

RECEIVED

MAY 07 2013

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF APPALACHIAN WASTE CONTROL,)
INC. TO TRANSFER OWNERSHIP AND CONTROL) CASE NO. ~~2012-00035~~ *2013-00183*
)

APPLICATION

Applicant Appalachian Waste Control, Inc. (hereinafter "Appalachian Waste") hereby applies to the Kentucky Public Service Commission ("Commission") for approval pursuant to KRS 278.020(5) of a transfer of ownership and control of a jurisdictional utility, and any other approval necessary relating to a proposed transaction with the Paintsville Utilities Commission for and on behalf of the City of Paintsville, Kentucky (hereinafter "Paintsville Utilities"). In support of their request, Appalachian Waste states as follows:

THE APPLICANT

1. The Applicant, Appalachian Waste is a Kentucky Corporation solely owned by Jeffrey Lance Bowling. This application is submitted by John B. Baughman, a receiver appointed by the Franklin Circuit Court to operate and control the Applicant's waste water treatment plants which now consists solely of the Neil Price Waste Water Treatment Plant in Johnson County, Kentucky.

PAINTSVILLE UTILITIES

2. Paintsville Utilities is a municipal utility under Kentucky law which provides utility services to the City of Paintsville, a 4th class City, and to Johnson County. Paintsville Utilities joins in the application for the purpose of verifying its intent to acquire the Neil

Price Waste Water Treatment Plant and the Thelma No. 1 and No. 2 Waste Water Treatment Plants, in accordance with the terms of Exhibit A.

THE RECEIVER

3. The Receiver maintaining this action is John B. Baughman, was is appointed by an Order of the Franklin Circuit Court to act in said capacity in a civil action known as *Environmental and Public Protection Cabinet vs. Jeffery Lance Bowling, et al.*, Franklin Circuit Court, Civil Action No. 05-CI-1007.

AGREEMENT WITH PAINTSVILLE UTILITIES

4. The action requested by this application is made pursuant to an agreement between the undersigned and the Paintsville Utilities pursuant to an agreement dated February 14, 2013, a copy of which is attached hereto as Appalachian Waste Exhibit A. The undersigned's authority to execute the agreement as Exhibit A is pursuant to an Order of the Franklin Circuit Court dated February 22, 2013, copy of which is attached hereto and marked Appalachian Waste Exhibit 2.

5. Appalachian Waste is authorized by this Commission to provide treatment of sewage for compensation within the Commonwealth of Kentucky. (See Order dated _____, Case No. _____.) The Applicant's facilities constitute a subdivision treatment plant and pertinent collection and transmission system in a county containing a city of the 4th class. The waste water treatment plant, which is the subject of this application, is known as Neil Price Waste Water Treatment Plant and provides service to six customers.

6. Copies of Orders, pleadings and other communication regarding this application should be directed to:

John B. Baughman
Hazelrigg & Cox, LLP
415 West Main Street, Suite 1
P. O. Box 670
Frankfort, Kentucky 40602-0676

Michael S. Endicott
Attorney at Law
225 Court Street
P. O. Box 181
Paintsville, Kentucky 41240
Attorney for Thelma WWTPs

John West
Environmental Protection Cabinet
Division of Air
300 Fair Oaks Lane
Frankfort, Kentucky 40601-1135

Gerald Wuetcher
Kentucky Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

A. David Blankenship
328 East Court Street
Prestonsburg, Kentucky 41653
Attorney for Paintsville Utilities

PROPOSED TRANSACTION

7. Appalachian Waste proposes to transfer to Paintsville Utilities which proposes to acquire, all the utilities, assets and liabilities of the Applicant pursuant to the agreement set out as Exhibit A to this application.

8. Paintsville Utilities as an agent of the undersigned receiver is currently operating the Neil Price Waste Water Treatment Plant and pursuant to Exhibit A the undersigned will transfer all real and personal property owned by the Applicant in the operation of the Neil Price Waste Water Treatment Plant to Paintsville Utilities. After the transaction described in Exhibit A is complete, the Applicant will have completely divested itself of any property, equipment and tangible property, contractual rights and any other incidents of ownership relative to the Neil Price Waste Water Treatment Plant.

THELMA WASTE WATER TREATMENT PLANT

9. Paintsville Utilities anticipates its operation of the Neil Price Waste Water Treatment Plant will be conducted in conjunction with its operation of the Thelma Waste

Water Treatment Plants No. 1 and No. 2 which are in close proximity to the Neil Price Waste Water Treatment Plant. A separate application will be filed with this Commission by the owners of the Thelma Waste Water Treatment Plants.

KRS 278.020(4) TRANSFER REQUIREMENTS

10. The Commission should approve the transfer by Appalachian Waste pursuant to KRS 278.020(4). Paintsville Utilities has the financial, technical, and managerial abilities to continue to provide reasonable service following the consummation of the Proposed Transaction.

11. Paintsville Utilities has acquired the sum of \$50,000 pursuant to a Separate Environmental Project ("SEP") with the Environmental and Public Protection Cabinet which it holds in a separate account. It is anticipated those funds will be used for improvements to, not only the Neil Price Waste Water Treatment Plant, but also the Thelma Waste Water Treatment Plants.

12. Paintsville Utilities has provided a copy of its most recent audit and a list of its certified operators by electronic mail in conjunction with the application.

13. If this application is granted, Paintsville Utilities does not anticipate any immediate increase in rate charges to customers of Neil Price Waste Water Treatment Plant or Thelma No. 1 and No. 2 Waste Water Treatment Plants.

14. Prior to the approval requested herein, Neil Price customers will be charged and will incur the current rate and classification as set forth in the tariff currently on file with this Commission. A rate change is not a part of this transaction.

15. The Applicant acknowledges that until the proposed transfer is approved this Commission retains jurisdiction over the Applicant and its facilities and it agrees to continue to comply with all the Commission regulations.

16. The proposed transaction is lawful and is made for a proper purpose consistent with the public interest.

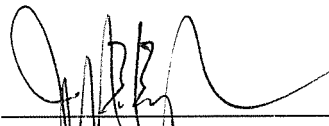
CONCLUSION

WHEREFORE, Applicant, Appalachian Waste Control, Inc., by and through its Receiver, John B. Baughman, requests an Order of the Commission at the earliest possible date which:

a) Grants approval pursuant to KRS 278.020(4) for the transfer to Paintsville Utilities of ownership and control of the Neil Price Waste Water Treatment Plant and Thelma No. 1 and No. 2 Waste Water Treatment Plants; and

b) Declares that no other Commission approvals are necessary for the proposed transaction or, in the alternative, grants any other approvals necessary.

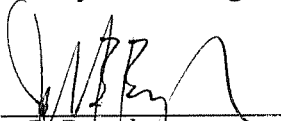
Respectfully submitted,



John B. Baughman
Hazelrigg & Cox, LLP
415 West Main Street, Suite 1
P. O. Box 676
Frankfort, Kentucky 40601-0676
**Receiver and Attorney for Appalachian
Waste Water Treatment Plant, Inc.**


VERIFICATIONS

I, John B. Baughman, Receiver and Attorney for Appalachian Waste Water Treatment Plant, Inc., do hereby swear or affirm that the contents of the foregoing Application are true and accurate to the best of my knowledge.



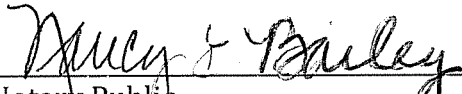
John B. Baughman

I ERIC RATLIFF, as GENERAL MANAGER for Paintsville Utilities, do hereby swear or affirm that the contents of the foregoing Application are true and accurate to the best of my knowledge.



COMMONWEALTH OF KENTUCKY)
)
COUNTY OF FRANKLIN)

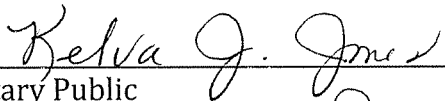
Signed and sworn to before me on the 26th of April, 2013, by John B. Baughman, Receiver and Attorney for Appalachian Waste Water Treatment Plant, Inc.



Notary Public
My Commission expires: 03-11-14

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF ~~FRANKLIN~~ JOHNSON)

Signed and sworn to before me on the 29th of April, 2013, by Eric Ratliff as General Manager for Paintsville Utilities.



Notary Public
My Commission expires: July 23, 2013

CERTIFICATE OF FILING AND MAILING

I hereby certify that on this ^{7th}~~6th~~ day of May, 2013, the original and ten (10) copies of this Application were hand delivered to the Executive Director, Public Service Commission, 211 Sower Blvd., Frankfort, KY 40602 and that a copy was sent, via U.S. Mail, to:


Assistant Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601

Gerald Wuetcher
Kentucky Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

John West
Environmental Protection Cabinet
Division of Air
300 Fair Oaks Lane
Frankfort, Kentucky 40601-1135

Michael S. Endicott
Attorney at Law
225 Court Street
P. O. Box 181
Paintsville, Kentucky 41240

A. David Blankenship
328 East Court Street
Prestonsburg, Kentucky 41653



Attorney for Applicant

TABLE OF EXHIBITS
TO APPLICATION

Exhibit	Description
A	Appalachian Waste (Applicant Agreement dated February 14, 2013)
B	Appalachian Waste (Order of Franklin Circuit Court dated February 22, 2013)

ALSO ATTACHED

Paintsville Utilities Commission Audit-June 30, 2012

Paintsville Utilities Commission Licensed Operators

AGREEMENT

THIS AGREEMENT made and entered into this the 14TH day of FEBRUARY, 2013, by and between the Paintsville Utilities Commission for and on behalf of the City of Paintsville, hereinafter referred to as "PUC", and Appalachian Waste Control, by and through its duly appointed Receiver, Hon. John Baughman, hereinafter referred to as "AWC".

WITNESSETH

WHEREAS, AWC desires to transfer ownership and control of that certain wastewater package treatment plant contained at the Neil Price Subdivision (hereinafter referred to as "Neil Price Package Plant") and the PUC desires to acquire ownership and control of the Neil Price Package Plant; and

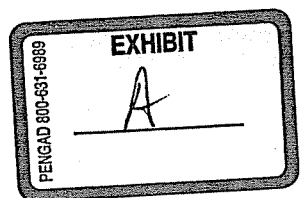
WHEREAS, the PUC and AWC now desire to formalize their agreement in writing;

NOW, THEREFORE, for valuable consideration, the legal adequacy and sufficiency of which is hereby acknowledged by all parties, the parties do covenant and agree as follows:

SECTION ONE

TRANSFER AND ACCEPTANCE

1.1 Description of Agreement. Subject to the terms and conditions of this Agreement, AWC hereby agrees to transfer unto the PUC and the PUC hereby agrees to accept from AWC ownership and control of the Neil Price Package Plant. Included in this transfer and acceptance are all rights pertaining to the Neil Price Package Plant in real property, all equipment and personal property, all easement rights, all facilities, all



contract rights and accounts of AWC, and all cash on hand. It is the intent of AWC and the PUC that this transfer and acceptance shall include all of AWC's assets, including both real and personal property, and all rights, and privileges of every kind and nature, and wheresoever situated as pertaining to the Neil Price Package Plant.

1.2 Title to be Delivered. AWC agrees to transfer marketable fee simple title to all of the real and personal property of AWC, which property shall not be subject to any lien or adverse interest of another except as may be acceptable to the PUC.

1.3 Documents of Transfer. AWC shall execute all documents of transfer, including appropriate and recordable deeds of conveyance and bills of sale. All documents of transfer shall be duly authorized by appropriate instrument of AWC.

1.4 Assumption of Debt and Contract Agreements. In consideration of the transfer of the Neil Price Package Plant property of AWC to the PUC, PUC agrees that it shall assume all of the debt of AWC relative to the Neil Price Package Plant on the date of closing. Additionally, PUC shall accept and honor all legally binding contractual agreements of AWC with its Neil Price Package Plant customers and developers, including all pay back contracts, if any. However, these assumption provisions shall only be valid and enforceable subject to the following conditions:

- 1.4.1 AWC shall use best efforts to identify to PUC all AWC debts and contracts relative to the Neil Price Package Plant; and
- 1.4.2 All conditions precedent to closing shall have been fully satisfied and complied with.

SECTION TWO

REPRESENTATIONS AND WARRANTIES OF AWC

2.1 Merchantable Title. AWC hereby represents and warrants to PUC that it has full and complete merchantable title to the real and personal properties of Neil Price Package Plant. PUC may waive any defect at its option.

2.2 Conditions of Facilities. AWC hereby represents that to the best of its knowledge the facilities at Neil Price Package Plant are in compliance with all federal, state and local law.

2.3 Financial Condition of Neil Price Package Plant. AWC hereby represents that to the best of its knowledge the last audit substantially represents the financial condition of the Neil Price Package Plant.

2.4 Adverse Proceeding. AWC hereby represents to PUC that to the best of its knowledge it is not presently a party to any judicial or administrative proceeding nor has it knowledge of any threatened or imminent judicial or administrative proceeding with the exception of the following actions:

2.4.1 That proceeding in front of the Kentucky Public Service Commission which is the impetus of this transfer; and

2.4.2 Environmental and Public Protection Cabinet v. Jeffrey Lance Bowling, et al, Franklin Circuit Court, Civil Action No. 05-CI-1007, in which action the undersigned Receiver was appointed to operate the Neil Price Package Plant and other WWTPs.

2.5 Operations. AWC hereby represents to PUC that to the best of its knowledge the operation of the Neil Price Package Plant has been and continues to be in compliance with all federal, state and local regulatory law.

SECTION THREE

OBLIGATIONS OF AWC PRIOR TO CLOSING

3.1 Obligations to Continue Management of Facilities. From and after the date of the execution of this Agreement to date of closing, AWC shall continue the management, operation and maintenance of the Neil Price Package Plant in a sound and reasonable manner and in accordance with standard practices. Additionally, AWC shall continue to collect its charges from its customers in the usual and customary manner, and shall maintain good operating and accounting records.

3.2 Prohibition Against Further Liability and Expenditures. From and after the date of the execution of this Agreement to date of closing, AWC shall not incur any additional liability or debt nor make any expenditure of funds unless such liability, debt or expenditure is reasonably necessary to the continued operations of the Neil Price Package Plant or AWC's compliance with its obligations as herein assumed. Additionally, AWC shall not enter into any additional contractual relationship with any of its customers which is not in the ordinary course of business unless the prior written consent of the PUC is obtained.

3.3 Information to be Disclosed to PUC. AWC shall make reasonable efforts to identify to PUC each and every liability, debt and contract to be assumed by PUC as provided for herein, and provide to PUC any agreements, documents or writings evidencing same. Additionally, AWC shall provide to PUC full and complete access to all of its files, records, documents, maps, and writings, and PUC may request that AWC personnel (if any) be available to PUC to be interviewed about operational matters, or otherwise provide information regarding the operation of the Neil Price Package Plant.

3.4 Access to Real and Personal Property. AWC shall provide to PUC full and complete access to the real and personal properties at Neil Price Package Plant. PUC shall have the right to fully inspect same and perform any test or study as relates to same. AWC shall identify to PUC any known defects or needs of imminent repair or replacement regarding any of the aforesaid property. Additionally, AWC shall identify and provide to PUC any manufacturer's warranties, documents of purchase, service agreements, or other written representations as related to any Neil Price Package Plant property.

SECTION FOUR

OBLIGATIONS OF PUC PRIOR TO CLOSING

4.1 Investigation. From and after the date of execution of this Agreement, PUC shall immediately commence its due diligence and inspection of the Neil Price Package Plant, including the physical assets and all documents and records relating to liabilities, debts and contracts to be assumed by PUC as provided herein, and of the documents and records relating to the financial worth and condition of AWC. PUC may employ, at its expense and discretion, any engineer, accountant, attorney or any other expert to perform any part of the investigation and inspection to be performed by PUC.

4.2 Approvals. From and after the date of the execution of this Agreement, PUC, to the extent required and not previously obtained, shall obtain any and all necessary approval for this transfer. PUC and AWC shall jointly initiate the appropriate proceedings before any state or federal agencies, specifically including the Kentucky Public Service Commission for their consent and approval of this Agreement, and the transfer and acceptance as herein provided.

4.3 Audit. From and after the date of the execution of this Agreement, PUC may, at its discretion and cost, have a certified public accountant perform an audit of AWC for the years 2010-12.

4.4 Documents of Transfer. PUC shall have prepared, at its cost, all documents of transfer, including any deeds of conveyance and bills of sale which shall be available for inspection by AWC prior to the time of closing.

SECTION FIVE

CONDITIONS PRECEDENT TO TRANSFER AND ACCEPTANCE

5.1 Conditions Precedent. Notwithstanding the foregoing transfer and acceptance, this transfer and acceptance shall be subject to the following conditions precedent:

- 5.1.1 Title to real and personal property transferred herein shall be marketable fee simple title free and clear of all liens or adverse interests except those acceptable to PUC;
- 5.1.2 The transfer and acceptance shall be approved, if legally necessary and to the extent not already obtained, by the PUC and the City of Paintsville;
- 5.1.3 The transfer and assignment shall be fully and finally approved by applicable state and federal agencies, specifically including the Kentucky Public Service Commission;
- 5.1.4 The debts to be assumed by PUC as provided for herein are acceptable to PUC at its discretion;
- 5.1.5 The liabilities to be assumed by PUC as provided for herein are acceptable to PUC at its discretion;
- 5.1.6 The contractual agreements to be assumed by PUC as provided for herein are acceptable to PUC at its discretion;
- 5.1.7 AWC shall be solvent and in a good financial condition;

5.1.8 The real and personal property to be transferred herein shall be in an acceptable condition and state of repair; and

5.1.9 All other representations and warranties of AWC to PUC have been fully satisfied and complied with.

5.2 Satisfaction of Conditions Precedent. On the date of closing, all of the above-referenced conditions precedent shall be fully satisfied and complied with. In the event any one of the aforesaid conditions precedent is not fully satisfied and complied with, PUC, at its option, may terminate this Agreement, and upon such termination, the Agreement shall be of no further legal force and effect. Upon such termination, the AWC shall not be liable to PUC in any manner whatsoever.

SECTION SIX

CLOSING

6.1 Date and Place of Closing. Upon PUC's determination that all conditions precedent have been fully satisfied and complied with, PUC shall immediately give written notice of such fact to AWC. Closing shall take place as soon as practicable following the date of said notice, but in no event shall it be more than ninety (90) days from notice.

6.2 Documents of Transfer. At the time of closing, AWC shall tender to PUC property executed documents of transfer including any appropriate resolutions of AWC authorizing the transfer and appropriate deeds of conveyance and bills of sale. Additionally, at the time of transfer, AWC shall tender to PUC all of its records and documents including, but not limited to, bank accounts, customer accounts and files, engineering plans, financial statements, audits, easements, contracts with customers, etc.

It is the intent of the parties herein that on the date of closing, any and all of the property, rights and privileges in and to the Neil Price Package Plant shall be finally assigned and transferred from AWC to the PUC.

6.3 Notice of Closing to AWC Customers. In the event there is any requirement that notification of final transfer of AWC's assets and property to the Neil Price Package Plant be given to the customers of the Neil Price Package Plant, AWC agrees to provide such notification.

SECTION SEVEN

OBLIGATIONS OF AWC SUBSEQUENT TO CLOSING

7.1 Assistance in Transition. Immediately subsequent to closing, AWC shall utilize its best efforts to assist PUC in transferring the customer accounts and files to PUC's system and to otherwise cooperate and assist PUC to finalize the transfer to property and the assumption of AWC's operations at Neil Price Package Plant by PUC. AWC shall not do any act or omit to perform any act which is adverse or inimical to this Agreement.

7.2 Dissolution of Neil Price Package Plant of AWC. At such point in time that the transfer of property from AWC to PUC has been fully finalized, and the assumption by PUC of AWC's operations at Neil Price Package Plant has been fully effectuated, AWC and PUC shall jointly file a petition, application or other pleading or document requesting dissolution of AWC's obligations in and to the Neil Price Package Plant. AWC shall perform all other acts necessary to finalize the same. All necessary costs including legal services, relating to said proceedings shall be assumed by PUC.

SECTION EIGHT

POST-CLOSING OBLIGATIONS OF PUC

8.1 Operations of Neil Price Package Plant. From and after the date of closing, PUC shall assume full control of the operations of the Neil Price Package Plant and shall assume full responsibility for providing a quality and adequate wastewater disposal and treatment to the customers of AWC. It is the intention of this Agreement that PUC shall treat the Neil Price Package Plant customers in all respects the same as present PUC customers. Additionally, PUC shall have full responsibility to repair, replace and otherwise maintain the Neil Price Package Plant. PUC shall operate and maintain the same in accordance with its general practices and standards which PUC utilizes in relation to its other customers and, additionally, in compliance with all federal and state law.

8.2 Rates. Sewer rates shall be identical rates charged by PUC to all of its customers of the same class uniformly across the PUC wastewater customer base as of the effective date of this Agreement.

8.3 Future Rate Increases. Sewer rate increases to the AWC's former customers at the Neil Price Package Plant shall be on the same percentage given to all customers of the same class across the PUC wastewater customer base.

8.4 Integration into Wastewater Distribution System. PUC, to the extent economically feasible, shall use its good faith and good business, engineering and operational practices to integrate the Neil Price Package Plant into the PUC wastewater distribution system. The foregoing notwithstanding, all integration, improvement and

extension shall remain in the discretion of PUC and shall at all times be subject to prudent business practices, available funding and standards for utilities.

8.5 Real Property Transferred at Time of Closing – Use by System. All real property which is transferred by AWC to PUC at the time of closing shall be held by PUC and/or used by PUC for utilities purposes only.

8.6 AWC's Debts. PUC agrees to pay and satisfy all assumed debts of AWC related to the Neil Price Package Plant in accordance with the arrangements made by AWC to its various creditors.

8.7 AWC's Contracts. PUC agrees to assume and perform all contractual obligations of AWC.

SECTION NINE

MISCELLANEOUS

9.1 Reference to PUC's General Practices and Standards. The references in this Agreement to PUC's "general practices and standards" shall be defined to include not only the general practices and standards presently utilized by PUC, but additionally, any other practices and standards which may be utilized by PUC in the future, so long as said general practices and standards treat Neil Price Package Plant customers in all respects the same as other PUC customers. Nothing contained in this Agreement shall impair or limit PUC from amending or modifying its general practices and standards, or implementing new practices and standards. The intent of the parties hereto is merely that the Neil Price Package Plant customers shall be treated as PUC customers as they are presently treated by PUC and as they may be treated by PUC in the future.

9.2 Entire Agreement. This Agreement represents the entire agreement by and between the parties hereto, and all prior promises, representations, covenants and understandings are fully merged herein. There are no other promises, terms, conditions, or obligations other than those specifically contained herein.

9.3 Captions. The captions appearing in this Agreement have been inserted for the purpose of convenience and ready reference. They do not purport to, and shall not be deemed to, define, limit, or extend the scope or intent of the clauses to which they pertain.

9.4 Applicable Law. It is mutually understood and agreed that this Agreement shall be governed by the laws of the Commonwealth of Kentucky as to both interpretation and performance.

9.5 Binding Effect. This Agreement shall bind and inure to the benefit of the parties hereto, and each of their respective successors and assigns.

9.6 Assignment. This Agreement, any interest herein, or any claim arising hereunder, shall not be transferred by either party without the prior written consent of the other party.

9.7 Notices. Notice to PUC and AWC shall be given at the following addresses:

PUC
Eric Ratliff
Paintsville Utilities
P.O. Box 630
Paintsville, KY 41240

AWC
Hon. John B. Baughman
Hazelrigg & Cox, LLP
P.O. Box 676
Frankfort, KY 40602-0676

9.8 Severability. The parties agree that if a court of competent jurisdiction holds any one or more of the paragraphs or subparagraphs of this Agreement to be invalid

or ineffective for any reason, any such paragraph or subparagraph will be deemed separate from the remainder of this Agreement and will not affect the validity and enforceability of the remaining provisions.

9.9 Indemnification. From and after the date of execution of this Agreement and after closing, PUC agrees to fully indemnify and hold harmless AWC from any claim by any persons by reason of AWC entering into this Agreement or obligations which flow therefrom.

It is clearly understood that PUC assumes all rights, obligations, debts, claims, or contingent claims of AWC at the time of closing and will fully indemnify and hold harmless the AWC from any such obligation, debt or claim.

9.10 Third Party Beneficiaries. The parties hereto expressly agree that for a period of five (5) years from the date of this Agreement the customers of the Neil Price Package Plant, at the time of this Agreement, shall be considered to be third party beneficiaries to this Agreement and during said period any customer of Neil Price Package Plant may seek to enforce in a court of law any failures of the parties to honor the duties and obligations set forth herein. It is expressly agreed that any legal dissolution of AWC shall not abrogate rights of said third party beneficiaries as set forth in this section.

IN WITNESS WHEREOF, the parties hereto have sent their hands on the date first above written.

APPALACHIAN WASTE CONTROL

BY:

John B. Baughman

ITS:

Receiver / Special Master Commissioner

PAINTSVILLE UTILITIES COMMISSION

BY:

[Signature]

ITS:

GENERAL MANAGER

COMMONWEALTH OF KENTUCKY

COUNTY OF

Franklin

Subscribed and sworn to before me this 14th day of February, 2013, by John B. Baughman, Spec. Master (title), a duly authorized representative of Appalachian Waste Control. Commissioner

NOTARY PUBLIC

Mullins & Bailey

MY COMMISSION EXPIRES:

3-11-14

COMMONWEALTH OF KENTUCKY

COUNTY OF Johnson

Subscribed and sworn to before me this 19th day of February,

2013, by Eric Raliff (title), a duly authorized
representative of Paintsville Utilities Commission.

Belva J. Jones
NOTARY PUBLIC

MY COMMISSION EXPIRES:

July 23, 2013

ENTERED
FEB 25 2013
FRANKLIN CIRCUIT COURT
SALLY JUMP, CLERK

**COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
CIVIL ACTION NO. 05-CI-1007**

ENVIRONMENTAL AND PUBLIC PROTECTION CABINET

PLAINTIFF

vs.

ORDER

JEFFREY LANCE BOWLING, et al.

DEFENDANT

* * * * *

Pursuant to the Motion of the Receiver-Special Master Commissioner, John B. Baughman, a hearing having been held on February 6, 2013, at which the Plaintiff was represented by the Hon. John S. West, and the Defendant was represented by the Hon. Joseph Lane, the Court having heard the arguments of counsel and the Receiver and the Court otherwise being sufficiently advised hereby FINDS, CONCLUDES and ORDERS as follows:

1) The Receiver is authorized to Execute the Agreement transferring ownership of the Neil Price Waste Water Treatment Plant to Paintsville Utilities Commission for and on behalf of the City of Paintsville, Kentucky.

2) Pursuant to the Representations of the Receiver and Counsel for the Plaintiff, the Court finds the Paintsville Utilities Commission is in possession of \$50,000 tendered by the Plaintiff for the purpose of using said funds for a Separate Environmental Project ("SEP") for the purpose of repairing and upgrading the nearby waste water treatment plants known as Neil Price, Thelma WWTP 1 and Thelma WWTP 2.

3) The Court finds pursuant to the representation of the Receiver and Counsel for the Plaintiff that funds from an additional SEP will be available from the Plaintiff for the repairs and upgrades of the aforesaid waste water treatments plants in excess of the \$50,000 SEP funds held by Paintsville Utilities.

PENGAD 800-631-6989
EXHIBIT
B

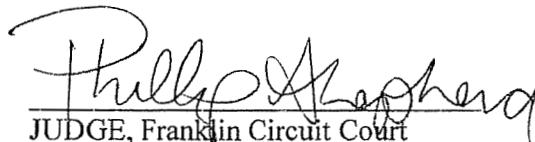
4) The Court finds pursuant to the representations of the Receiver that additional funds may be available from the Public Service Commission for the upgrade of the aforesaid waste water treatment plants and for the payment of additional expenses and costs of this litigation.

5) The Court directs the additional funds paid by the Plaintiff and Public Service Commission for the upgrade of the aforesaid waste water treatment plants and for the payment of other expenses of the Receiver will be transmitted to the Receiver and paid out pursuant to his Motion upon approval of the Court.

6) The provisions of this Court's Order of October 3, 2012, relative to the payment of a monthly fine by the Defendant are not altered or revised by the terms of the Order.

7) Upon proof shown that payment has been made for the improvements to the aforesaid waste water treatment plants, the costs for the operation of the Neil Price Waste Water Treatment Plant, and other expenses of the Receiver, this action may be dismissed pursuant to a Motion of the Plaintiff, Defendant, or the Receiver.

Dated at Frankfort, Kentucky this 22 day of Feb., 2013


JUDGE, Franklin Circuit Court

Distribution:

Hon. John S. West
Environmental and Public Protection Cabinet
Office of Legal Services
500 Mero Street
5th Floor, Capital Plaza Tower
Frankfort, Kentucky 40601

Hon. Lisa Jones
Environmental and Public Protection Cabinet
Division of Water
200 Fair Oaks Lane, 4th Floor
Frankfort, Kentucky 40601

Hon. Joseph Lane
124 West Court Street
Prestonsburg, Kentucky 40202

Hon. Gerald Weutcher
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602-0615

John B. Baughman
Hazelrigg & Cox, LLP
415 West Main Street
P. O. Box 676
Frankfort, Kentucky 40602

PAINTSVILLE UTILITIES COMMISSION
AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL FINANCIAL INFORMATION

JUNE 30, 2012



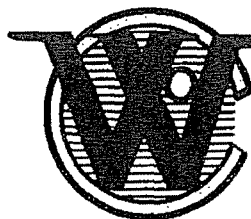
WELLS & COMPANY, P.S.C.

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

(606) 789-3588

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
 FINANCIAL STATEMENTS	
Balance Sheet	3
Statement Of Revenues, Expenses And Changes In Net Assets	5
Statement Of Cash Flows	6
Notes To Financial Statements	8
Schedule Of Expenditures Of Federal Awards	18
Notes To Schedule Of Expenditures Of Federal Awards	19
 AUDITOR'S REPORT	
Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	20
Independent Auditor's Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133	22
Schedule Of Findings And Questioned Costs	24
Summary Schedule Of Prior Audit Findings	26
 SUPPLEMENTAL FINANCIAL INFORMATION	
Schedule Of Notes Payable	27
Schedule Of Bonds Payable	29
Schedule Of Gas Rates	33
Schedule Of Water And Sewer Rates	34
Schedule Of Insurance	35
Schedule Of Analysis Of Revenues And Expenses	36
Schedule Of Principal Officers	37
MANAGEMENT LETTER	38



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

(606) 789-3588

Fax (606) 789-3326

INDEPENDENT AUDITOR'S REPORT

HONORABLE MAYOR AND CITY COUNCIL
PAINTSVILLE UTILITIES COMMISSION
City of Paintsville, Kentucky

We have audited the accompanying financial statements of the Paintsville Utilities Commission, a component unit of the City of Paintsville, Kentucky, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Paintsville Utilities Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note A, the financial statements present only the Paintsville Utilities Commission and do not purport to, and do not, present fairly the financial position of the City of Paintsville, Kentucky as of June 30, 2012 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Paintsville Utilities Commission of the City of Paintsville, Kentucky, as of June 30, 2012, and the changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, on our consideration of the Paintsville Utilities Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 26, 2012

PAINTSVILLE UTILITIES COMMISSION
BALANCE SHEET
JUNE 30, 2012

3

ASSETS

Current assets:

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

Total current assets 3,349,250

Non-current assets:

Restricted assets:

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

Total restricted assets 5,971,669

Utility Plant:

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

Net utility plant 73,890,546

Other non-current assets:

Bond issuance costs, net	<u>72,590</u>
--------------------------	---------------

Total other non-current assets 72,590

Total assets \$ 83,284,055

See accompanying notes to financial statements.

PAINTSVILLE UTILITIES COMMISSION
BALANCE SHEET (CONTINUED)
JUNE 30, 2012

4

LIABILITIES AND NET ASSETS

Current liabilities:

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

Total current liabilities 2,642,091

Payable from restricted assets:

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

Total liabilities payable from restricted assets 1,524,816

Long-term liabilities:

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

26,629,684

Less current portion (568,813)

Total long-term liabilities 26,060,871

Total liabilities 30,227,778

Net assets:

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

53,056,277

Total net assets

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

See accompanying notes to financial statements.

PAINTSVILLE UTILITIES COMMISSION
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2012

5

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

See accompanying notes to financial statements.

PAINTSVILLE UTILITIES COMMISSION
 STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:

Cash inflows:

Payments received from customers \$ 7,810,810

Total cash provided 7,810,810

Cash outflows:

Payments for salaries and benefits 2,095,185

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

Total cash used 5,343,845

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

Cash flows from noncapital financing activities:

Interest paid on customer deposits (2,810)

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

Cash flows from capital and related financing activities:

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

Proceeds from loans and bonds 29,309,294

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

Payments on capital leases (40,000)

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

Proceeds from sale of capital assets 1,205

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

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

Cash flows from investing activities:

Interest received 9,548

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

Net cash inflow (outflow) from all activities 619,758

Cash and cash equivalents at beginning of period 6,932,419

Cash and cash equivalents at end of period \$ 7,552,177

See accompanying notes to financial statements.

PAINTSVILLE UTILITIES COMMISSION
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED JUNE 30, 2012

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

Utility operating income	\$ 1,129,329
Depreciation and amortization	1,366,136
Contribution of utility services	(121,030)
(Increase) decrease in:	
Accounts receivable	(59,870)
Unbilled revenue	46,175
Inventory	14,326
Prepaid expenses and other assets	100,351
Increase (decrease) in:	
Accounts payable	(62,536)
Accrued liabilities and other liabilities	54,084
Net cash provided (used) by operating activities	<u><u>\$ 2,466,965</u></u>

Schedule of cash and cash equivalents:

Beginning of period:

Unrestricted cash and cash equivalents	\$ 2,316,178
Restricted cash and cash equivalents	<u>4,616,241</u>
	<u><u>\$ 6,932,419</u></u>

End of period:

Unrestricted cash and cash equivalents	\$ 2,226,247
Restricted cash and cash equivalents	<u>5,325,930</u>
	<u><u>\$ 7,552,177</u></u>

Supplemental disclosure of noncash capital and related financing activities:

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

A. NATURE OF ORGANIZATION

The Paintsville Utilities Commission ("Commission") is administered as a separate proprietary fund of the City of Paintsville, Kentucky ("City") 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 financial statements present only the Paintsville Utilities Commission and are not intended to present fairly the financial position of the City of Paintsville, Kentucky, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

All corporate powers of the Commission are vested in and exercised by the City Council of the City of Paintsville, Kentucky.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Commission prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP) for proprietary funds, which are similar to those used for private business enterprises. Accordingly, the requirements of Statement of Governmental Accounting Standards No. 34, *Basic Financial Statements – and management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34 and No. 38, Certain Financial Statement Note Disclosures*, have been implemented and incorporated in the Commission's financial statement presentation.

The Commission has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise fund are charged to customers for sales and service. The Commission also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Materials and supplies

Inventory is valued at the lower of cost (first-in, first-out method) or market.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Utility plant

Utility plant is carried at cost. Donated utility plant is stated at estimated fair value on the date donated. Depreciation of utility plant in service is provided by the straight-line method over the estimated useful lives of the related assets ranging from three to fifty years. Interest is capitalized in connection with the construction of significant utility plant projects. The construction period interest is recorded as part of the cost of the asset to which it relates and is amortized over the asset's estimated useful life. During 2012, interest incurred totaled \$594,176, of which, \$328,763 was capitalized as part of the cost of utility plant. The cost of normal repairs of property and the replacements and renewal of items considered less than units of property are charged to maintenance expense.

Deposits and Investments

The Commission'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.

Debt issuance costs

Debt issuance costs are capitalized and amortized using the straight-line method over the term of the debt issues.

Bond premiums

Bond premiums are capitalized and amortized to interest expense using the interest method over the term of the debt issues.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bad debts

Are recognized using the direct write-off method when management deems the collection of an account to be doubtful.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets

Net assets represent the residual interest in the Commission's assets after liabilities are deducted and consist of four sections: invested in capital assets, net of related debt; restricted expendable and nonexpendable, and unrestricted. Net assets invested in capital assets, net of debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All of the Commission's restricted net assets are expendable. All other net assets are unrestricted.

C. DEPOSITS AND INVESTMENTS

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

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

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

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

Category 3 – Uncollateralized.

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

<u>Account</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash	<u>\$8,274,843</u>	<u>\$649,480</u>	<u>\$7,625,363</u>	<u>\$ 0</u>	<u>\$8,197,916</u>

The Commission'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 Commission 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 Commission's investment in a single issuer. The Commission 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.

C. DEPOSITS AND INVESTMENTS - CONTINUED

At June 30, 2012 the Commission's investments consist of the following:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Bank certificates of deposit (over 90-day maturity)	<u>\$645,739</u>	<u>\$645,739</u>

D. UTILITY PLANT

Utility plant at June 30 and changes during the year consist of the following:

Business -- Type Activities	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 521,589	\$ -	\$ -	\$ 521,589
Construction in progress	<u>13,825,397</u>	<u>21,696,872</u>	<u>4,186,981</u>	<u>31,335,288</u>
Total capital assets, not being depreciated	<u>14,346,986</u>	<u>21,696,872</u>	<u>4,186,981</u>	<u>31,856,877</u>
Capital assets, being depreciated:				
Buildings and improvements	633,933	-	-	633,933
Utility plants	56,789,298	4,452,210	-	61,241,508
Automobiles and trucks	716,999	52,489	16,639	752,849
Machinery and equipment	<u>214,743</u>	<u>8,621</u>	<u>-</u>	<u>223,364</u>
Total capital assets being depreciated	58,354,973	4,513,320	16,639	62,851,654
Less accumulated depreciation for:				
Buildings and improvements	(191,564)	(12,604)	-	(204,168)
Utility plants	(18,579,420)	(1,273,174)	-	(19,852,594)
Automobiles and trucks	(541,730)	(57,200)	(16,639)	(582,291)
Machinery and equipment	<u>(161,337)</u>	<u>(17,595)</u>	<u>-</u>	<u>(178,932)</u>
Total accumulated depreciation	<u>(19,474,051)</u>	<u>(1,360,573)</u>	<u>(16,639)</u>	<u>(20,817,985)</u>
Total capital assets being depreciated, net	<u>38,880,922</u>	<u>3,152,747</u>	<u>-</u>	<u>42,033,669</u>
Total utilities capital assets, net	<u>\$53,227,908</u>	<u>\$24,849,619</u>	<u>\$4,186,981</u>	<u>\$73,890,546</u>

E. LONG-TERM DEBT

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

Bonds:	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
City of Paintsville Combined Utility Revenue Bonds, Series 2011 Issue. Principal installments due in January of each year, interest payable semi-annually in January and July of each year.	\$ 13,500,000	2.00%	01/2051
City of Paintsville Combined Utility Revenue Bond, Series 1978 Issue. Principal installments due in September of each year, interest payable semi-annually in March and September of each year.	285,000	5.00%	02/2026
City of Paintsville Public Projects Revenue Bond, Series 2011(B) Issue. Principal installments due in February of each year, interest payable semi-annually in February and August of each year.	1,895,000	2.65%	02/2026
City of Paintsville, Kentucky Water Revenue Bond, Series 1994. Principal installments and interest payable in July of each year.	365,300	4.50%	07/2034
City of Paintsville, Kentucky Water Revenue Bond, Series 1998. Principal installments and interest payable in July of each year.	294,500	4.50%	07/2038
City of Paintsville, Kentucky Water Revenue Bond, Series 2006. Principal installments and interest payable in July of each year.	<u>238,000</u>	4.125%	07/2046
	16,577,800		

Notes:

Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.	8,435	5.75%	07/2013
Note payable to United States of America, Secretary of Commerce, due in semi-annual principal installments and interest payable in January and July of each year.	2,766	7.00%	07/2013
Note payable to Kentucky Infrastructure Authority, due in monthly installments of principal and interest.	1,256,579	1.30%	06/2032
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year.	53,416	3.00%	06/2012

PAINTSVILLE UTILITIES COMMISSION
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2012

E. LONG-TERM DEBT – CONTINUED

Note payable to U. S. Department of the Army, due in annual installments of principal and interest. (Paintsville Lake Water storage space)	4,426,233	4.125%	05/2039
Note payable to Kentucky Infrastructure Authority, due in semi-annual installments of principal and interest, in June and December of each year.	<u>310,066</u>	1.00%	06/2026
	<u>6,057,495</u>		
	22,635,295		
Add:			
Unamortized premium	<u>44,164</u>		
	<u>\$22,679,459</u>		

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

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

PAINTSVILLE UTILITIES COMMISSION
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED JUNE 30, 2012

E. LONG-TERM DEBT - Continued

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

<u>Year Ending</u> <u>6/30</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u> <u>Principal</u>	<u>Total</u> <u>Interest</u>	<u>Total</u>
2013	\$ 290,300	\$ 238,513	\$ 528,813	\$ 591,419	\$ 1,120,232
2014	504,300	178,860	683,160	573,940	1,257,100
2015	522,200	184,001	706,201	555,136	1,261,337
2016	542,700	189,326	732,026	535,011	1,267,037
2017	556,700	194,843	751,543	513,454	1,264,997
2018-2022	1,987,200	1,064,263	3,051,463	2,251,345	5,302,808
2023-2027	1,621,900	1,211,930	2,833,830	1,866,420	4,700,250
2028-2032	1,789,900	1,318,660	3,108,560	1,464,030	4,572,590
2033-2037	2,017,600	1,191,374	3,208,974	1,013,766	4,222,740
2038-2042	2,154,500	285,725	2,440,225	589,529	3,029,754
2043-2047	2,434,000	-	2,434,000	342,437	2,776,437
2048-2051	<u>2,156,500</u>	<u>-</u>	<u>2,156,500</u>	<u>87,695</u>	<u>2,244,195</u>
	<u>\$16,577,800</u>	<u>\$6,057,495</u>	<u>\$22,635,295</u>	<u>\$10,384,182</u>	<u>\$33,019,477</u>

Advances for Construction

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

The future loan to the Commission is \$6,519,566 of which \$3,003,888 was received through June 30, 2012. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

On January 1, 2010, the Commission entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) to provide financing for the construction costs of the Package Treatment Plants Replacement Project.

The future loan to the Commission is \$550,850 of which \$536,337 was received through June 30, 2012. The loan contract carries a 1.0% interest rate. Debt service requirements to maturity have not been presented for this obligation, because it has not yet been determined by the lending party. A schedule of payments will be determined upon the completion of the funding of the loan.

F. TRANSACTIONS WITH THE CITY OF PAINTSVILLE GENERAL FUND

At June 30, 2012, the Commission is obligated to the City of Paintsville general fund for the following:

Sanitation collections payable	\$62,977
--------------------------------	----------

G. RETIREMENT PLANS

Employees of the Commission are members of the County Employees Retirement System ("CERS"), which is administered by the Kentucky Retirement Systems ("KRS"). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in a non-hazardous duty position. All risks and costs are borne by KRS and not by the Commission. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the Kentucky State legislature.

For the year ended June 30, 2012, plan members were required to contribute 5 percent, 6 percent for employees hired after August 31, 2008, of their creditable compensation. The Commission was required to contribute 18.96 percent of annual covered payroll for the year ended June 30, 2012. The contribution rate was established by the KRS Board of Trustees in accordance with KRS 61.565 and the recommendation of the actuary as a result of legislative changes enacted by the 2001 Kentucky General Assembly.

The KRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road Perimeter Park West, Frankfort, Kentucky 40601 or can be accessed at www.kyret.com.

For the plan year ending June 30, 2012, the Commission's total annual pension cost of \$240,789 to KRS was equal to the Commission's required and actual contributions. The Commission's share of the total annual pension cost was \$208,519 and \$192,380 for the years ending June 30, 2011 and 2010, respectively.

The Commission also provides its employees a 401K retirement plan. Employees may participate in the plan in July of each year. The plan is fully funded by the employees and the Commission does not offer matching contributions for this plan.

H. RISK MANAGEMENT

The Commission 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 Commission pays annual premiums to the Kentucky League of Cities Insurance Services ("KLCIS") for its general liability coverage, public officials' liability, auto liability, workers' compensation, and property coverage. The Commission's workers' compensation coverage is retrospectively rated, whereby premiums are accrued based on the ultimate cost of the Commission. KLCIS pays claims as they arise.

I. COMMITMENTS AND CONTINGENCIES

Litigation

The Commission is contingently liable with respect to lawsuits and other claims which arise in the ordinary course of its operations. It is the opinion of management and the Commission's 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.

Construction Commitments

Construction commitments for utility plant consisted of the following at June 30, 2012:

Total construction commitments	\$30,991,139
Less work performed and retainage	<u>(26,449,037)</u>
Balance remaining	<u>\$ 4,542,102</u>

J. CAPITAL LEASES

The Commission is the lessee of mains, services and equipment under a capital lease expiring June 2020. The asset and liability under this lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The asset is amortized over the lower of the related lease terms or the estimated productive life of the asset. Amortization of the asset under this capital lease is included in depreciation expense.

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

Water distribution plant	\$1,070,990
Less accumulated amortization	<u>(537,280)</u>
	<u>\$ 533,710</u>

Minimum future lease payments under these capital leases, as of June 30, 2012, for each of the next five years and in the aggregate are:

2013	\$ 50,253
2014	49,232
2015	48,192
2016	57,132
2017	65,647
2018-2020	<u>187,615</u>
Total minimum lease payments	458,071
Less amount representing interest	<u>48,071</u>
Present value of net minimum lease payments	410,000
Less current maturities	<u>40,000</u>
	<u>\$370,000</u>

The interest rate on the capital lease at June 30, 2012 was 2.60%.

K. COMPENSATED ABSENCES

Paintsville Utilities Commission allows employees to accumulate vacation and sick leave. Full-time employees may accumulate up to 120 hours of vacation leave, which is earned during the calendar year, credited to the employee on January 1, and taken during the calendar year in which it is credited. Vacation leave cannot be carried forward into the next calendar year unless specific exceptions are made in advance due to extenuating circumstances. Full-time employees may accrue up to 1,040 hours of sick leave. Employees who terminate employment with the Commission shall not be compensated for accrued but unused sick leave, except that accrued sick leave may, at the expense of the Commission, be applied to the employee's CERS retirement provided the employee participates in CERS benefits immediately upon termination of employment with the Commission. An accrual for compensated absences (including payroll-related payments associated with the payment of compensated absences) is reflected in the accompanying financial statements.

L. RESTRICTIONS ON CASH

Reserve for Depreciation

"Depreciation Funds" are being maintained as required in various bond documents. These funds are required to be deposited into separate accounts for the purpose of maintaining the water and sewer systems.

The total amounts deposited as of June 30, 2012 in these accounts for Water Depreciation and for Waste Water Depreciation is \$1,558,840. The City of Paintsville, Water Revenue Bond, Series 1994, 1998, 2006, and 2011 through USDA Rural Development had depreciation reserves of \$739,350, the City of Paintsville Combined Utility Revenue Bonds, Series 2011(B), and 1998 had depreciation reserves of \$464,350, and KIA loans had reserves of \$355,140.

M. SUBSEQUENT EVENTS

Management has evaluated and has not recognized any subsequent events through October 26, 2012, the date the financial statements were available to be issued.

PAINTSVILLE UTILITIES COMMISSION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/PASS - THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-through program from Kentucky Infrastructure Authority			
Capitalization Grants For Clean Water State Revolving Funds	66.458	F08-10	\$ 2,945,687
ARRA - Capitalization Grants For Clean Water State Revolving Funds	66.458	A2 09-34	<u>75,106</u>
Total U.S. Environmental Protection Agency			<u>3,020,793</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>			
Pass-through program from Kentucky Dept of Natural Resources			
Division of Abandoned Mine Lands			
Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-100004839	25,752
Abandoned Mine Land Reclamation (AMLR) Program	15.252	128-1900023503	<u>2,500,000</u>
Total U.S. Department of the Interior			<u>2,525,752</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through program from USDA Rural Development			
Water and Waste Disposal Systems for Rural Communities	10.760	20-058-616000521	<u>1,816,362</u>
Total U.S. Department of Agriculture			<u>1,816,362</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-through program from Kentucky Dept of Military Affairs, Division of Emergency Management			
Disaster Grants - Public Assistance	97.036	DR-4057-KY	<u>15,097</u>
Total U.S. Department of Homeland Security			<u>15,097</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u>\$ 7,378,004</u>

See accompanying note to schedule of expenditures of federal awards.

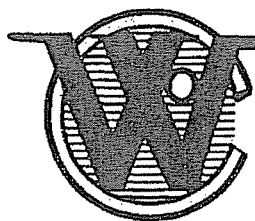
PAINTSVILLE UTILITIES COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

19

NOTE A – BASIS OF PRESENTATION

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

AUDITOR'S REPORTS



WELLS & COMPANY, P.S.C.

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

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

**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**

**HONORABLE MAYOR AND CITY COUNCIL
PAINTSVILLE UTILITIES COMMISSION**
City of Paintsville, Kentucky

We have audited the accompanying financial statements of the Paintsville Utilities Commission, a component unit of the City of Paintsville, Kentucky, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012, which included an explanatory paragraph regarding the omission of required Management Discussion and Analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (item 2012-01)

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Paintsville Utilities Commission, in a separate letter dated October 26, 2012.

The Paintsville Utilities Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Paintsville Utilities Commission's response and, accordingly, we express no opinion on it.

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

Welch & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 26, 2012



WELLS & COMPANY, P.S.C.

Certified Public Accountants

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

(606) 789-3588

Fax (606) 789-3326

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

**HONORABLE MAYOR AND CITY COUNCIL
PAINTSVILLE UTILITIES COMMISSION**
City of Paintsville, Kentucky

Compliance

We have audited the Paintsville Utilities Commission's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Paintsville Utilities Commission's major federal programs for the year ended June 30, 2012. The Paintsville Utilities Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Paintsville Utilities Commission's management. Our responsibility is to express an opinion on the Paintsville Utilities Commission's compliance based on our audit.

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

In our opinion, the Paintsville Utilities Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

Nella & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 26, 2012

PAINTSVILLE UTILITIES COMMISSION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued *unqualified*:

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Abandoned Mine Land Reclamation (AMLR) Program	15.252
Clean Water State Revolving Funds	66.458
ARRA -Clean Water State Revolving Funds	66.458
Water and Waste Disposal Systems for Rural Communities	10.760

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

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENTS FINDINGS

MATERIAL WEAKNESS

2012-1 Segregation of Duties

Condition: Presently, the Commission has an absence of appropriate segregation of duties consistent with appropriate internal control objectives with regards to the collection of revenues. Employees are performing multiple tasks such as taking payments from customers, posting to accounts receivable ledger, and preparing deposits.

Criteria: The Commission 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 size and budget restrictions the Commission has limited options for establishing an adequate segregation of duties.

Recommendation: Compensating controls should be designed and implemented as effectively as possible to provide reasonable assurance that the safeguarding of assets and financial records be maximized.

Management Comment: Management of the Commission concurs with the finding and understands that with its limited size and budget that a complete segregation of duties is difficult to achieve.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

PAINTSVILLE UTILITIES COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012

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

SUPPLEMENTAL FINANCIAL INFORMATION

PAINTSVILLE UTILITIES COMMISSION LICENSED OPERATORS

- Mark Stepp License #9837
- Mike Conley License # 12880
- John Salyer License #16816
- Larry Stambaugh License #13665
- George Ward License # 15161