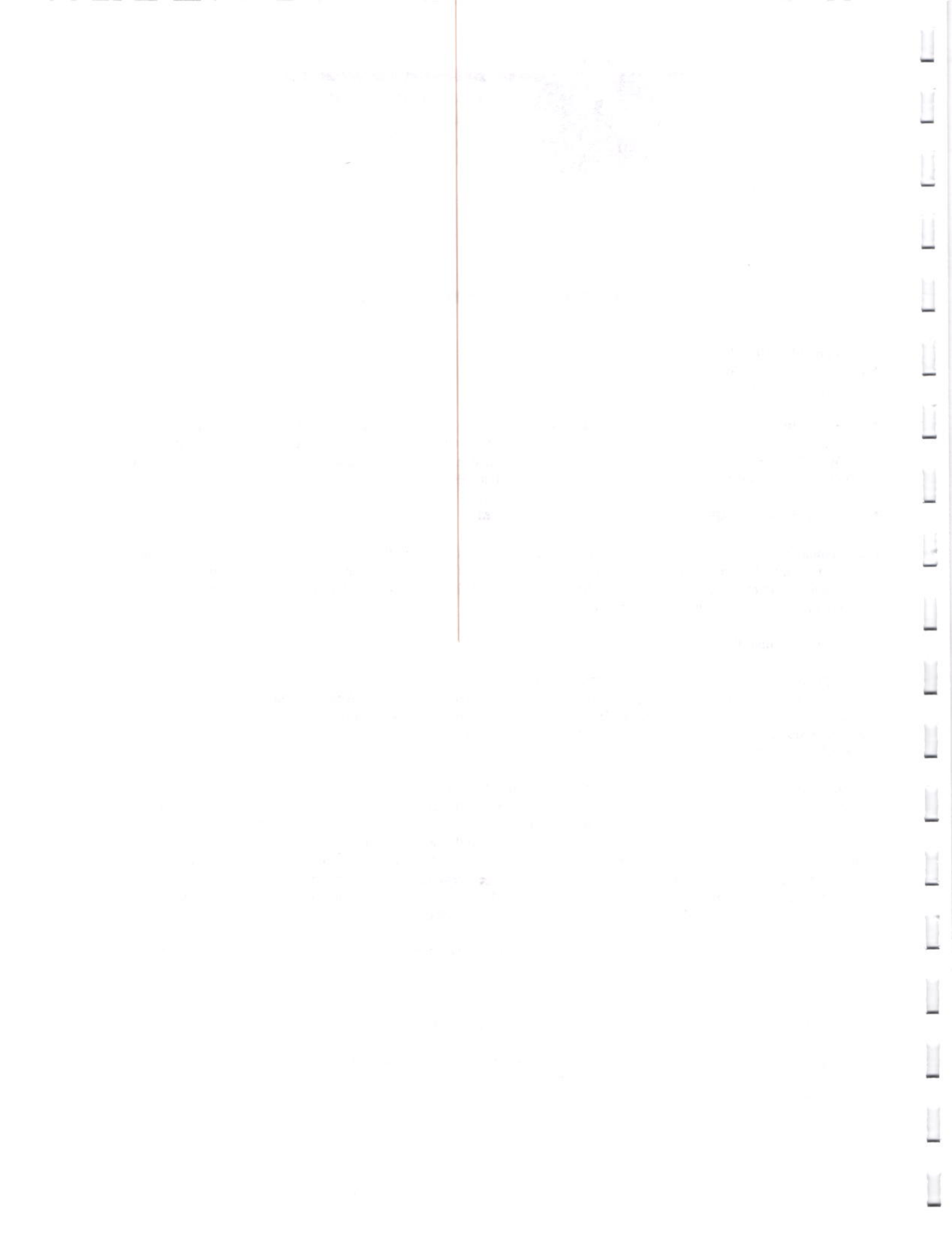
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 37-42 and the County Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 43 and 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paintsville, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017 on our consideration of the City of Paintsville, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Paintsville, Kentucky's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
December 28, 2017

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CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

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	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 892,729	\$ 4,062,067	\$ 4,954,796
Certificates of deposit	100,166	2,793,584	2,893,750
Taxes receivable	83,227	-	83,227
Accounts receivable	72,735	681,842	754,577
Grants receivable	124,599	-	124,599
Other receivable	23,713	-	23,713
Due from Paintsville Utilities	64,306	-	64,306
Unbilled revenues	-	295,129	295,129
Inventory	-	136,414	136,414
Prepaid items	-	129,610	129,610
Capital assets:			
Land and construction-in-progress	1,047,524	2,321,703	3,369,227
Other capital assets, net of accumulated depreciation	7,284,133	75,760,279	83,044,412
Total Assets	9,693,132	86,180,628	95,873,760
DEFERRED OUTFLOWS			
Deferred outflows related to pensions	1,250,446	826,088	2,076,534
LIABILITIES			
Accounts payable	174,544	147,152	321,696
Retainage payable	-	14,051	14,051
Accrued payroll taxes	40,187	9,140	49,327
Accrued vacation	62,477	53,343	115,820
Other accrued liabilities	49,147	314,587	363,734
Customer meter deposits payable	-	742,413	742,413
Interest payable on customer meter deposits	-	290,648	290,648
Long-term liabilities:			
Net pension liability	5,147,258	3,115,146	8,262,404
Due within one year	188,328	1,306,562	1,494,890
Due in more than one year	1,366,842	25,351,353	26,718,195
Total Liabilities	7,028,783	31,344,395	38,373,178
DEFERRED INFLOWS			
Deferred inflows related to pensions	177,476	-	177,476
NET POSITION			
Net investment in capital assets	6,776,487	51,424,067	58,200,554
Restricted for:			
Public safety	3,379	-	3,379
Streets	118,258	-	118,258
Tourism	188,958	-	188,958
Debt service	44,479	925,804	970,283
Equipment replacement	-	27,382	27,382
Depreciation	-	1,606,473	1,606,473
Other purposes	15,631	222,841	238,472
Unrestricted (deficit)	(3,409,873)	1,455,754	(1,954,119)
Total Net Position	\$ 3,737,319	\$ 55,662,321	\$ 59,399,640

See accompanying notes to basic financial statements.

CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,117,462	\$ 81,856	\$ -	\$ 106,182	\$ (929,424)	\$ -	\$ (929,424)
Public safety	3,221,053	1,559,735	23,365	54,022	(1,583,931)	-	(1,583,931)
Recreation	796,190	220,099	-	50,054	(526,037)	-	(526,037)
Streets	592,273	-	-	154,244	(438,029)	-	(438,029)
Sanitation	673,380	790,563	-	-	117,183	-	117,183
Tourism	751,540	55,369	-	-	(696,171)	-	(696,171)
Interest on long-term debt	75,401	-	-	-	(75,401)	-	(75,401)
Total governmental activities	7,227,299	2,707,622	23,365	364,502	(4,131,810)	-	(4,131,810)
Business-type activities:							
Water, gas, and sewer	8,889,099	7,711,274	-	515,456	-	(662,369)	(662,369)
Total business-type activities	8,889,099	7,711,274	-	515,456	-	(662,369)	(662,369)
Total primary government	\$ 16,116,398	\$ 10,418,896	\$ 23,365	\$ 879,958	(4,131,810)	(662,369)	(4,794,179)
General revenues:							
Property taxes					575,719	-	575,719
Occupational taxes					1,674,577	-	1,674,577
Insurance premium taxes					526,172	-	526,172
Motor vehicle taxes					28,050	-	28,050
Restaurant taxes					719,874	-	719,874
Room occupancy taxes					57,164	-	57,164
Franchise fees and taxes					156,215	-	156,215
Payments in lieu of taxes					36,709	-	36,709
ABC fees					147,311	-	147,311
Licenses and permits					8,312	-	8,312
Intergovernmental revenue					308,040	-	308,040
Interest income					575	30,024	30,599
Gain/(Loss) on sale of capital assets					16,851	-	16,851
Donation/contributions					106,851	-	106,851
Miscellaneous					85,424	-	85,424
Total general revenues and transfers					4,447,844	30,024	4,477,868
Change in net position					316,034	(632,345)	(316,311)
Net position - beginning, restated					3,421,285	56,294,666	59,715,951
Net position - ending					\$ 3,737,319	\$ 55,662,321	\$ 59,399,640

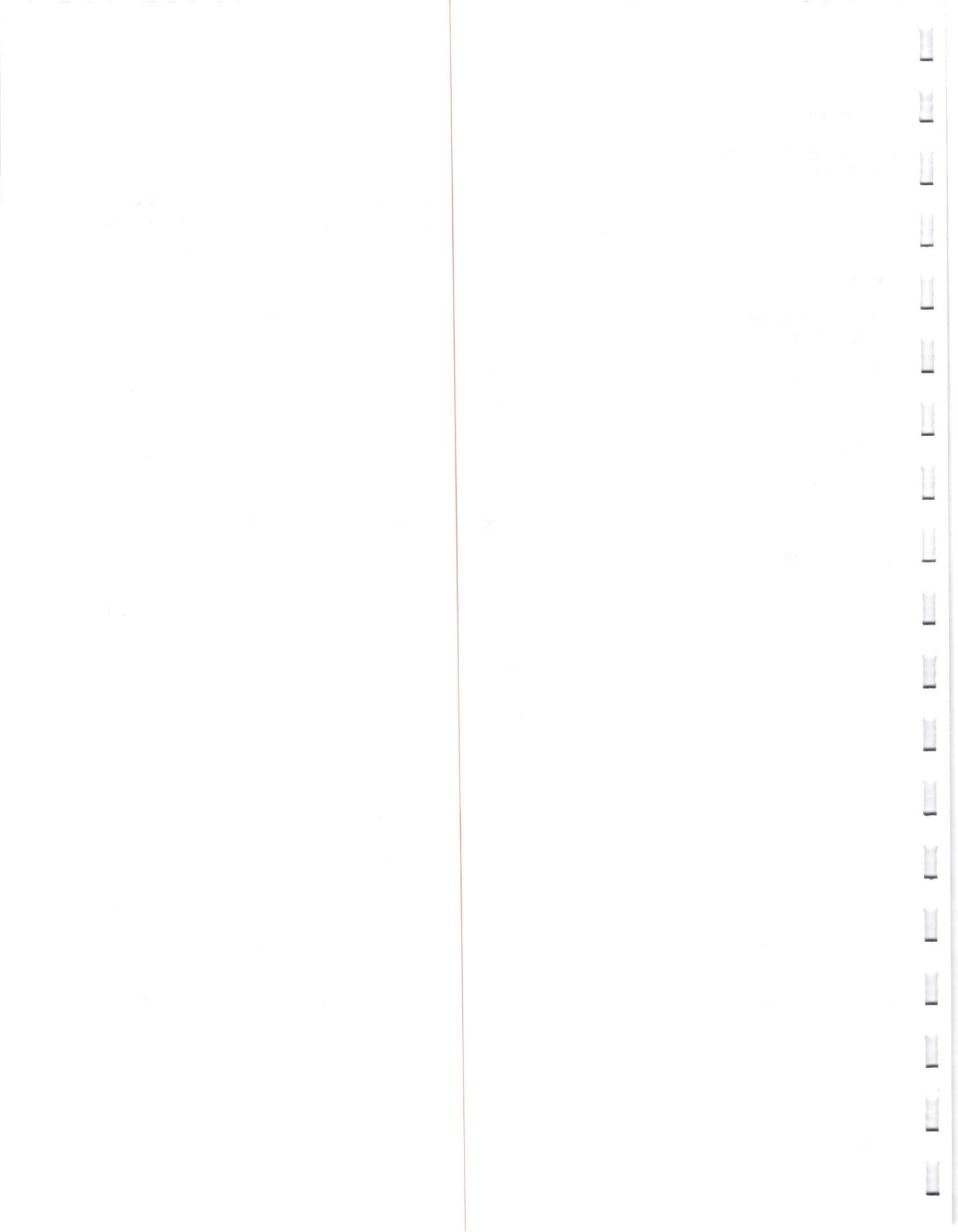
See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

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	<u>General Fund</u>	<u>Paintsville Tourism Commission</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 718,748	\$ 93,366	\$ 80,615	\$ 892,729
Certificate of deposit	-	100,166	-	100,166
Receivables:				
Property taxes	5,042	-	-	5,042
Accounts	72,735	-	-	72,735
Grants	124,599	-	-	124,599
Other	23,713	-	-	23,713
Due from Paintsville Utilities	64,306	-	-	64,306
Due from 911 Fund	507,159	-	-	507,159
Due from General Fund	-	-	90,602	90,602
Total Assets	<u>\$ 1,516,302</u>	<u>\$ 193,532</u>	<u>\$ 171,217</u>	<u>\$ 1,881,051</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 169,641	\$ 1,943	\$ 2,960	\$ 174,544
Accrued payroll taxes	40,187	-	-	40,187
Accrued vacation	54,491	2,631	5,355	62,477
Accrued retirement	49,147	-	-	49,147
Due to General Fund	-	-	507,159	507,159
Due to Road Aid	90,602	-	-	90,602
Total Liabilities	<u>404,068</u>	<u>4,574</u>	<u>515,474</u>	<u>924,116</u>
Fund Balances:				
Restricted for:				
Public Safety	3,379	-	-	3,379
Streets	-	-	118,258	118,258
Tourism	-	188,958	-	188,958
Debt Service	44,479	-	-	44,479
Other	-	-	15,631	15,631
Unassigned	1,064,376	-	(478,146)	586,230
Total Fund Balances	<u>1,112,234</u>	<u>188,958</u>	<u>(344,257)</u>	<u>956,935</u>
Total Liabilities and Fund Balances	<u>\$ 1,516,302</u>	<u>\$ 193,532</u>	<u>\$ 171,217</u>	<u>\$ 1,881,051</u>

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

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Fund Balances - Total Governmental Funds \$ 956,935

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

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

Governmental capital assets	17,215,340
Less: accumulated depreciation	(8,883,683)

Pension contributions after measurement date are reported as a deferred outflow of resources:	471,405
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Net pension liability is not due and payable in the current period and, therefore, is not reported in governmental funds:	(5,147,258)
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Pension related deferred outflows of resources and deferred inflows of
resources are not due and payable in the current year and, therefore
are not reported in the governmental funds, as follows:

Deferred pension outflows of resources	779,041
Deferred pension inflows of resources	(177,476)

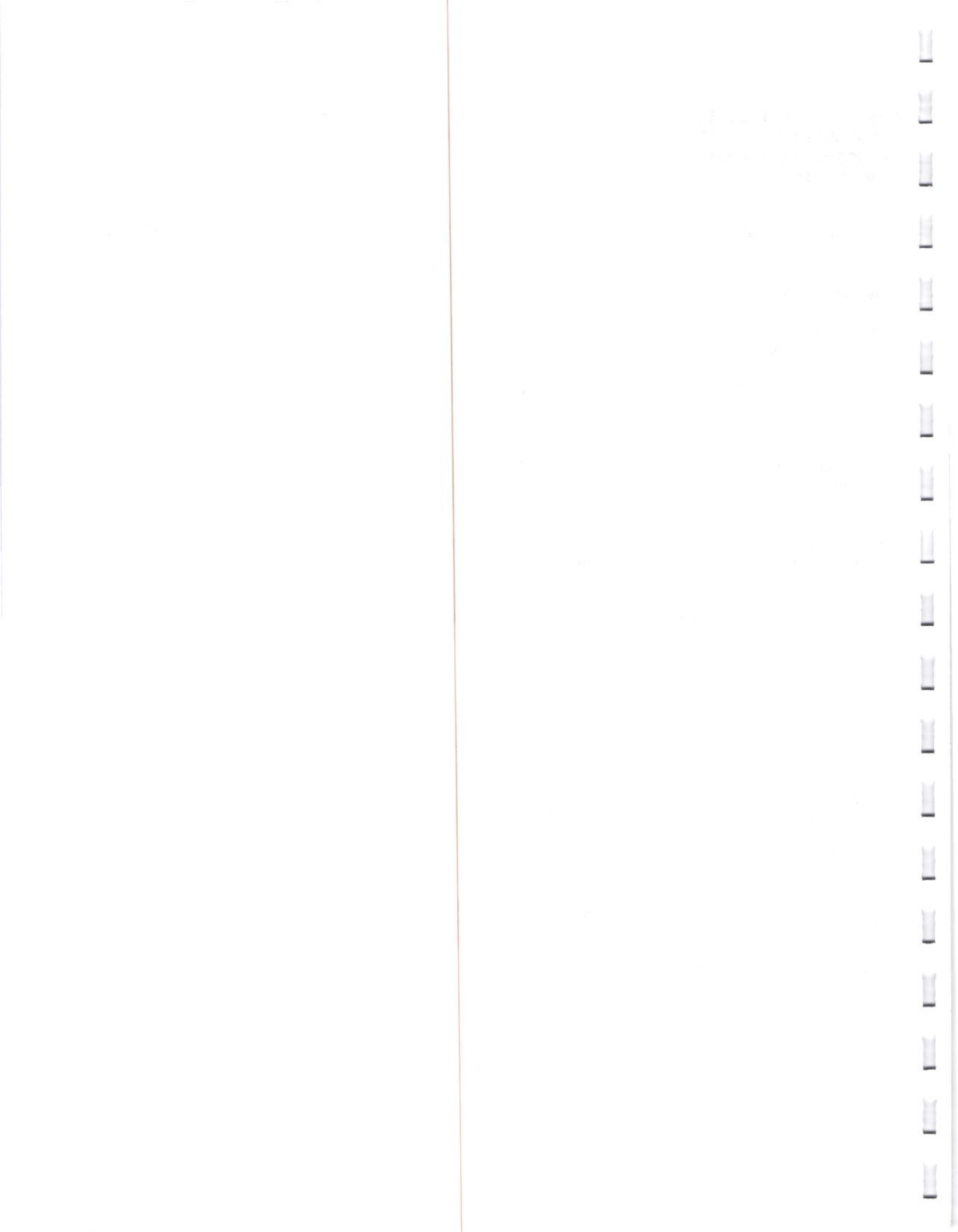
Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds:

Bond payable	(1,030,000)
Bond discount	18,255
Loans payable	(456,870)
Leases payable	(86,555)

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

Delinquent property taxes	78,185
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Net Position of Governmental Activities	\$ 3,737,319
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CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

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	General Fund	Paintsville Tourism Commission	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 564,531	\$ -	\$ -	\$ 564,531
Occupational	1,674,577	-	-	1,674,577
Insurance premium	526,172	-	-	526,172
Motor vehicle	28,050	-	-	28,050
Franchise	118,870	-	-	118,870
Restaurant	-	719,874	-	719,874
Room occupancy	-	57,164	-	57,164
Payments in lieu of taxes	36,709	-	-	36,709
ABC fees	147,311	-	-	147,311
Franchise fees	37,345	-	-	37,345
Licenses and permits	8,312	-	-	8,312
Intergovernmental revenues	207,389	-	100,651	308,040
Grants	361,315	-	26,552	387,867
Charges for services	2,326,045	55,369	326,208	2,707,622
Interest income	313	261	1	575
Contributions	106,851	-	-	106,851
Miscellaneous revenues	51,163	34,261	-	85,424
Total revenues	6,194,953	866,929	453,412	7,515,294
Expenditures:				
Current:				
General government	996,447	-	-	996,447
Public safety	2,451,841	-	397,104	2,848,945
Recreation	708,824	-	1,749	710,573
Streets	463,442	-	11,639	475,081
Sanitation	609,561	-	3,750	613,311
Tourism	-	608,833	-	608,833
Debt service:				
Principal	389,285	29,201	10,726	429,212
Interest	68,268	6,213	-	74,481
Capital outlay	449,091	86,765	71,533	607,389
Total expenditures	6,136,759	731,012	496,501	7,364,272
Excess of revenues over (under) expenditures	58,194	135,917	(43,089)	151,022
Other financing sources (uses):				
Transfers in from Tourism	195,000	-	-	195,000
Transfers out to General Fund	-	(195,000)	-	(195,000)
Proceeds from sale of capital assets	22,052	-	-	22,052
Proceeds from borrowing	75,818	-	-	75,818
Total other financing sources (uses)	292,870	(195,000)	-	97,870
Net change in fund balances	351,064	(59,083)	(43,089)	248,892
Fund balances - beginning	761,170	248,041	(301,168)	708,043
Fund balances - ending	<u>\$ 1,112,234</u>	<u>\$ 188,958</u>	<u>\$ (344,257)</u>	<u>\$ 956,935</u>

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

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Net Change in Fund Balances - Total Governmental Funds

\$ 248,892

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	607,389
Depreciation expense	(615,533)

The net effect of various miscellaneous transactions involving capital assets:	(5,201)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Increase/(decrease) in property taxes	11,188
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Changes in pension expense are reported only in the statement of activities	(283,175)
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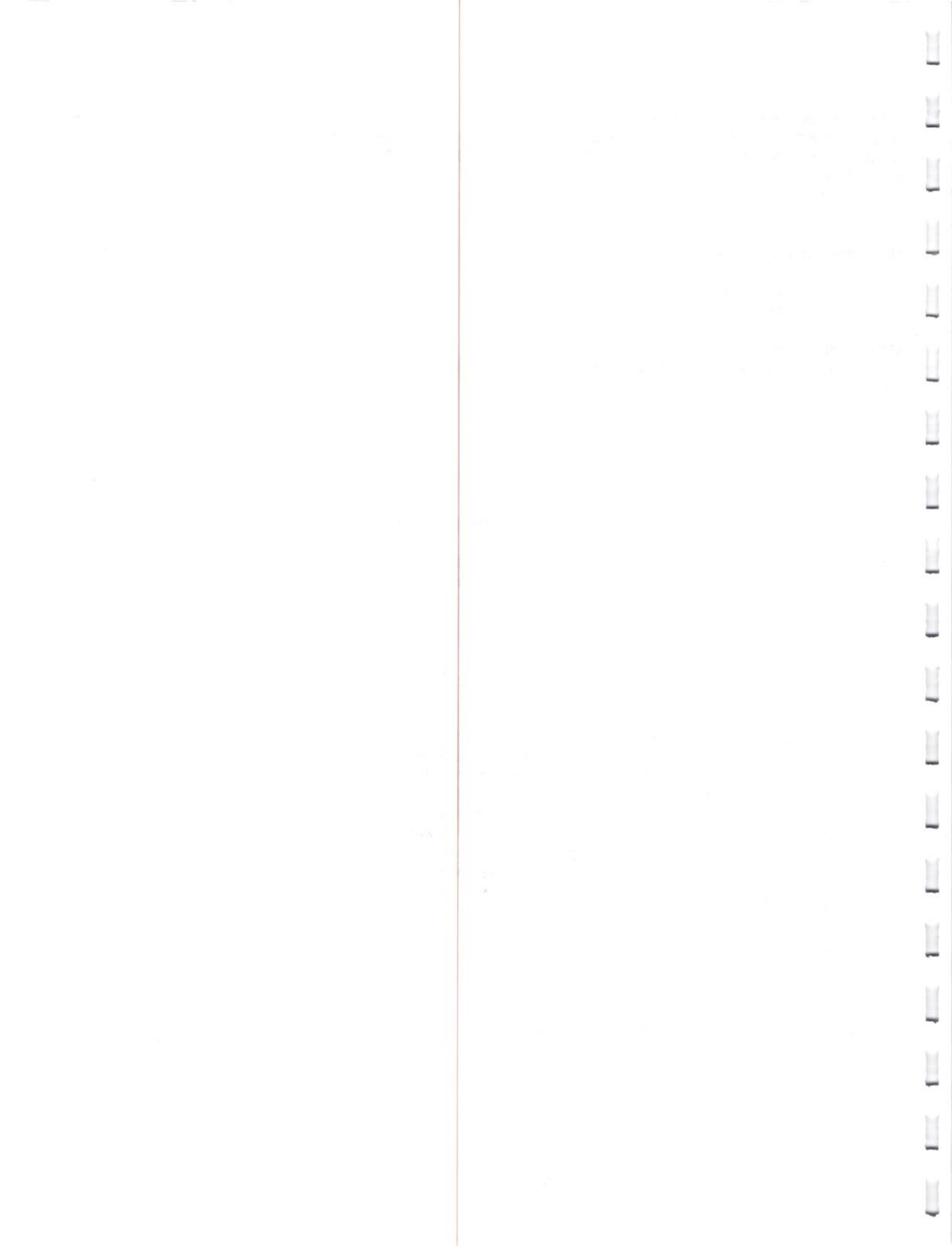
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Principal paid	429,212
Loan proceeds	(75,818)
Amortization of bond discount	(920)

Change in Net Position of Governmental Activities

\$ 316,034

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND - PAINTSVILLE UTILITIES
JUNE 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,464,790
Accounts receivable, net	681,842
Unbilled revenues	295,129
Inventory	136,414
Prepaid items	129,610

Total current assets	<u>3,707,785</u>
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Non-current assets:

Restricted assets:

Cash and cash equivalents:	
Bond and interest sinking fund	462,984
Depreciation reserve fund	568,353
Equipment replacement fund	27,382
Operations and maintenance	538,558
Investments:	
Operations and maintenance	717,344
Debt service reserve fund	1,038,120
Depreciation reserve fund	1,038,120

Total restricted assets	<u>4,390,861</u>
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Capital assets:

Land and land improvements	816,089
Construction work in progress	1,505,614
Capital assets, net of depreciation	75,760,279

Total capital assets	<u>78,081,982</u>
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Total assets	<u>86,180,628</u>
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DEFERRED OUTFLOWS

Deferred outflows related to pensions	<u>826,088</u>
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CITY OF PAINTSVILLE, KENTUCKY
 STATEMENT OF NET POSITION (Continued)
 PROPRIETARY FUND - PAINTSVILLE UTILITIES
 JUNE 30, 2017

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LIABILITIES

Current liabilities:

Accounts payable	147,152
Retainage payable	14,051
Compensated absences	53,343
Accrued interest payable	175,258
Other accrued liabilities	148,469
Current portion of long-term liabilities	671,262
Current portion of capital lease obligations	60,000

Total current liabilities 1,269,535

Payable from restricted assets:

Current portion of bonds	575,300
Customer meter deposits	742,413
Interest payable on customer meter deposits	290,648

Total liabilities payable from restricted assets 1,608,361

Long-term liabilities:

Net pension liability	3,115,146
Bonds payable, net of premium	14,185,026
Notes payable	12,277,889
Capital lease obligations	195,000
	<u>29,773,061</u>
Less current portion	<u>(1,306,562)</u>

Total long-term liabilities 28,466,499

Total liabilities 31,344,395

DEFERRED INFLOWS

Deferred inflows related to pensions

-

NET POSITION:

Net investment in capital assets	51,424,067
Restricted	
Debt service	925,804
Depreciation	1,606,473
Equipment replacement	27,382
Operations and maintenance	222,841
Unrestricted	<u>1,455,754</u>

Total net position \$ 55,662,321

See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND - PAINTSVILLE UTILITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Operating revenues:

Gas revenues	\$ 1,697,850
Water revenues	3,437,535
Wastewater revenues	2,145,597
Other operating revenues	<u>430,292</u>

Total operating revenues	7,711,274
Cost of sales	<u>724,329</u>

Net operating revenues	<u>6,986,945</u>
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Operating expenses:

Salaries and wages	1,527,808
Payroll taxes	117,441
Employee pension and benefits	1,302,990
Materials and supplies	256,278
Legal and professional	106,431
Miscellaneous general expense	403,482
Telephone and utilities	814,017
Insurance	132,048
Motor vehicle expenses	91,478
Repairs and maintenance	306,805
Depreciation	<u>2,464,147</u>

Total operating expenses	<u>7,522,925</u>
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Utility operating income (loss)	<u>(535,980)</u>
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Non-operating revenues (expenses):

Interest income	30,024
Interest expense	<u>(534,994)</u>

Total non-operating revenues (expenses)	<u>(504,970)</u>
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Net income (loss) before contributions from (to)	(1,040,950)
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Contributions in aid of construction	515,456
Contribution to the City of Paintsville	<u>(106,851)</u>

Change in net position	(632,345)
Net position, beginning of year, restated	<u>56,294,666</u>

Net position, end of year	<u><u>\$ 55,662,321</u></u>
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See accompanying notes to basic financial statements.

**CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - PAINTSVILLE UTILITIES
FOR THE YEAR ENDED JUNE 30, 2017**

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Cash flows from operating activities:

Cash inflows:

Payments received from customers	<u>\$ 7,540,351</u>
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Total cash provided	<u>7,540,351</u>
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Cash outflows:

Payments for salaries and benefits	2,671,063
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Payments to suppliers for goods and services	<u>2,938,970</u>
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Total cash used	<u>5,610,033</u>
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Net cash provided (used) by operating activities	<u>1,930,318</u>
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Cash flows from noncapital financing activities:

Interest paid on customer deposits	<u>(5,910)</u>
------------------------------------	----------------

Net cash provided (used) by noncapital financing activities	<u>(5,910)</u>
--	----------------

Cash flows from capital and related financing activities:

Purchase and construction of utility plant	(2,101,298)
--	-------------

Principal payments on long-term debt	(1,445,600)
--------------------------------------	-------------

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

Interest paid on long-term debt and capital leases	(540,826)
--	-----------

Contributions-in-aid of construction	<u>789,374</u>
--------------------------------------	----------------

Net cash provided (used) by capital and related financing activities	<u>(3,358,350)</u>
---	--------------------

Cash flows from investing activities:

Interest received	<u>7,878</u>
-------------------	--------------

Net cash provided (used) by investing activities	<u>7,878</u>
---	--------------

Net cash inflow (outflow) from all activities

(1,426,064)

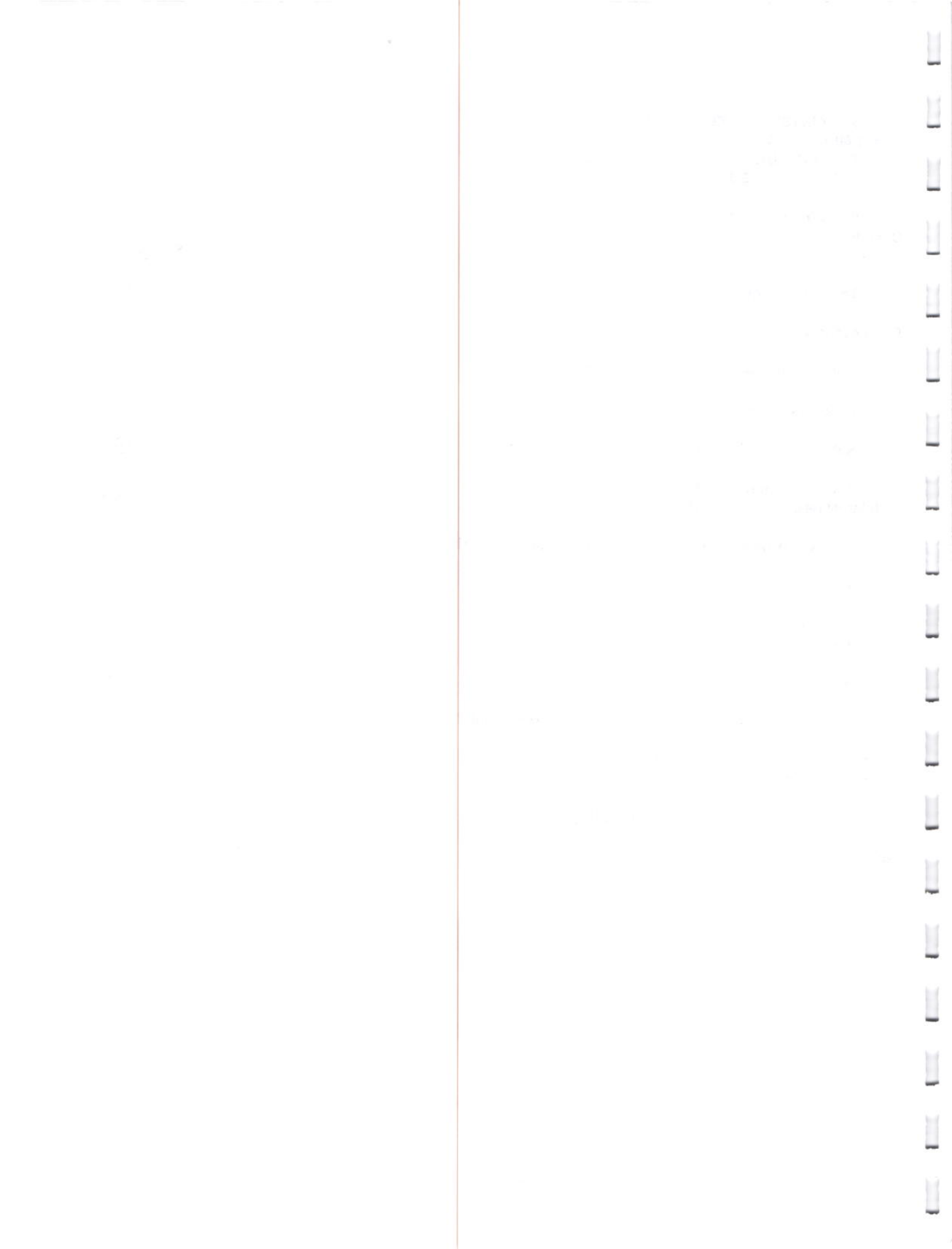
Cash and cash equivalents at beginning of period

5,488,131

Cash and cash equivalents at end of period

\$ 4,062,067

See accompanying notes to basic financial statements.



CITY OF PAINTSVILLE, KENTUCKY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

13

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

Utility operating income	\$ (535,980)
Depreciation and amortization	2,464,147
Contribution of utility services	(106,851)
(Increase) decrease in:	
Accounts receivable	(59,512)
Unbilled revenue	(4,560)
Inventory	61,739
Other assets and deferred outflows	(116,182)
Increase (decrease) in:	
Accounts payable	(142,107)
Accrued liabilities and other liabilities	369,624

Net cash provided (used) by operating activities

\$ 1,930,318

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 2,959,836
Restricted cash and cash equivalents	2,528,295

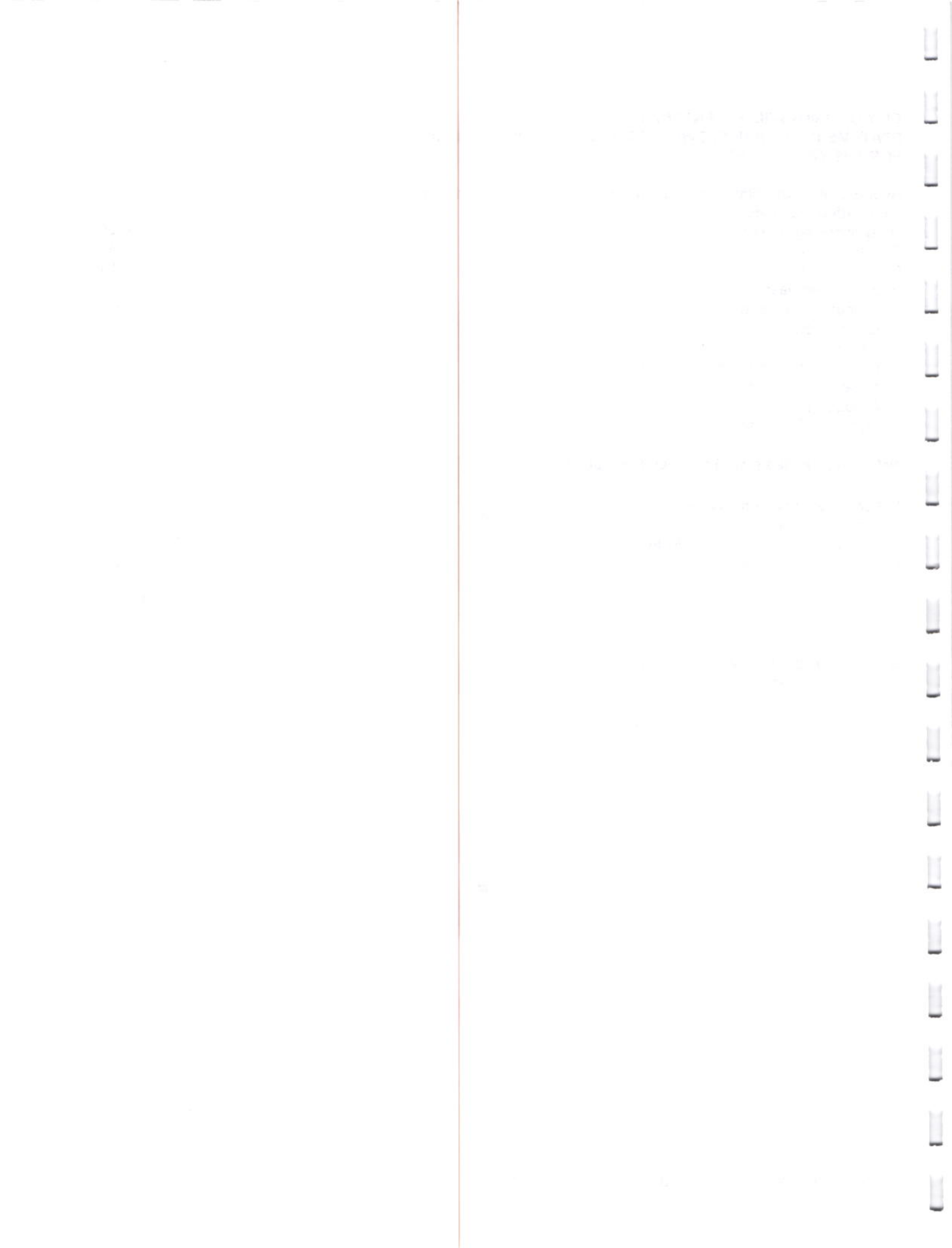
\$ 5,488,131

End of period:

Unrestricted cash and cash equivalents	\$ 2,464,790
Restricted cash and cash equivalents	1,597,277

\$ 4,062,067

See accompanying notes to basic financial statements.



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

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

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

A. Financial Reporting Entity

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

Blended Component Units:

Paintsville Utilities Commission

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

Paintsville Utilities
137 Main Street
Paintsville, Kentucky 41240

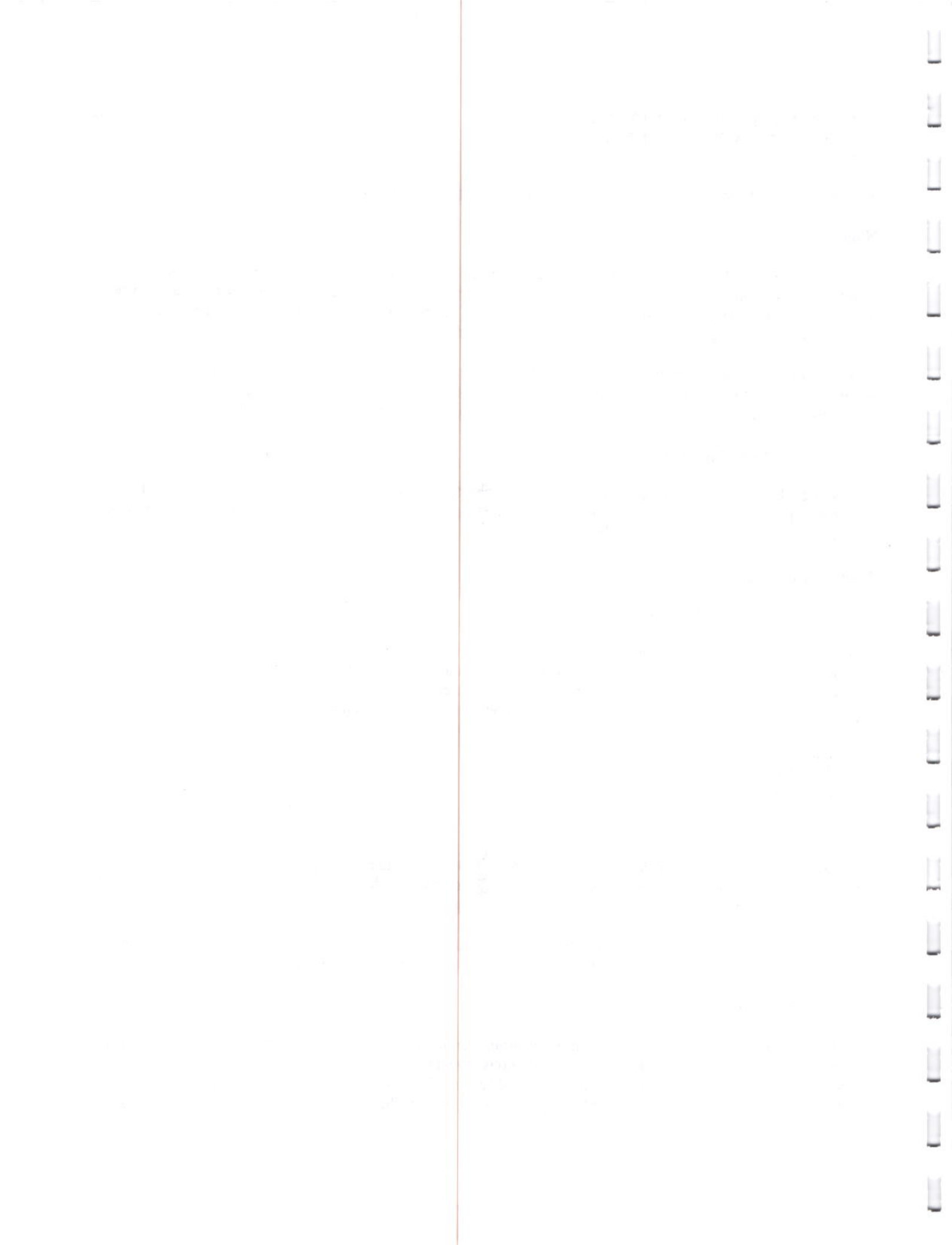
Paintsville Tourism Commission

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

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

Excluded From Entity

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



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

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

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

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

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

1. Governmental Funds

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

a. General Fund

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



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Special Revenue Fund

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

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

2. PROPRIETARY FUNDS

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

a. Enterprise Fund or Business Funds

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

b. Internal Service Fund

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



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, and other governments. The City has one Agency Fund for the Paintsville Independent School District's property and franchise tax collection deposits. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. Taxes are collected by the City and subsequently transmitted to the school district. The Agency Fund had no assets and no liabilities at June 30, 2017.

C. Basis of Accounting

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

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

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

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

D. Budgets and Budgetary Accounting

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash and Investments

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

F. Allowance for Uncollectible Accounts

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

Utility receivables at June 30, 2017, are net of allowance for uncollectable. The allowance for uncollectable was \$203,792 at June 30, 2017.

G. Capital Assets

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

H. Compensated Absences

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

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

I. Estimates

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

J. Restricted Assets

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

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are reported as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

L. Net Position

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Accrued Liabilities and Long-Term Obligations

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

N. Interfund Activity

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

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

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has only deferred outflows of resources that relate to pension plan reporting, see Note 12.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The City has only deferred inflows of resources that relate to pension plan reporting, see Note 12.

P. Fund Equity

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

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

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

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

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

Category 3 – Uncollateralized.

Deposits categorized by level of risk at June 30, 2017 are as follows:

Account	Bank Balance	Category			Carrying Amount
		1	2	3	
Cash	<u>\$8,278,206</u>	<u>\$3,306,409</u>	<u>\$4,971,797</u>	<u>\$ -</u>	<u>\$7,848,546</u>

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

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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NOTE 3. PROPERTY TAXES

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

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

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017, consisted of the following:

Primary Government

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Governmental Activities				
Capital assets, not being depreciated:				
Land and land improvements	\$ 958,515	\$ 89,009	\$ -	\$ 1,047,524
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>958,515</u>	<u>89,009</u>	<u>-</u>	<u>1,047,524</u>
Capital assets, being depreciated:				
Buildings and improvements	8,014,608	85,265	-	8,099,873
Improvements other than buildings	850,566	-	-	850,566
Automobiles and trucks	2,661,056	99,400	58,773	2,701,683
Infrastructure	474,220	183,381	-	657,601
Machinery and equipment	<u>3,708,959</u>	<u>150,334</u>	<u>1,200</u>	<u>3,858,093</u>
Total capital assets being depreciated	<u>15,709,409</u>	<u>518,380</u>	<u>59,973</u>	<u>16,167,816</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,593,020)	(197,371)	-	(2,790,391)
Improvements other than buildings	(768,462)	(27,721)	-	(796,183)
Automobiles and trucks	(2,036,936)	(156,525)	(53,572)	(2,139,889)
Infrastructure	(231,742)	(42,863)	-	(274,605)
Machinery and equipment	<u>(2,692,762)</u>	<u>(191,053)</u>	<u>(1,200)</u>	<u>(2,882,615)</u>
Total accumulated depreciation	<u>(8,322,922)</u>	<u>(615,533)</u>	<u>(54,772)</u>	<u>(8,883,683)</u>
Total capital assets being depreciated, net	<u>7,386,487</u>	<u>(97,153)</u>	<u>5,201</u>	<u>7,284,133</u>
Governmental activities capital assets, net	<u>\$ 8,345,002</u>	<u>\$ (8,144)</u>	<u>\$ 5,201</u>	<u>\$ 8,331,657</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 89,526
Public safety	196,455
Recreation	64,946
Streets	93,745
Sanitation	37,896
Tourism	<u>132,965</u>
Total	<u>\$ 615,533</u>

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets, not being depreciated:				
Land and land improvements	\$ 816,089	\$ -	\$ -	\$ 816,089
Construction in progress	<u>1,412,347</u>	<u>959,754</u>	<u>866,487</u>	<u>1,505,614</u>
Total capital assets, not being depreciated	<u>2,228,436</u>	<u>959,754</u>	<u>866,487</u>	<u>2,321,703</u>
Capital assets, being depreciated:				
Buildings and improvements	1,074,766	10,770	-	1,085,536
Utility plants	101,714,644	1,733,640	-	103,448,284
Automobiles and trucks	1,211,954	-	-	1,211,954
Machinery and equipment	<u>439,733</u>	<u>3,753</u>	<u>-</u>	<u>443,486</u>
Total capital assets being depreciated	<u>104,441,097</u>	<u>1,748,163</u>	<u>-</u>	<u>106,189,260</u>
Less accumulated depreciation for:				
Buildings and improvements	(287,715)	(22,763)	-	(310,478)
Utility plants	(26,684,023)	(2,300,850)	-	(28,984,873)
Automobiles and trucks	(683,122)	(103,777)	-	(786,899)
Machinery and equipment	<u>(309,974)</u>	<u>(36,757)</u>	<u>-</u>	<u>(346,731)</u>
Total accumulated depreciation	<u>(27,964,834)</u>	<u>(2,464,147)</u>	<u>-</u>	<u>(30,428,981)</u>
Total capital assets being depreciated, net	<u>76,476,263</u>	<u>(715,984)</u>	<u>-</u>	<u>75,760,279</u>
Total capital assets, net	<u>\$ 78,704,699</u>	<u>\$ 243,770</u>	<u>\$ 866,487</u>	<u>\$ 78,081,982</u>

Depreciation was charged to business-type activities as follows:

Water, gas, and sewer	<u>\$ 2,464,147</u>
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NOTE 5. RISK MANAGEMENT

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

NOTE 6. CAPITAL LEASES

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

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

24

NOTE 6. CAPITAL LEASES (Continued)

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2017, were as follows:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$ 31,284	\$ 64,226
2019	29,496	62,666
2020	29,496	61,108
2021	-	15,032
2022	-	-
Total minimum lease payments	90,276	203,032
Less amount representing interest	(3,721)	(8,032)
Present value of net minimum lease payments	<u>\$ 86,555</u>	<u>\$ 195,000</u>

Following is a summary of property held by the City under capital leases at June 30, 2017:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 182,676	\$1,070,990
Less accumulated depreciation	(49,960)	(751,478)
	<u>\$ 132,716</u>	<u>\$ 319,512</u>

	<u>Amount Outstanding 6/30/2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2017</u>	<u>Amounts Due Within One Year</u>
Governmental activities leases	\$ 124,339	\$ -	\$ (37,784)	\$ 86,555	\$ 29,436
Business-type activities leases	\$ 255,000	\$ -	\$ (60,000)	\$ 195,000	\$ 60,000

NOTE 7. LONG-TERM DEBT

Long-term debt at June 30, 2017 consists of the following:

Governmental Activities

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

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

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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NOTE 7. LONG-TERM DEBT (Continued)

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

On July 8, 2014, the City borrowed \$160,000 from Mountain Association for Community Economic Development, Inc. to upgrade city properties. The loan agreement provides for 120 monthly payments of \$1,821 to be made beginning August 8, 2014 with final payment due on July 7, 2024. The loan bears interest at 5.00%.

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

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

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

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

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville, Kentucky Revenue Bonds, Series 2011 Issue. Principal due in February of each year, interest payable semi-annually in February and August of each year.	\$1,030,000	Variable	01/2031
Less:			
Unamortized discount	<u>18,255</u>		
	<u>\$1,011,745</u>		

	<u>Amount Outstanding 6/30/2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2017</u>	<u>Amounts Due Within One Year</u>
Revenue Bond – Series 2011	\$ 1,080,000	\$ -	\$ (50,000)	\$ 1,030,000	\$ 55,000
Sipp Theatre loan payable	60,000	-	(15,000)	45,000	15,000
Ambulance/police cruiser loan payable	-	39,900	(1,057)	38,843	12,907
Police cruiser loan payable	-	15,000	(397)	14,603	4,442

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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NOTE 7. LONG-TERM DEBT (Continued)

	<u>Amount Outstanding 6/30/2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/2017</u>	<u>Amounts Due Within One Year</u>
Street sweeper loan payable	76,336	-	(34,652)	41,684	35,645
Stafford House loan payable	192,234	-	(14,201)	178,033	11,554
MACED loan payable	123,236	20,918	(14,078)	130,076	15,713
Working capital loan payable	253,713	-	(253,713)	-	-
Pickup truck loan payable	16,961	-	(8,330)	8,631	8,631
	1,802,480	75,818	(391,428)	1,486,870	158,892
Unamortized bond discount	(19,175)	-	920	(18,255)	-
Long-Term Debt	<u>\$ 1,783,305</u>	<u>\$ 75,818</u>	<u>\$ (390,508)</u>	<u>\$ 1,468,615</u>	<u>\$ 158,892</u>

Principal and interest payments to be made on all long-term debt at June 30, 2017, 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>
2018	\$ 55,000	\$ 103,892	\$ 158,892	\$ 62,472	\$ 221,364
2019	55,000	67,681	122,681	57,468	180,149
2020	60,000	62,169	122,169	52,955	175,124
2021	60,000	30,555	90,555	48,506	139,061
2022	65,000	31,733	96,733	44,927	141,660
2023-2027	365,000	109,817	474,817	164,473	639,290
2028-2031	370,000	51,023	421,023	53,037	474,060
	<u>\$ 1,030,000</u>	<u>\$ 456,870</u>	<u>\$ 1,486,870</u>	<u>\$ 483,838</u>	<u>\$ 1,970,708</u>

Business-Type Activities

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
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.	\$ 53,000	5.00%	02/2026
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	316,600	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	261,000	4.50%	07/2038



CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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NOTE 7. LONG-TERM DEBT (Continued)

City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	219,500	4.125%	07/2046
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City of Paintsville Combined Utility Revenue Bonds, Series 2011 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	12,641,500	2.00%	01/2051
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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.	670,000	2.65%	02/2026
	<u>14,161,600</u>		

Notes:

Note payable to Citizens National Bank, due in 120 monthly installments of principal and interest of \$5,734. (sewer plant upgrade)	547,332	2.73%	06/2026
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Note Payable to Citizens National Bank, due in 59 monthly installments of principal and interest of \$18,704 and one final payment of \$3,710,145. (Paintsville Lake water storage space- Dept of Army)	4,104,153	1.988%	04/2020
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Note payable to First Commonwealth Bank, due in 48 monthly installments of principal and interest of \$6,038. (Kenworth Vac Truck)	88,990	2.56%	10/2018
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Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest. (B98-02)	972,274	1.30%	06/2032
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Note payable to Kentucky Infrastructure Authority, due in semi- annual installments of principal and interest, in June and December of each year. (F08-10)	5,924,566	1.00%	06/2035
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Note payable to Kentucky Infrastructure Authority, due in semi- annual installments of principal and interest, in June and December of each year. (A209-34)	436,310	1.00%	12/2032
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Note payable to Kentucky Infrastructure Authority, due in semi- annual installments of principal and interest, in June and December of each year. (A05-04)	204,264	1.00%	06/2026
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	<u>12,277,889</u>		
	26,439,489		

Add:

Unamortized premium	<u>23,426</u>		
	<u>\$26,462,915</u>		

CITY OF PAINTSVILLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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NOTE 7. LONG-TERM DEBT (Continued)

The Utility Revenue Bonds and the Kentucky Water Revenue Bonds are obligations payable solely from the revenues of the Commission and are further secured by a statutory mortgage lien on the Commission's utility plant. The bond covenants require the establishment of various sinking funds, reserve funds, depreciation funds and an operations and maintenance fund which are restricted for specific purposes. The bond resolutions also require the Commission to maintain a debt service coverage ratio of 1.2 to 1. The debt service coverage ratio was 1.05 at June 30, 2017.

	Amount Outstanding 6/30/2016	Additions	Deductions	Amount Outstanding 6/30/2017	Amounts Due Within One Year
Combined Utility Refunding Bond – 1978 Issue	\$ 104,000	\$ -	\$ (51,000)	\$ 53,000	\$ 53,000
Water Revenue Bond – Series 1994	327,300	-	(10,700)	316,600	11,300
Water Revenue Bond – Series 1998	268,500	-	(7,500)	261,000	7,500
Water Revenue Bond – Series 2006	223,500	-	(4,000)	219,500	4,000
Combined Utility Revenue Bonds – Series 2011	12,865,000	-	(223,500)	12,641,500	229,500
Public Projects Revenue Bond – Series 2011 (B)	930,000	-	(260,000)	670,000	270,000
Citizens National Bank (sewer plant upgrade)	600,000	-	(52,668)	547,332	54,179
Citizens National Bank (Rt 40 shop building)	222,061	-	(222,061)	-	-
Citizens National Bank (Dept of the Army loan)	4,244,335	-	(140,182)	4,104,153	143,070
First Commonwealth Bank (vac truck)	158,166	-	(69,176)	88,990	64,967
KIA Loan Payable (Honey Branch)	1,030,617	-	(58,343)	972,274	59,105
KIA Loan Payable (Paintsville Lake water plant)	6,223,550	-	(298,984)	5,924,566	301,981
KIA Loan Payable (wastewater treatment plant)	462,210	-	(25,900)	436,310	26,159
KIA Loan Payable (wastewater treatment plant)	225,850	-	(21,586)	204,264	21,801
	27,885,089	-	(1,445,600)	26,439,489	1,246,562
Unamortized Bond Premium	27,028	-	(3,602)	23,426	-
Long-Term Debt	<u>\$ 27,912,117</u>	<u>\$ -</u>	<u>\$ (1,449,202)</u>	<u>\$ 26,462,915</u>	<u>\$ 1,246,562</u>

Principal and interest payments to be made on all long-term debt at June 30, 2017, for each of the next five years and thereafter are as follows:

Year Ending June 30	Bonds	Notes	Total Principal	Total Interest	Total
2018	\$ 575,300	\$ 671,262	\$ 1,246,562	\$ 490,351	\$ 1,736,913
2019	539,800	639,036	1,178,836	463,139	1,641,975
2020	282,900	4,290,276	4,573,176	424,838	4,998,014
2021	290,000	481,044	771,044	347,978	1,119,022
2022	299,200	487,116	786,316	335,655	1,121,971
2023-2027	1,621,900	2,436,440	4,058,340	1,470,074	5,528,414
2028-2032	1,789,900	2,194,816	3,984,716	1,140,821	5,125,537
2033-2037	2,017,600	1,077,899	3,095,499	822,186	3,917,685
2038-2042	2,154,500	-	2,154,500	577,743	2,732,243
2043-2047	2,434,000	-	2,434,000	342,437	2,776,437
2048-2051	2,156,500	-	2,156,500	87,695	2,244,195
	<u>\$14,161,600</u>	<u>\$12,277,889</u>	<u>\$26,439,489</u>	<u>\$ 6,502,917</u>	<u>\$32,942,406</u>

NOTE 8. PRIOR PERIOD ADJUSTMENT

The proprietary fund – utilities made a prior period adjustment to record the allowance for uncollectibles previously omitted in the prior year:

<u>Net Position, as Previously Reported</u>	<u>Prior Period Adjustment Net Position</u>	<u>Net Position, as Restated</u>
\$ <u>56,445,855</u>	\$ <u>(151,189)</u>	\$ <u>56,294,666</u>

The effect on prior year's Statement of Net Position was an overstatement of Net Position of \$151,189.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 10. GRANTS

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

NOTE 11. SUBSEQUENT EVENT

Management has evaluated and has not recognized any subsequent events through December 28, 2017, the date the financial statements were available to be issued.

NOTE 12. DEFINED PENSION

General Information about the Pension Plan

Plan Description

Employees of the City of Paintsville, Kentucky are provided with pensions through a cost-sharing multiple-employer defined benefit plan administered by the County Employee's Retirement System. Section 61.645 of the Kentucky Revised Statutes grants to CERS Board of Trustees and the Kentucky Legislature the authority to review administration, benefit terms, investments, and funding of the plan. The plan, created under Kentucky Revised Statute (KRS) 78.520, provides for retirement, disability, and death benefits to plan members. CERS issues a publicly available financial report that can be obtained at kyret.ky.gov.

Benefits Provided

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

NOTE 12. DEFINED PENSION (Continued)

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

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

Contributions

Per State Statutes, contribution requirements of the active employees are established and may be amended by the CERS Board. Employees hired before 9/1/08 are required to contribute 5.00 percent of their annual pay and employees hired after 9/1/08 are required to contribute 6.00 percent of their annual pay. The City's contractually required contribution rate for the year ended June 30, 2017, was 18.68 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$748,362 for the year ended June 30, 2017.

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

At June 30, 2017, the City reported a liability of \$8,262,404 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the City's proportion was 0.168 percent, which was a decrease of 0.006 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$1,310,475. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 12. DEFINED PENSION (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 36,072	\$ -
Changes of assumptions	437,697	-
Net difference between projected and actual earnings on pension plan investments	776,751	-
Changes in proportion and differences between City contributions and proportionate share of contributions	77,652	177,476
City contributions subsequent to the measurement date	<u>748,362</u>	<u>-</u>
Total	<u>\$ 2,076,534</u>	<u>\$ 177,476</u>

\$748,362 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 447,019
2018	293,278
2019	285,196
2020	125,203
2021	-
Thereafter	-

Actuarial Methods and Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2015 are as follows:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

NOTE 12. DEFINED PENSION (Continued)

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

Projected future benefits for all current plan members were projected through 2117.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Real Estate	5%	4.50%
Combined Fixed Income	19%	1.50%
Cash	2%	(0.25)%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate.

NOTE 12. DEFINED PENSION (Continued)

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

The following presents the City's proportionate share of the Net Pension Liability using the discount rate of 7.50%, as well as what the City's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is one percentage-point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

	<u>1.0% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1.0% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$10,296,255	\$8,262,404	\$6,518,931

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2016 Comprehensive Annual Financial Report at kyret.ky.gov.

Payable to the Pension Plan

At June 30, 2017, the City reported a payable of \$76,646 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

NOTE 13. DEFICIT FUND BALANCE – 911 FUND

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

AUDITOR'S REPORTS



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Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paintsville, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Paintsville, Kentucky's basic financial statements and have issued our report thereon dated December 28, 2017, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Paintsville, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Paintsville, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Paintsville, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2017-002 to be a significant deficiency.

Compliance and Other Matters

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

City of Paintsville, Kentucky's Response to Findings

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

Purpose of this Report

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
December 28, 2017

**CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017**

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MATERIAL WEAKNESS

2017 – 001 Segregation of Duties

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

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

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

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

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

SIGNIFICANT DEFICIENCY

2017 - 002 Financial Reporting

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 620,000	\$ 620,000	\$ 564,531	\$ (55,469)
Payments in lieu of taxes	-	-	36,709	36,709
Franchise fees and taxes	120,000	120,000	156,215	36,215
Police court revenue	10,000	10,000	8,339	(1,661)
Police services	5,000	5,000	5,354	354
Building permits	10,000	10,000	8,082	(1,918)
Licenses	1,000	1,000	230	(770)
ABC fees	150,000	150,000	147,311	(2,689)
Garbage collection fees	800,000	800,000	790,563	(9,437)
Taxes on insurance premiums	520,000	520,000	526,172	6,172
Occupational taxes	1,670,000	1,670,000	1,674,577	4,577
Motor vehicle tax	24,000	24,000	28,050	4,050
Ambulance receipts	1,430,000	1,430,000	1,228,173	(201,827)
Firefighter and police incentive pay	132,000	132,000	141,961	9,961
Rental/Lease revenue	33,600	33,600	58,578	24,978
City pool and concession revenue	12,000	12,000	13,822	1,822
Golf course revenue	193,500	193,500	206,277	12,777
Advertising	2,000	2,000	-	(2,000)
Miscellaneous intergovernmental revenue	55,400	55,400	57,089	1,689
Grants	44,500	44,500	361,315	316,815
Contributions	-	-	106,851	106,851
Other receipts	20,000	20,000	74,754	54,754
Total revenues	5,853,000	5,853,000	6,194,953	341,953
Expenditures:				
General government:				
Administrative salaries	305,500	305,500	303,855	1,645
Payroll tax expense	29,000	29,000	33,382	(4,382)
Employee benefits	122,000	122,000	106,329	15,671
City attorney's fees	24,000	24,000	39,157	(15,157)
Mayor's expense	3,000	3,000	392	2,608
Postage	4,000	4,000	3,020	980
Advertising	5,000	5,000	5,097	(97)
Office supplies and printing	11,000	11,000	18,082	(7,082)
Telephone	10,500	10,500	14,694	(4,194)
Workmen's compensation insurance	3,075	3,075	3,072	3
Audit and accounting fees	15,000	15,000	2,000	13,000
Insurance and bonding	13,407	13,407	18,665	(5,258)
Utilities	200,000	200,000	254,178	(54,178)
Preparation of property tax bills	14,000	14,000	15,753	(1,753)

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

38

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Senior Citizens	55,240	55,240	51,277	3,963
Big Sandy ADD dues	1,500	1,500	1,500	-
Equipment lease expense	8,000	8,000	6,986	1,014
Main Street Program	15,000	15,000	15,000	-
Capital expenditures	-	-	120,186	(120,186)
Debt service:				
Interest expense	-	-	63,500	(63,500)
Principal retirement	378,426	378,426	317,791	60,635
Other general expenses	80,250	80,250	102,433	(22,183)
Building inspector expense	2,000	2,000	1,575	425
Total general government	<u>1,299,898</u>	<u>1,299,898</u>	<u>1,497,924</u>	<u>(198,026)</u>
Police:				
Salaries and wages	343,000	343,000	320,521	22,479
Payroll tax expense	30,100	30,100	22,767	7,333
Employee benefits	156,000	156,000	128,637	27,363
Gasoline and oil	25,000	25,000	18,537	6,463
Repairs and maintenance	7,500	7,500	5,350	2,150
Workmen's compensation insurance	24,550	24,550	24,540	10
Insurance and bonding	33,982	33,982	29,383	4,599
Utilities	-	-	8,111	(8,111)
Training	2,500	2,500	809	1,691
Telephone	15,000	15,000	10,844	4,156
Uniforms and uniforms cleaning	5,000	5,000	1,704	3,296
Capital expenditures	-	-	63,000	(63,000)
Debt service:				
Interest expense	-	-	81	(81)
Principal retirement	15,000	15,000	794	14,206
Other expenditures	7,500	7,500	8,999	(1,499)
Total police	<u>665,132</u>	<u>665,132</u>	<u>644,077</u>	<u>21,055</u>
Fire/EMS:				
Salaries and wages	1,091,000	1,091,000	1,057,274	33,726
Payroll tax expense	97,000	97,000	74,842	22,158
Employee benefits	404,302	404,302	353,556	50,746
Gasoline and oil	59,500	59,500	31,143	28,357
Repairs and maintenance	33,000	33,000	33,284	(284)
Insurance	39,078	39,078	46,584	(7,506)
Telephone	16,000	16,000	11,916	4,084
Utilities	13,000	13,000	22,345	(9,345)
Uniforms and uniforms cleaning	11,000	11,000	9,925	1,075
Training	3,000	3,000	705	2,295
Training center expenses	5,000	5,000	6,242	(1,242)
Workmen's compensation insurance	94,150	94,150	94,116	34

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

39

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Billing service	91,000	91,000	73,943	17,057
Medical supplies	36,000	36,000	46,016	(10,016)
Capital expenditures	26,738	26,738	27,900	(1,162)
Debt service:				
Interest expense	-	-	67	(67)
Principal retirement	15,000	15,000	660	14,340
Other expenses	30,900	30,900	9,748	21,152
Total fire	<u>2,065,668</u>	<u>2,065,668</u>	<u>1,900,266</u>	<u>165,402</u>
Recreation:				
Recreation salaries	127,000	127,000	124,711	2,289
Payroll tax expense	12,200	12,200	10,530	1,670
Employee benefits	58,300	58,300	39,344	18,956
Insurance	16,000	16,000	13,364	2,636
Supplies	13,000	13,000	26,011	(13,011)
Recreational programs	5,000	5,000	3,781	1,219
Workmen's compensation insurance	11,850	11,850	11,844	6
Utilities	31,000	31,000	51,094	(20,094)
Capital expenditures	-	-	57,533	(57,533)
Other expenses	32,700	32,700	18,853	13,847
Total recreation	<u>307,050</u>	<u>307,050</u>	<u>357,065</u>	<u>(50,015)</u>
Streets:				
Salaries and wages	252,000	252,000	233,165	18,835
Payroll tax expense	25,500	25,500	18,658	6,842
Employee benefits	125,000	125,000	107,112	17,888
Uniforms	8,500	8,500	1,926	6,574
Gasoline and oil	25,000	25,000	17,622	7,378
Insurance	20,410	20,410	21,908	(1,498)
Supplies and parts	18,000	18,000	16,888	1,112
Workmen's compensation insurance	22,750	22,750	22,716	34
Debt service:				
Interest expense	-	-	2,182	(2,182)
Principal retirement	45,500	45,500	42,981	2,519
Capital expenditures	-	-	163,580	(163,580)
Other expenses	18,500	18,500	23,447	(4,947)
Total streets	<u>561,160</u>	<u>561,160</u>	<u>672,185</u>	<u>(111,025)</u>
Sanitation:				
Salaries and wages	228,000	228,000	205,806	22,194
Payroll tax expense	21,200	21,200	16,808	4,392
Employee benefits	122,000	122,000	102,232	19,768

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (Continued)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Gasoline and oil	24,000	24,000	15,641	8,359
Truck repairs and maintenance	15,000	15,000	8,569	6,431
Workmen's compensation insurance	29,100	29,100	29,088	12
Hauling and dumping expense	195,000	195,000	200,821	(5,821)
Insurance	9,567	9,567	10,176	(609)
Uniforms	7,500	7,500	2,301	5,199
Utilities	-	-	6,417	(6,417)
Garage expenses	5,000	5,000	7,948	(2,948)
Debt service:				
Interest expense	-	-	2,438	(2,438)
Principal retirement	30,000	30,000	27,059	2,941
Capital expenditures	-	-	16,892	(16,892)
Other expenses	9,800	9,800	3,754	6,046
Total sanitation	<u>696,167</u>	<u>696,167</u>	<u>655,950</u>	<u>40,257</u>
Golf Course:				
Salaries and wages	157,000	157,000	159,197	(2,197)
Payroll tax expense	16,500	16,500	13,751	2,749
Employee benefits	42,000	42,000	38,528	3,472
Workmen's compensation insurance	8,150	8,150	8,148	2
Maintenance and repairs	38,000	38,000	48,728	(10,728)
Gasoline and oil	11,500	11,500	10,208	1,292
Insurance	10,000	10,000	10,884	(884)
Utilities and telephone	14,500	14,500	44,674	(30,174)
Other expenses	32,550	32,550	75,174	(42,624)
Total golf course	<u>330,200</u>	<u>330,200</u>	<u>409,292</u>	<u>(79,092)</u>
 Total Expenditures	<u>5,925,275</u>	<u>5,925,275</u>	<u>6,136,759</u>	<u>(211,484)</u>
 Excess of revenues over (under) expenditures	<u>(72,275)</u>	<u>(72,275)</u>	<u>58,194</u>	<u>130,469</u>
 Other Financing Sources/(Uses):				
Transfer in from Tourism	205,000	205,000	195,000	(10,000)
Proceeds from sale of capital assets	-	-	22,052	22,052
Proceeds from borrowing	-	-	75,818	75,818
 Total other financing sources (uses)	<u>205,000</u>	<u>205,000</u>	<u>292,870</u>	<u>87,870</u>
 Net change in fund balance	<u>\$ 132,725</u>	<u>\$ 132,725</u>	<u>351,064</u>	<u>\$ 218,339</u>
 Fund balance - beginning			<u>761,170</u>	
 Fund balance - ending			<u>1,112,234</u>	

CITY OF PAINTSVILLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
PAINTSVILLE TOURISM COMMISSION
FOR THE YEAR ENDED JUNE 30, 2017

41

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes:				
Restaurant tax	\$ 750,513	\$ 750,513	\$ 719,874	\$ (30,639)
Room occupancy tax	73,500	73,500	57,164	(16,336)
Country Music Museum:				
Gift Shop/Rental/Ticket Sales	50,300	50,300	55,369	5,069
Interest	-	-	261	261
Miscellaneous revenues	45,900	45,900	34,261	(11,639)
Total revenues	920,213	920,213	866,929	(53,284)
Expenditures:				
Salaries and wages	172,330	172,330	162,748	9,582
Payroll tax expense	19,983	19,983	15,132	4,851
Employee benefits	53,835	53,835	44,161	9,674
Contract labor	15,100	15,100	4,175	10,925
Administration	12,500	12,500	10,703	1,797
Travel	-	-	-	-
Telephone and utilities	35,465	35,465	43,127	(7,662)
Donations	82,025	82,025	76,510	5,515
Postage	1,400	1,400	1,036	364
General office expense	3,100	3,100	11,983	(8,883)
Gift shop expense	10,220	10,220	10,293	(73)
Advertising and promotional	125,750	125,750	104,681	21,069
Membership dues	2,825	2,825	2,424	401
Van and bus expense	1,700	1,700	1,991	(291)
Legal and professional expense	9,000	9,000	21,773	(12,773)
Taxes and licenses	775	775	819	(44)
Maintenance and repairs	25,680	25,680	15,929	9,751
Mountain Homeplace	7,000	7,000	-	7,000
Bank charges	750	750	697	53
Insurance	30,000	30,000	28,755	1,245
Security	660	660	619	41
Sipp expenses	28,000	28,000	12,355	15,645
Stafford house expenses	10,750	10,750	11,175	(425)
Other expense	37,365	37,365	27,747	9,618
Debt service:				
Interest expense	8,799	8,799	6,213	2,586
Principal retirement	29,201	29,201	29,201	-
Capital outlay	1,000	1,000	86,765	(85,765)
Total expenditures	725,213	725,213	731,012	(5,799)
Excess of revenues over (under) expenditures	195,000	195,000	135,917	(59,083)

CITY OF PAINTSVILLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE (Continued)
 PAINTSVILLE TOURISM COMMISSION
 FOR THE YEAR ENDED JUNE 30, 2017

42

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financing sources (uses):				
Proceeds from borrowing	-	-	-	-
Transfer out to General Fund	<u>(195,000)</u>	<u>(195,000)</u>	<u>(195,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(195,000)</u>	<u>(195,000)</u>	<u>(195,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(59,083)	<u>\$ (59,083)</u>
Fund balance - beginning			<u>248,041</u>	
Fund balance - ending			<u>\$ 188,958</u>	

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (CERS)
JUNE 30, 2017

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

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

CITY OF PAINTSVILLE, KENTUCKY
SCHEDULE OF CITY CONTRIBUTIONS (CERS)
JUNE 30, 2017

44

	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Contractually required contribution	\$ 720,668	\$ 687,561	\$ 748,362
Contributions in relation to the contractually required contribution	<u>720,668</u>	<u>687,561</u>	<u>748,362</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 4,078,483	\$ 4,030,252	\$ 4,006,221
Contributions as a percentage of covered-employee payroll	17.67%	17.06%	18.68%

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

**CITY OF PAINTSVILLE, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CERS)
FOR THE YEAR ENDED JUNE 30, 2017**

45

NOTE A – CHANGES OF BENEFIT TERMS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

NOTE B – CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal years ended 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

**SUPPLEMENTARY
AND
OTHER INFORMATION**

CITY OF PAINTSVILLE, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR FUNDS
JUNE 30, 2017

46

	Special Revenue Funds			Total Non-Major Governmental Funds
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	
ASSETS				
Cash and cash equivalents	\$ 15,631	\$ 27,656	\$ 37,328	\$ 80,615
Due from General Fund	-	90,602	-	90,602
Total Assets	<u>\$ 15,631</u>	<u>\$ 118,258</u>	<u>\$ 37,328</u>	<u>\$ 171,217</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 2,960	\$ 2,960
Accrued vacation	-	-	5,355	5,355
Due to General Fund	-	-	507,159	507,159
Total Liabilities	<u>-</u>	<u>-</u>	<u>515,474</u>	<u>515,474</u>
Fund Balances:				
Restricted for:				
Streets	-	118,258	-	118,258
Other	15,631	-	-	15,631
Unassigned	-	-	(478,146)	(478,146)
Total Fund Balances	<u>15,631</u>	<u>118,258</u>	<u>(478,146)</u>	<u>(344,257)</u>
Total Liabilities and Fund Balances	<u>\$ 15,631</u>	<u>\$ 118,258</u>	<u>\$ 37,328</u>	<u>\$ 171,217</u>

CITY OF PAINTSVILLE, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

47

	Special Revenue Funds			
	Coal and Mineral Tax Severance Fund	Municipal Road Aid Fund	911 Fund	Total Non-Major Governmental Funds
Revenues:				
Intergovernmental revenues	\$ 33,323	\$ 67,328	\$ 26,552	\$ 127,203
Charges for services	-	-	326,208	326,208
Interest	-	-	1	1
Total revenues	33,323	67,328	352,761	453,412
Expenditures:				
Current:				
Public safety	-	-	397,104	397,104
Streets	6,874	4,765	-	11,639
Sanitation	3,750	-	-	3,750
Recreation	12,475	-	-	12,475
Capital outlay	-	44,981	26,552	71,533
Total expenditures	23,099	49,746	423,656	496,501
Excess of revenues over (under) expenditures	10,224	17,582	(70,895)	(43,089)
Other financing sources (uses):				
Proceeds from borrowing	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	10,224	17,582	(70,895)	(43,089)
Fund balances - beginning	5,407	100,676	(407,251)	(301,168)
Fund balances - ending	<u>\$ 15,631</u>	<u>\$ 118,258</u>	<u>\$(478,146)</u>	<u>\$ (344,257)</u>

