

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**THE JOINT APPLICATION OF )**  
**SOUTHERN WATER AND SEWER )**  
**DISTRICT; PRESTONSBURG CITY’S )**  
**UTILITIES COMMISSION; AND THE CITY )**  
**OF PRESTONSBURG, KENTUCKY FOR )**  
**AN ORDER APPROVING THE )** **CASE NO. 2017-00044**  
**TRANSFER OF OWNERSHIP OF THE )**  
**WASTEWATER SYSTEM AND CERTAIN )**  
**PORTIONS OF THE WATER SYSTEM OF )**  
**SOUTHERN WATER AND SEWER )**  
**DISTRICT )**

**APPLICATION**

Pursuant to KRS 278.020(6) and (7) and 807 KAR 5:001, Southern Water and Sewer District (the “Southern District”), Prestonsburg City’s Utilities Commission (the “PCUC”), and the City of Prestonsburg, Kentucky (the “City”) (collectively the “Joint Applicants”) apply to the Public Service Commission (the “Commission”) for approval of the transfer of the ownership of Southern District’s wastewater collection and treatment facilities and certain portions of Southern District’s water distribution system. In support of this Application, the Joint Applicants state:

1. Southern District is a water district organized pursuant to KRS Chapter 74.

2. Southern District is not a corporation, limited liability company, or limited partnership and has no articles of incorporation or partnership agreements.

3. Southern District's mailing address, telephone number, and electronic mailing address are:

Southern Water and Sewer District  
P.O. Box 610  
McDowell, Kentucky 41647  
Attention: Dean M. Hall, Manager  
Telephone: (606) 377-9296  
Email: deanm.hall@bellsouth.net

4. Southern District owns and operates facilities in Floyd County, Kentucky that treat and distribute water to approximately 6,724 customers (the "Southern Water System") and that collect and treat wastewater for approximately 306 wastewater customers (the Southern Wastewater System").<sup>1</sup>

5. Southern District is a utility subject to the Commission's jurisdiction pursuant to KRS 278.010(3)(d) and (f) and KRS 278.040.

6. PCUC is not a corporation, limited liability company, or limited partnership. It has no articles of incorporation or partnership agreements.

7. PCUC is a duly organized and existing independent, component unit and agency of the City delegated the authority and responsibility to manage and operate the City's water and wastewater facilities.

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<sup>1</sup> *Annual Water Report of Southern Water & Sewer District to the Kentucky Public Service Commission for the Year Ending December 31, 2015* at 53; *Annual Sewer Report of Southern Water & Sewer District to the Kentucky Public Service Commission for the Year Ending December 31, 2015* at 9 and 25.

8. PCUC’s mailing address, telephone number, and electronic mailing address are:

Prestonsburg City’s Utilities Commission  
2560 South Lake Drive  
Prestonsburg, Kentucky 41653  
Attention: Turner E. Campbell, Superintendent & CEO  
Telephone: (606) 886-6871  
Email: ecpcuc@bellsouth.net

9. The City is a duly organized and existing municipal corporation and city of the home rule class of the Commonwealth of Kentucky.

10. The City’s mailing address, telephone number, and electronic mailing address are:

City of Prestonsburg, Kentucky  
200 North Lake Drive  
Prestonsburg, Kentucky 41653  
Attention: Les Stapleton, Mayor  
Telephone: (606) 886-2336  
Email: les.stapleton@prestonsburgcity.org

11. The City currently owns, and PCUC manages and operates, (collectively, the “Buyer” or “Prestonsburg”) water supply, treatment, and distribution facilities (the “Prestonsburg Water System”) that provide water service to approximately 7,806 customers in Floyd County, and wastewater collection and treatment facilities (the “Prestonsburg Wastewater System”) that provide wastewater services to 2,817 customers in Floyd County.

## THE PROPOSED TRANSACTION

12. Southern District and the Buyer have entered into an Asset Purchase Agreement whereby Southern District agrees to convey and transfer to the Buyer, and the Buyer agrees to acquire from Southern District, certain assets of Southern District. A copy of the Agreement is attached as **Exhibit 1** to this Application.

13. Under the terms of the Asset Purchase Agreement, Southern District shall transfer to the Buyer all of Southern District's wastewater system assets including, but not limited to, the Harold Wastewater Treatment Plant; the Harold/Betsy Lane Wastewater Collection System; the Eastern Wastewater Treatment Plant and Collection System; the Wayland Wastewater Treatment Plant and Collection System; all sewer lift stations; and real property related to the Southern Wastewater System.

14. The Asset Purchase Agreement provides that Southern District shall transfer the following water assets:

- A. Sandy Valley Water District Distribution System;
- B. Stanville Tank;
- C. Eagle Trace Tank;
- D. Mare Creek Road Booster Station;
- E. Pike-Floyd Hollow Road Booster Station;

- F. Pyramid Distribution System;
- G. Hippo Hill Tank;
- H. Real Property; and
- I. Other assets itemized in paragraph 3 of the Agreement.

15. Collectively, the assets being transferred shall be referred to as the “Assets.” The location of the wastewater assets and the water assets are shown on maps that are attached as **Exhibits 2** and **3** to this Application, respectively.

16. The Buyer will pay \$2,140,000 to Southern District for the Assets through a combination of cash payments to Southern District, the assumption or payment of certain Southern District debt obligations, and expenditures incurred for the rehabilitation of certain wastewater assets. Buyer will either assume or pay in full at the Closing, the following debt obligations of Southern District: (a) KIA Loan No. A04-06 in the approximate principal amount of \$30,588; (b) KIA Loan No. A11-16 in the approximate principal amount of \$660,525; and (c) USDA-RD Loan No. 91-05 in the approximate principal amount of \$501,509, which was originally incurred by the Sandy Valley Water District and later assumed by Southern District.

17. All of Southern District’s outstanding debt obligations associated with the Southern Wastewater System will either be assumed or paid in full by the Buyer.

18. Southern District assumed USDA-RD Loan No. 91-05 when it acquired the assets of the Sandy Valley Water District. The Buyer will either assume or pay this loan in full. Consequently, Southern District will have no debt obligations related to the former Sandy Valley Water District Distribution System or the Pyramid Distribution System.

19. The purchase price represents the fair market value of the Assets. Both the purchase price and the other terms of the Agreement were mutually agreed by Southern District and the Buyer following many months of negotiations.

20. The Buyer is not obligated, either contractually or otherwise, to hire any Southern District employee.

21. The Asset Purchase Agreement shall not become effective and the transfer of Southern District's Assets shall not take place until and unless the Commission approves the proposed transfer.

22. On December 19, 2016, Southern District adopted Resolution No. 2016-12-01 approving the Asset Purchase Agreement. A copy of this Resolution is attached to this Application as **Exhibit 4**.

23. On December 13, 2016, PCUC adopted Resolution No. 2016-12-01 recommending that the City Council of the City of Prestonsburg approve the Asset Purchase Agreement. A copy of this Resolution is attached as **Exhibit 5** to this Application.

24. On December 19, 2016, the City adopted Resolution No. 09-2016 approving the Asset Purchase Agreement. A copy of this Resolution is attached as **Exhibit 6** to this Application.

### **ADVANTAGES OF PROPOSED TRANSFER**

25. The proposed transfer of assets is economically feasible, desirable, beneficial, and in the best interests of the customers of Southern District and the Buyer and the general public.

26. The Division of Enforcement of the Kentucky Energy and Environment Cabinet (the “DOE”) has issued numerous Notices of Violation to Southern District for the operation of its wastewater treatment and collection facilities. To mitigate or eliminate any civil penalties that could result from these violations, Southern District entered into an Operating Agreement, a copy of which is attached to this Application as **Exhibit 7**. Under the terms of the Operating Agreement, PCUC has managed, operated, repaired, and maintained the Southern Wastewater System since July 1, 2016. PCUC has commenced, at its own expense, the rehabilitation of the Wayland Wastewater Treatment Plant and lift stations, and has made repairs to the Harold and Eastern Wastewater Treatment Plants. These actions have been viewed very favorably by DOE.

27. If the proposed transfer is approved, Prestonsburg, as the owner of the wastewater facilities, will have a greater incentive to improve the condition of

these facilities. Based upon statements and representations made by DOE Staff, Southern District and Prestonsburg believe that upon transfer of the wastewater facilities, the DOE will cease its administrative actions against Southern District and Southern District will no longer be subject to potential administrative sanctions or civil penalties arising from the operation of the wastewater facilities.

28. The consolidation of the Southern Wastewater System and the Prestonsburg Wastewater System will result in greater economies of scale, enhance the reliability and quality of wastewater service presently provided to the customers of the Southern Wastewater System, will substantially reduce the likelihood of the DOE's assessment of civil penalties against the Southern District, and will allow the combined wastewater systems to be managed, operated, and maintained in a more cost effective manner.

29. The transfer of portions of the Southern Water System will result in greater economies of scale, will enhance the reliability and quality of water service to the customers served by those facilities, and will allow the combined systems to be managed, operated, and maintained in a more cost effective manner.

30. The transfer of the Southern Wastewater System and portions of the Southern Water System, as described in the Asset Purchase Agreement, will enhance and strengthen Southern District's financial position. Southern District's outstanding debt will be reduced by approximately \$1.2 million, and it will receive

a cash infusion of approximately \$947,000. Furthermore, Southern District will avoid the costly rehabilitation of the Wayland Wastewater Treatment Plant and the required repairs to the Eastern Wastewater Treatment Plant, the Harold Wastewater Treatment Plant, and lift stations. The estimated costs of the required rehabilitation and repairs exceed \$750,000.

31. Transferring its wastewater facilities and operations to the City will allow Southern District to focus on its core mission of providing safe and reliable drinking water to the residents and businesses of southern Floyd County.

32. The City, pursuant to various sections of KRS Chapters 58, 74, 96 and 106, is authorized to expand its existing wastewater and water systems by acquiring existing wastewater and water systems, including the Southern Wastewater System and certain portions of the Southern Water System.

33. The public policy of the Commonwealth, as declared in KRS 224A.300(1) and KRS 74.361(1), is to encourage regionalization, consolidation, and merger of water and wastewater utilities wherever feasible. The Buyer's proposed acquisition of the Southern Wastewater System and portions of the Southern Water System is consistent with, and in furtherance of, this public policy.

#### **FINANCIAL AND TECHNICAL STRENGTHS OF THE BUYER**

34. The Buyer has the financial, technical, and managerial abilities to provide reasonable wastewater collection and treatment services and water

distribution services for the existing customers of Southern District without causing a financial burden on those customers or PCUC's existing customers or adversely affecting the quality of service presently afforded the existing customers of Southern District or PCUC.

35. PCUC is a separate, independent operating entity of the City that provides gas, water, and sewer service. It is supervised and managed by three commission members appointed by the mayor of Prestonsburg. Water and sewer revenues are collected by PCUC and deposited to PCUC accounts. Expenses for both of these utilities are paid for by PCUC.

36. PCUC has engaged an auditor to prepare its financial statements. PCUC management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance. The financial statements are audited annually by an independent auditor. A copy of PCUC's audited financial statements for the fiscal year ending June 30, 2016 is attached as **Exhibit 8** to this Application.

37. For the fiscal year ended June 30, 2016, PCUC reported total assets of \$24,190,362 and total liabilities of \$16,382,694. Its net assets were \$8,968,928.<sup>2</sup>

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<sup>2</sup> *Prestonsburg City's Utilities Commission Independent Auditor's Report for the Fiscal Year Ended June 30, 2016* at page 4.

38. As of June 30, 2016, PCUC had cash and cash equivalents on hand of \$1,018,754.<sup>3</sup>

39. The Commission has consistently held that given the financial assets and status of municipal corporations, cities have “sufficient financial integrity to ensure the continuity of utility service.”<sup>4</sup> A copy of the City’s audited financial statements for the fiscal year ending June 30, 2015 is attached as **Exhibit 9** to this Application. When the report of the City’s audit for the fiscal year ending June 30, 2016 becomes available, the City will file the report with the Commission.

40. Prestonsburg employs a total of eight (8) operators who hold valid wastewater certification licenses issued by the Kentucky Board of Certification of Wastewater System Operators. Four (4) are certified as Wastewater Collection System Operators. Three (3) are certified as Wastewater Treatment Operators. The remaining one (1) is certified as both a Wastewater Collection System and Wastewater Treatment Operator. A list of the names, qualifications, and license numbers of Prestonsburg’s Certified Wastewater Operators is attached as **Exhibit 10** to this Application.

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<sup>3</sup> *Id.* at 8.

<sup>4</sup> *See, e.g., Application of South Shore Water Works Company for an Order Approving a Transfer of Ownership and Control*, Case No. 2012-00476, Order at 5 (Ky. PSC Feb. 22, 2013); *see also Application of the City of Irvine Utility Commission to Acquire the Facilities of the Estill County Water District No. 1*, Case No. 2014-00425, Order at 12 (Ky. PSC Feb. 13, 2015) (“Due to its financial assets and its status as a department of the City as a municipal corporation, Irvine Utility Commission has sufficient financial integrity to ensure the continuity of utility services.”).

41. Prestonsburg employs a total of fourteen (14) operators who hold valid water certification licenses issued by the Kentucky Board of Certification of Water System Operators. Four (4) are certified as Water Distribution System Operators. Five (5) are certified as Water Treatment Operators. The remaining five (5) are certified as both Water Distribution System and Water Treatment Operators. A list of the names, qualifications, and license numbers of Prestonsburg's Certified Water Operators is attached as **Exhibit 11** to this Application.

#### **WASTEWATER AND WATER RATES**

42. The Buyer proposes to charge Southern District's customers the same water and sewer rates that those customers are currently being charged by Southern District. A copy of Southern District's current wastewater rates, which the Commission approved in Case No. 2012-00309,<sup>5</sup> is attached as **Exhibit 12** to this Application. A copy of Southern District's current water rates, which the Commission approved in Case No. 2015-00192,<sup>6</sup> is attached as **Exhibit 13** to this Application.

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<sup>5</sup> *Application of Southern Water and Sewer District for an Adjustment In Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities*, Case No. 2012-00309 (Ky. PSC July 12, 2013).

<sup>6</sup> *Application of the Southern Water and Sewer District for a Certificate of Public Convenience and Necessity To Construct, Finance and Increase Rates Pursuant To KRS 278.023*, Case No. 2015-0015 (Ky. PSC July 10, 2015).

43. The Buyer has agreed to continue assessing these rates for water and sewer service to any customer located within Southern District's service area for at least three (3) years following the date of the Closing.

44. A copy of Prestonsburg's current water and sewer rates is attached as **Exhibit 14** to this Application.

### **CUSTOMER DEPOSITS**

45. Southern District is currently holding customer deposits for its customers who receive water or sewer service through the transferred assets.<sup>7</sup> Prior to the Closing, Southern District shall furnish the Buyer a current list that shows the name, address, account number, and amount still on deposit for each of these customers. Southern District shall be responsible for paying, or crediting the customers' accounts, for all accrued interest on the customer deposits through the date of Closing. At the Closing, Southern District will transfer the remaining customer deposits to the Buyer. After the Closing, the Buyer shall be responsible for the refund of these deposits in accordance with the Buyer's rules and regulations.

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<sup>7</sup> Asset Purchase Agreement at page 13, paragraph 5.

## **TENTATIVE CLOSING DATE**

46. The closing of the proposed transfer of Assets will take place as soon as practicable after the Commission enters its Order authorizing Southern District to transfer the Assets. The scheduled Closing Date is **May 1, 2017**.

## **CONCLUSION**

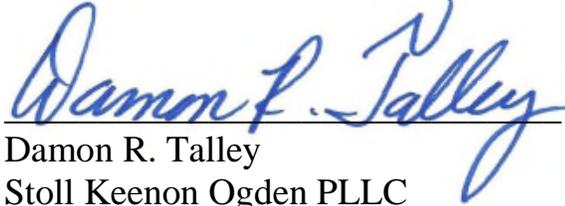
WHEREFORE, the Joint Applicants respectfully request the Commission to take the following actions:

- A. Place this Application at the head of the Commission's docket;
- B. Approve the proposed transfer of ownership of the Assets of Southern District to the Buyer pursuant to the provisions of the Asset Purchase Agreement;
- C. Issue the Order granting the requested relief without holding an evidentiary hearing in this matter and within 60 days as provided in KRS 278.020(7), but no later than **April 21, 2017** to permit the closing to occur on the scheduled Closing Date of **May 1, 2017**; and,
- D. Grant such other relief as the Commission deems appropriate.

**[Remainder of page intentionally left blank]**

Dated: February 6, 2017

Respectfully submitted,



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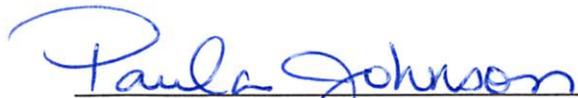
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*Counsel for the Joint Applicants*

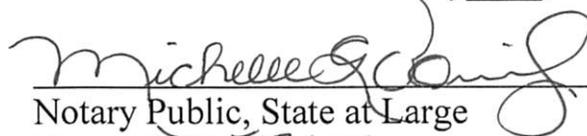
COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF FLOYD )

The undersigned, Paula Johnson, being duly sworn, deposes and states that she is the Chairperson of the Southern Water and Sewer District, one of the Joint Applicants in this case; that she has read this Application and has noted its contents; that the same is true of her own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, she believes the same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this February 3, 2017.

  
Paula Johnson, Chairperson KYDL-J93-252-681  
Southern Water and Sewer District

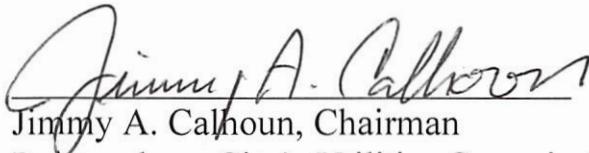
Subscribed and sworn to before me by Paula Johnson in her capacity as Chairperson of Southern Water and Sewer District on this February 3, 2017.

  
Notary Public, State at Large  
Notary ID: 513683  
My Commission expires: 7/28/18

COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF FLOYD )

The undersigned, Jimmy A. Calhoun, being duly sworn, deposes and states that he is the Chairman of the Prestonsburg City's Utilities Commission, one of the Joint Applicants in this case; that he has read this Application and has noted its contents; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes the same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this February 3, 2017.

  
Jimmy A. Calhoun, Chairman  
Prestonsburg City's Utilities Commission

Subscribed and sworn to before me by Jimmy A. Calhoun in his capacity as Chairman of Prestonsburg City's Utilities Commission on this February 3, 2017.

  
Notary Public, State at Large  
Notary ID: 496520  
My Commission expires: 9/26/2017



COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF FLOYD )

The undersigned, Les Stapleton, being duly sworn, deposes and states that he is the Mayor of the City of Prestonsburg, one of the Joint Applicants in this case; that he has read this Application and has noted its contents; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes the same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this February 3, 2017.

  
\_\_\_\_\_  
Les Stapleton, Mayor  
City of Prestonsburg

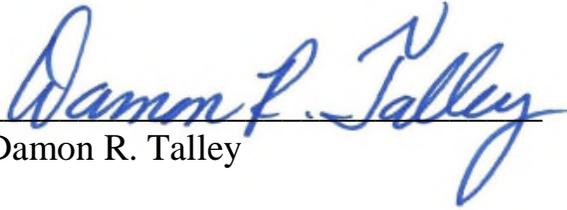
Subscribed and sworn to before me by Les Stapleton in his capacity as Mayor of the City of Prestonsburg on this February 3, 2017.

  
\_\_\_\_\_  
Notary Public, State at Large  
Notary ID: 496520  
My Commission expires: 9/26/2017



## CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that the electronic filing of this Application is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on February 6, 2017; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that an original paper medium of this Application will be delivered to the Public Service Commission on or before February 8, 2017.

  
Damon R. Talley

## **TABLE OF EXHIBITS**

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3	MAP OF WATER ASSETS
4	SOUTHERN WATER AND SEWER DISTRICT BOARD OF COMMISSIONERS RESOLUTION NO. 2016-12-01
5	PRESTONSBURG CITY'S UTILITY COMMISSION RESOLUTION NO. 2016-12-01
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10	LIST OF CERTIFIED WASTEWATER OPERATORS
11	LIST OF CERTIFIED WATER OPERATORS
12	SOUTHERN WATER AND SEWER DISTRICT'S WASTEWATER RATES
13	SOUTHERN WATER AND SEWER DISTRICT'S WATER RATES
14	PRESTONSBURG CITY'S UTILITY COMMISSION'S WATER AND SEWER RATES

# **EXHIBIT 1**

**ASSET PURCHASE AGREEMENT**

Between

**SOUTHERN WATER  
AND SEWER DISTRICT**

And

**CITY OF PRESTONSBURG**

For the Use and Benefit of

**PRESTONSBURG CITY'S  
UTILITY COMMISSION**

**January 1, 2017**

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## **ASSET PURCHASE AGREEMENT**

This Asset Purchase Agreement (the “Agreement”), effective January 1, 2017, made and entered between **SOUTHERN WATER AND SEWER DISTRICT** (the “Southern District”), P.O. Box 610, McDowell, Kentucky 41647; **PRESTONSBURG CITY’S UTILITY COMMISSION** (the “PCUC”), 2560 South Lake Drive, Prestonsburg, Kentucky 41653; and the **CITY OF PRESTONSBURG** (the “City”), 200 North Lake Drive, Prestonsburg, Kentucky 41653, (collectively, the “Parties”).

### **WITNESSETH:**

**WHEREAS**, Southern District is a water district organized under the provisions of KRS Chapter 74;

**WHEREAS**, Southern District currently owns and operates water supply, treatment, and distribution facilities (the “Southern Water System”) and wastewater collection and treatment facilities (the “Southern Wastewater System”);

**WHEREAS**, PCUC is a duly organized and existing independent, component unit and agency of the City;

**WHEREAS**, the City currently owns, and PCUC manages and operates, water supply, treatment, and distribution facilities (the “PCUC Water System”) and wastewater collection and treatment facilities (the “PCUC Wastewater System”);

**WHEREAS**, the City has the sole authority to issue or assume debt on behalf of PCUC and its operations;

**WHEREAS**, certain PCUC Water System facilities are adjacent to Southern Water System facilities and certain PCUC Wastewater System facilities are adjacent to certain Southern Wastewater System facilities;

**WHEREAS**, Southern District is subject to administrative actions by the Division of Enforcement of the Kentucky Energy and Environment Cabinet (the “DOE”) for alleged violations of Kentucky water quality laws;

**WHEREAS**, the actions necessary to bring Southern Wastewater System’s facilities into compliance with Kentucky water quality laws are expected to cost hundreds of thousands of dollars;

**WHEREAS**, Southern District is facing substantial civil penalties for its alleged violations of Kentucky water quality laws;

**WHEREAS**, PCUC has a larger and more experienced workforce devoted to its wastewater operations than Southern District has for its wastewater operations;

**WHEREAS**, PCUC has a greater number of Wastewater Treatment Plant Certified Operators than Southern District;

**WHEREAS**, PCUC has greater financial resources than Southern District;

**WHEREAS**, since July 1, 2016, PCUC has been managing, operating, repairing, and maintaining the Southern Wastewater System pursuant to an Operating Agreement executed by PCUC and Southern District;

**WHEREAS**, since assuming responsibility for the management, operation, repair, and maintenance of the Southern Wastewater System, and in anticipation of administrative orders from DOE to remedy deficiencies in the Southern Wastewater System, PCUC has commenced, at its own expense, the rehabilitation of the Wayland Wastewater Treatment Plant and lift stations, and has made repairs to the Harold Wastewater Treatment Plant and the Eastern Wastewater Treatment Plant;

**WHEREAS**, the combination and consolidation of the Southern Wastewater System and the PCUC Wastewater System will result in greater economies of scale, enhance the reliability and quality of wastewater service presently provided to the customers of the Southern Wastewater System, substantially reduce the likelihood of the DOE's assessment of civil penalties against the Southern Wastewater System, and allow the combined wastewater systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, that portion of the Southern Water System located along Kentucky Route 850 from the point where Southern currently interconnects with

PCUC near Kentucky Route 404 to the summit of the hill on Kentucky Route 850 (the “Pyramid Area”) is a remote portion of the Southern Water System;

**WHEREAS**, that portion of Southern Water Distribution System located along U.S. Highway 23 from Mare Creek at Stanville south to the Pike County line, including the areas east of U.S. Highway 23 and the areas west of U.S. Highway 23 known as Justell and Harold Bottom, is also a remote portion of the Southern Water System;

**WHEREAS**, PCUC can more easily provide adequate and reliable water service to the Pyramid Area and the Stanville/Betsy Layne/Harold Area than can be provided by Southern;

**WHEREAS**, the transfer of those portions of the Southern Water System that serve the Pyramid Area and the Stanville/Betsy Layne/Harold Area from Southern District to the City, for the use and benefit of PCUC, will result in greater economies of scale, enhance the reliability and quality of water service to the customers served by those facilities, and allow the combined systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, the City and PCUC have the financial, technical, and managerial abilities to provide adequate and reliable water and wastewater service to Southern District’s existing customers that will be transferred to PCUC without

adversely affecting the quality of service presently afforded PCUC's existing customers;

**WHEREAS**, the City has the authority, pursuant to KRS Chapters 82, 96, and 106 and other applicable laws, to acquire, for the use and benefit of PCUC, the Southern Wastewater System and portions of the Southern Water System; and

**WHEREAS**, the transfer of the Southern Wastewater System and portions of the Southern Water System to the City, for the use and benefit of PCUC, will improve Southern District's financial position and will enable Southern District to focus its efforts on maintaining and improving the quality and reliability of service to the remaining portion of the Southern Water System.

**NOW, THEREFORE**, for and in consideration of the mutual promises, covenants, and conditions contained herein, the Parties agree as follows:

1. **TRANSFER OF CERTAIN ASSETS.** Subject to the terms and conditions of this Agreement, Southern District hereby agrees to transfer and convey to the City, for the use and benefit of PCUC, and the City and PCUC hereby agree to acquire from Southern District, those assets described in Paragraphs 2, 3, and 9 of this Agreement (the "Assets") for the consideration set forth in Paragraph 4 of this Agreement.

2. **WASTEWATER SYSTEM ASSETS BEING TRANSFERRED.**  
At the Closing, Southern District shall transfer to the City, for the use and benefit

of PCUC, the Southern Wastewater System in its entirety. The wastewater assets being transferred to PCUC include, but are not limited to, the following:

A. **Harold Wastewater Treatment Plant.** The in-ground, concrete basin, extended air wastewater treatment facility with a rated daily treatment capacity of 100,000 gallons and designated as the Harold Wastewater Treatment Plant (the “Harold WWTP”), the tract of real property upon which the facility is situated, and all improvements to the facility and the property on which it is situated;

B. **Harold/Betsy Layne Wastewater Collection System.** The wastewater collection system designated as the Harold/Betsy Layne Wastewater Collection System, including, but not limited to, all sewer gravity lines, all sewer force mains, all manholes, all lateral lines, all grinder pumps, all other pumps and controls, valve vaults, valves, and any and all other facilities and appurtenances used in the operation of the Harold/Betsy Layne Wastewater Collection System;

C. **Eastern Wastewater Treatment System.** The in-ground, concrete basin, extended air wastewater treatment facility with a rated daily treatment capacity of 25,000 gallons and designated as the Eastern Wastewater Treatment Plant (the “Eastern WWTP”),

the tract of real property upon which the facility is situated, and all improvements to the facility and the property on which it is situated;

**D. Eastern Wastewater Collection System.** The wastewater collection system designated as the Eastern Wastewater Collection System, including, but not limited to, all sewer gravity lines, all sewer force mains, all manholes, all lateral lines, all grinder pumps, all other pumps and controls, valve vaults, valves, and any and all other facilities and appurtenances used in the operation of the Eastern Wastewater Collection System;

**E. Wayland Wastewater Treatment Plant.** The above ground, steel basin, extended air wastewater treatment facility with a rated daily treatment capacity of 100,000 gallons and designated as the Wayland Wastewater Treatment Plant (the “Wayland WWTP”), the tract of real property upon which the facility is situated, and all improvements to the facility and the property on which it is situated;

**F. Wayland Wastewater Collection System.** The wastewater collection system designated as the Wayland Wastewater Collection System, including, but not limited to, all sewer gravity lines, all sewer force mains, all manholes, all lateral lines, all grinder pumps, all other pumps and controls, valve vaults, valves, and any and

all other facilities and appurtenances used in the operation of the Wayland Wastewater Collection System;

G. **Sewer Lift Stations.** All sewer lift stations, including the pumps and related appurtenances, used in the operation of the Harold/Betsy Layne Wastewater Collection System and Wayland Wastewater Collection System. **Exhibit 1** to this Agreement lists and describes each of these sewer lift stations and identifies its location;

H. **Real Property.** All of Southern District's rights and interests in the parcels or tracts of real property on which the wastewater system assets described above are located;

I. All other real estate easements and the improvements thereon, licenses, encroachment permits, rights-of-way, or other interests in real estate owned by Southern District and used in the operation of the Southern Wastewater System;

J. All maps, drawings, operating manuals, engineering reports, and "As Built" plans pertaining to the Southern Wastewater System;

K. All business records pertaining to the Southern Wastewater System, including, but not limited to, all customer records and agreements; and

L. Any and all other tangible and intangible rights, permits, licenses, or authorizations owned by Southern District and used in the operation of the Southern Wastewater System.

3. **WATER SYSTEM ASSETS BEING TRANSFERRED.** At the Closing, Southern District shall transfer to PCUC those portions of the Southern Water System that serve the Pyramid and Stanville/Betsy Layne/Harold Areas. The water system assets being transferred to PCUC include, but are not limited to, the following:

A. **Sandy Valley Water District Distribution System.** The entire water distribution system formerly known as the Floyd County portion of the Sandy Valley Water District, including, but not limited to, approximately 4.5 miles of 12-inch asbestos concrete water transmission main, approximately 5.8 miles of 3-inch to 8-inch water distribution lines of various composition (asbestos concrete, polyvinylchloride, or polyethylene), system valves, meter vaults, meters, fire hydrants, flush hydrants, and tap installations;

B. **Stanville Tank.** The 150,000 gallon water storage tank designated as the Stanville Tank, which is located at the junction of U.S. Highway 23 South and Mare Creek Road at Stanville, all of Southern District's rights and interests in the real property upon which the tank is

situated, valve vault, altitude valve, and all appurtenances associated therewith;

C. **Eagle Trace Tank.** The 150,000 gallon water storage tank designated as the Eagle Trace Tank, which is located at the head of the Right Fork of Penhook Branch in Harold just off U.S. Highway 23 South, all of Southern District's rights and interests in the property upon which the tank is situated, valve vault, altitude valve, and all appurtenances associated therewith;

D. **Mare Creek Road Booster Station.** The water booster station located on Mare Creek Road in Stanville, including the pump and all other appurtenances associated therewith;

E. **Pike-Floyd Hollow Road Booster Station.** The water booster station located on Pike-Floyd Hollow Road in Betsy Layne, including the pump and all other appurtenances associated therewith;

F. **Pyramid Distribution System.** The water distribution system serving the area in Floyd County that is known as Pyramid, and that is more specifically defined as the service area from the junction of Kentucky Routes 404 and 850 south along Kentucky Route 850 to the top of Hippo Hill, including, but not limited to, approximately 4.6 miles of 6-inch polyvinylchloride water transmission main, approximately 4.1 miles of 2-

inch to 6-inch polyvinylchloride or polyethylene water distribution lines, system valves, meter vaults, meters, fire hydrants, flush hydrants, and tap installations;

G. **Hippo Hill Tank.** The 125,000 gallon storage tank designated as the Hippo Hill Tank, which is located on Kentucky Route 850, all of Southern District's rights and interests in the property upon which the tank is situated, valve vault, altitude valve, and all appurtenances associated therewith;

H. **Real Property.** All of Southern District's rights and interests in the parcels or tracts of real property on which the water system assets described above are located;

I. All real estate easements and the improvements thereon, licenses, encroachment permits, rights-of-way or other interests in real estate owned by Southern District and used in the operation of the portions of the Southern Water System that serve the Pyramid and Stanville/Betsy Layne/Harold Areas;

J. All maps, drawings, operating manuals, engineering reports, and "As Built" plans pertaining to the portions of the Southern Water System that serve the Pyramid and Stanville/Betsy Layne/Harold Areas;

K. All business records pertaining to the portions of the Southern Water System that serve the Pyramid and Stanville/Betsy Layne/Harold Areas, including, but not limited to, all customer records and agreements; and

L. Any and all other tangible and intangible rights, permits, licenses, or authorizations owned by Southern District and used in the operation of the portions of the Southern Water System that serve the Pyramid and Stanville/Betsy Layne/Harold Areas.

4. **CONSIDERATION.** As consideration for the transfer of the Assets, the City and PCUC shall pay to Southern District **\$2,140,000.00** (the “Purchase Price”). The City and PCUC shall pay the consideration by a combination of cash payments to Southern District, the assumption or payment of certain debt obligations owed by Southern District, and expenditures incurred for the rehabilitation of the Wayland WWTP and sewer lift stations, Harold WWTP, and Eastern WWTP. PCUC has already made a series of payments totaling **\$149,260.00** to Southern District as a down payment on the purchase price. City and PCUC shall either assume or pay in full at the Closing, the following debt obligations of Southern District: (a) KIA Loan No. A04-06 in the approximate principal amount of \$34,019, which was incurred for the Wayland WWTP; (b) KIA Loan No. A11-16 in the approximate principal amount of \$696,000, which

was incurred for the Harold WWTP; and (c) USDA-RD Loan No. 91-05 in the approximate principal amount of \$512,990, which was originally incurred by the Sandy Valley Water District and later assumed by Southern District.

5. **CUSTOMER DEPOSITS.** Southern District represents that it is holding customer deposits for its customers who receive water or sewer service through the Assets listed in Paragraphs 2 and 3 of this Agreement. Prior to Closing, Southern District shall furnish PCUC a current list that shows the name, address, account number, and amount still on deposit for each of these customers. Southern District shall be responsible for paying, or crediting the customer's accounts, all accrued interest on the customer deposits through the date of Closing. After the Closing, PCUC shall be responsible for the refund of these deposits in accordance with PCUC's rules and regulations.

6. **LIABILITIES EXCLUDED.** PCUC is not assuming any Southern District liabilities or debts except for the loans described in Paragraph 4 and the customer deposits described in Paragraph 5 of this Agreement.

7. **CONSTRUCTION WORK IN PROGRESS.** Southern District is currently constructing sewer facilities in southern Floyd County along the U.S. Highway 23 Corridor to extend pressure sewer service to the areas of Lower Hollow, Store Hollow, and portions of Betsy Layne Bottom. This construction, which is known as Harold Sewer Project Phase 3 (the "Harold Phase 3 Project" or

the “Project”), consists of the installation of: approximately 136 Simplex E-1 Grinder Pump Stations; approximately 16,492 feet of 1.25-inch High Density Polyethylene (the “HDPE”) main; approximately 3,220 feet of 2-inch HDPE main; approximately 5,162 feet of 3-inch HDPE main; approximately 3,442 feet of 4-inch HDPE main; approximately 3,442 feet of 6-inch HDPE main; and approximately 199 feet of 10-inch HDPE Force Main. It is anticipated that the construction contract will be substantially completed and the wastewater collection lines will be placed into service prior to the Closing. Upon completion of the Project or the Closing, whichever occurs later, Southern District shall assign the contractor’s warranty to PCUC. In addition, Southern District shall require the contractor to provide the usual and customary Certificate of Payment certifying that the contractor has been paid in full and that all subcontractors and material providers have been paid in full. Southern District shall be responsible for making any and all remaining payments owed to the contractor and to Summit Engineering.

8. **GRANT COMPLIANCE.** Southern District is the recipient of the following grants in the following amounts: Community Development Block Grant (\$750,000); Appalachian Regional Commission (\$390,000); and Kentucky General Assembly (HB 265) Grant (\$273,000) (the “Grants”). The proceeds of the Grants shall be used to pay the costs of constructing the Project. To facilitate final

closeout of the Grants, Southern District shall be responsible for maintaining all files, books, and records regarding the Grants and the use of Grant proceeds and PCUC shall be responsible for ongoing compliance.

9. **HAROLD PHASE 3 IMPROVEMENTS.** Upon completion of the Harold Phase 3 Project or the Closing, whichever occurs later, Southern District shall transfer all the wastewater improvements installed as part of the Harold Phase 3 Project to the City for the use and benefit of PCUC.

10. **REGULATORY AGENCY APPROVALS.** PCUC shall be responsible for the following: (a) obtaining all necessary approvals from regulatory agencies, including the Kentucky Public Service Commission (the “PSC”) and the Kentucky Division of Water; (b) obtaining the transfer of Kentucky Pollutant Discharge Elimination System Permits; (c) obtaining the transfer of all other necessary permits and licenses from Southern District to PCUC; and (d) taking other necessary actions to facilitate the transfer of the Southern Wastewater System and designated portions of the Southern Water System to the City for the use and benefit of PCUC. PCUC shall initiate all proceedings to obtain these necessary approvals and transfers. Southern District pledges its full cooperation and assistance to expedite these matters and ensure a smooth transition.

11. **WATER RATES.** The schedule of Southern District’s current rates for monthly water service is attached as **Exhibit 2**. The City and PCUC agree that

following the Closing, PCUC shall charge these rates to persons in the Pyramid and Stanville/Betsy Layne/Harold Areas for water service and shall **not** increase these rates for at least three (3) years following the date of the Closing.

12. **WASTEWATER RATES.** The schedule of Southern District's current rates for monthly wastewater service is attached as **Exhibit 3**. The City and PCUC agree that following the Closing, PCUC shall charge these rates to persons in the areas currently served by the Southern Wastewater System and shall **not** increase these wastewater rates for at least three (3) years following the date of the Closing.

13. **DOE ADMINISTRATIVE ACTIONS.** Southern District is facing administrative actions by DOE for alleged violations of Kentucky water quality laws. To mitigate or eliminate any civil penalties that might be imposed by DOE, PCUC has been managing, operating, repairing, and maintaining the Southern Wastewater System since July 1, 2016. Southern District and PCUC believe the rehabilitation of the Wayland WWTP and other actions taken by PCUC have been viewed very favorably by DOE. PCUC pledges to continue working closely with Southern District and DOE to persuade DOE to resolve this matter without taking any more enforcement actions or seeking any civil penalties. Nevertheless, should DOE impose or assess any civil penalties for alleged violations that occurred prior

to July 1, 2016, Southern District shall be solely responsible for the payment of those penalties.

14. **CONTINUED OPERATION OF WATER SYSTEM.** Until the time of the Closing, Southern District shall continue to operate and maintain the portions of the Southern Water System that serve the Pyramid and Stanville/Betsy Layne/Harold Areas in substantially the same manner as it has previously been operated and maintained. Immediately following the Closing, PCUC shall commence operating and maintaining the Water and Wastewater Systems.

15. **REPRESENTATIONS AND WARRANTIES OF SOUTHERN DISTRICT.** Southern District represents and warrants to PCUC as follows:

A. That it is a duly organized and existing water district.

B. That the execution and delivery of this Agreement and the consummation of the transactions herein contemplated have been duly authorized by its Board of Commissioners.

C. That its current rates for water service are set forth in **Exhibit 2.**

D. That its current rates for wastewater service are set forth in **Exhibit 3.**

E. The execution, delivery, performance, and the consummation of the transactions contemplated in this Agreement do

not and will not: (1) conflict with or result in a violation or breach of any of the terms, conditions, or provisions of or constitute a default of any instrument, agreement, mortgage, judgment, order, writ, award, decree, or other restriction to which either Southern District is a Party, or to which any of Southern District's Assets are subject, or by which Southern District is bound or any statute or regulatory provision affecting Southern District; (2) require the approval, consent, or authorization of any federal, state, or local court, governmental authority, or regulatory body or of any creditor of Southern District or of any other person or entity, except for Rural Development, the Kentucky Infrastructure Authority, the PSC, and the Kentucky Division of Water; nor (3) give any Party with rights under any instrument, agreement, mortgage, judgment, order, writ, award, decree or other restriction the right to terminate, modify, or otherwise change Southern District's rights or obligations thereunder.

F. Southern District has complied with all existing laws, rules, regulations, ordinances, orders, judgments, and decrees now or hereafter applicable to Southern District's Assets. Southern District is not aware of any proposed laws, rules, regulations, ordinances, orders, judgments, decrees, governmental takings, condemnations, or other

proceedings which would be applicable to Southern District's Assets or which might adversely affect Southern District's Assets either before or after the date of this Agreement.

G. Except as noted in Paragraph 13 of this Agreement, Southern District has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of, or not in compliance with, any federal, state, or local law, statute, ordinance, rule, regulation, decree, order, or permit relating to its utility business or that upon the passage of time it will be in violation of any of the foregoing. Southern District's operation of its utility business complies in all respects with all governmental requirements relating to the collection, treatment and disposal of wastewater.

H. Southern District is the true and lawful owner of the Assets and has good, marketable, and insurable title to all of the Assets. None of the Assets will, after Closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute, contingent or otherwise, except for certain property interests (the "Property Interests") acquired by Floyd County, Floyd County Fiscal

Court, and the Floyd County, Kentucky Public Properties Corporation (the “Floyd County”) as a result of past financing arrangements between Floyd County and Southern District. The City and PCUC are aware of these Property Interests. Southern District acknowledges that the City and PCUC are engaged in discussions with Floyd County officials to acquire these Property Interests. All of the Assets are in operating condition and are suitable for the purposes used.

I. Upon execution and delivery of the necessary deeds, bills of sale, easements, assignments, and other instruments of transfer by Southern District pursuant to this Agreement, PCUC shall acquire good and valid title to the Assets, free and clear of all claims, liens, security interests, agreements, restrictions, charges and encumbrances of any nature whatsoever.

J. No other person or entity, except for PCUC, now has, nor at any time prior to the Closing will have, the right to purchase, own, use, or sell any of the Assets.

K. Southern District is not insolvent as of the date of this Agreement. Southern District is able to meet all business obligations as they become due and will not be insolvent or unable to meet its

business obligations as a result of completing the transactions described herein.

L. Except as noted in this Agreement, there is no claim, legal action, suit, arbitration, governmental investigation, or other legal or administrative proceeding, nor any order, decree or judgment in progress, pending or in effect, or threatened, against or relating to the Southern District, its officers, commissioners, employees or utility business, the Assets, or the transactions contemplated by this Agreement, and Southern District neither knows nor has reason to be aware of any basis for the same.

M. Between the date of this Agreement and the Closing, Southern District shall operate its Water System diligently and substantially in the same manner as heretofore conducted prior to the date of this Agreement. Prior to the Closing, the Southern District shall not, without PCUC's prior written approval, change its rates or charges, institute any new methods of accounting or operation, or engage in any transaction or activity, enter into any agreement, or make any commitment, except in the ordinary course of business and consistent with past practice.

N. Prior to the Closing, the Southern District shall not permit any of the Assets to be subjected to a mortgage, pledge, lien or encumbrance, without notice to, and approval of, PCUC, and further shall not dispose of any of the Assets.

O. Southern District shall maintain until the Closing the insurance policies presently in effect on the Assets.

P. Southern District shall not perform any act or omit to perform any act or perform any act or omission that will cause a breach or default in this Agreement.

Q. No representation or warranty by Southern District in this Agreement, nor any statement or certificate furnished or to be furnished by it to PCUC or its representatives in connection herewith or pursuant hereto, contains or will contain any untrue statement of material fact or will omit a statement of any material fact required to make the statements herein or therein contained not misleading. Southern District has disclosed to PCUC in writing all material adverse facts known to it relating to the Southern District, its utility business, or the Assets. Southern District is not aware of any circumstances or facts which could be detrimental to its utility business other than those disclosed to PCUC in writing.

R. All minute books, books and records, and other documents maintained by Southern District with respect to the Assets are true, complete, and accurate.

S. All representations and warranties of Southern District contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall be true as of the Closing as well as of the date of this Agreement.

**16. PCUC'S REPRESENTATIONS AND WARRANTIES.** PCUC represents and warrants to Southern District as follows:

A. PCUC is a duly organized and validly existing independent component unit and agency of the City. It has the requisite right, power, and authority: (1) to carry on its utility business as it is now being conducted; and (2) to manage and operate the facilities which it currently manages and operates.

B. PCUC has full capacity, right, power, and authority to enter into, deliver, and perform this Agreement. This Agreement has been approved by its Board of Commissioners and the Prestonsburg City Council. All other consents, approvals, authorizations, or other requirements prescribed by law, rule, or regulation which must be obtained or satisfied by PCUC and which are necessary in order for it

to enter into and perform this Agreement have been satisfied. This Agreement has been duly executed and delivered by PCUC and constitutes a legal, valid, and binding obligation, enforceable against it in accordance with its terms.

C. It has the financial, technical, and managerial abilities to provide reasonable water service and wastewater collection and treatment services to the customers of the Southern Wastewater System and the designated portions of the Southern Water System to be transferred to PCUC.

**17. CITY'S REPRESENTATIONS AND WARRANTIES.** The City represents to Southern District:

A. The City is a duly organized and validly existing municipal corporation and city of the home rule class of the Commonwealth of Kentucky.

B. This Agreement has been approved by its City Council. All other consents, approvals, authorizations, or other requirements prescribed by law, rule, or regulation which must be obtained or satisfied by the City or PCUC and which are necessary in order for it to enter into and perform this Agreement have been satisfied. This Agreement has been duly executed and delivered by the City and

constitutes a legal, valid, and binding obligation, enforceable against it in accordance with its terms.

C. It has the financial, technical, and managerial abilities to provide reasonable water service and wastewater collection and treatment services to the customers of the Southern Wastewater System and the designated portions of the Southern Water System to be transferred to the City for the use and benefit of PCUC.

18. **CLOSING.** The closing of this transaction (the “Closing”) shall take place at a mutually convenient date, time, and place.

19. **ACCESS TO BOOKS.** Between the date of this Agreement and the Closing, PCUC and the City and their authorized representatives shall have the right to examine and to obtain copies of any and all pertinent books, plats, maps, plans, and records of Southern District upon reasonable notice and mutually convenient times.

20. **FINAL BILLING.** No later than two (2) weeks prior to the Closing, Southern District shall provide PCUC with a current list of all names, addresses, meter identification numbers, and account numbers of Southern District’s water and wastewater customers that are being transferred to PCUC. At Closing, Southern District shall also provide PCUC with the last meter reading for each customer. Southern District shall bill all its customers for water and wastewater

services rendered prior to the Closing. Southern District shall be entitled to all revenue derived from the final bill it sends its customers. PCUC shall be entitled to all revenue derived from water and wastewater services rendered on and after the date of the Closing.

21. **CLOSING REQUIREMENTS.** The obligations of the Parties are expressly conditioned on the following, each of which is a condition precedent to the validity and enforcement of this Agreement:

A. The representations and warranties of each of the Parties shall be true and correct as of the Closing, as though such representations and warranties were made at, and as of the Closing;

B. Each of the Parties shall have performed and complied in all material respects with all of its obligations under this Agreement that are due to be performed or complied with by such Party prior to or at the Closing;

C. At and as of the Closing, no litigation, proceedings, investigations, or inquiries shall be pending or threatened by any person, firm, corporation, government agency, or governmental official to enjoin or prevent the consummation of this transaction;

D. The PSC shall have entered an order in which it approves the transfer of the Wastewater Assets and Water Assets from Southern

District to the City, for the use and benefit of PCUC, without the addition of any requirement or condition which the City or PCUC deems objectionable;

E. USDA-Rural Development shall have either issued a Letter of Conditions to the City authorizing USDA-RD Loan No. 91-05, which is owed by Southern District, to be assumed by the City or granted written approval for Southern District to convey the Assets to the City upon payment in full of Loan No. 91-05; and

F. Kentucky Infrastructure Authority shall have given written approval for KIA Loan No. A04-06 and KIA Loan No. A11-16, which are owed by Southern District, to be assumed by the City.

22. **CONVEYANCE AND TRANSFERS.** Southern District shall not convey, lease, or in any other way dispose of the Wastewater Assets or the Water Assets until the Closing. At the Closing, Southern District shall execute and deliver to PCUC and the City such leases, deeds, assignments, bills of sale, and other instruments of transfer as are necessary or requested by PCUC and the City to vest PCUC and the City with good and marketable, unencumbered title to the Wastewater Assets and the Water Assets, without the need for further approval or consent by any other person or entity.

**23. DUE AT CLOSING.**

**A. DUE FROM SOUTHERN DISTRICT TO PCUC.**

Unless PCUC provides a written waiver of any item listed herein,

Southern District shall deliver to PCUC at Closing the following:

- (1) General warranty deeds and an Assignment of Easements conveying Southern District's ownership interests in the real property described in Paragraphs 2 and 3 of this Agreement;
- (2) Such bills of sale, assignments and other instruments of transfer, all dated the Closing Date, as shall be necessary or requested by PCUC to vest PCUC with good and marketable, unencumbered title to the Assets;
- (3) A schedule which contains a current listing of the name, address, account number, meter identification number, meter reading, and amount still on deposit for each customer;
- (4) Duly certified copy of the resolution of the Board of Commissioners authorizing the execution, delivery and performance of this Agreement by Southern District, which ordinance shall be in full force and effect at, and as of, the Closing;
- (5) An opinion from Southern District's counsel, dated the Closing Date and in a form satisfactory to PCUC and the City, as to the representations, warranties, and other matters set forth in Paragraph 15 of this Agreement;
- (6) A certificate, signed by Southern District's Chairperson and dated as of the Closing Date, representing and warranting to the PCUC (i) that the representations, warranties and other matters set forth in Paragraph 15 of this Agreement are true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing, and (ii) that the Closing

Requirements set forth in Paragraph 21 of this Agreement have been fully satisfied;

- (7) All records for the utility customers;
- (8) Possession of the Assets;
- (9) A list of any Pre-paid Connection Fees and a certified or cashier's check for the amount of any Pre-paid Connection Fees held by the Southern District;
- (10) An assignment of the contractor's warranty on the construction contract referred to in Paragraph 7 of this Agreement; and
- (11) Such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

**B. DUE FROM PCUC TO SOUTHERN DISTRICT.**

Unless Southern District provides a written waiver of any item listed herein, PCUC shall deliver to Southern District at Closing the following:

- (1) A certified or cashier's check for the balance of the Purchase Price;
- (2) A certified copy of the PCUC's resolution approving this Agreement, authorizing the Chairman to execute and deliver this Agreement, and further authorizing the appropriate officials to take all actions necessary to consummate the transactions contemplated by this Agreement;
- (3) An opinion from Stoll Keenon Ogden PLLC, special counsel to PCUC, dated the Closing Date and in a form satisfactory to Southern District, as to the representations, warranties, and other matters set forth in Paragraph 16 of this Agreement; and

- (4) Such receipts as may be reasonably requested by Southern District and such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

**C. DUE FROM CITY TO SOUTHERN DISTRICT.**

Unless Southern District provides a written waiver of any item listed herein, PCUC shall deliver to Southern District at Closing the following:

- (1) A certified copy of the City's resolution approving this Agreement, authorizing the Mayor to execute and deliver this Agreement, and further authorizing the appropriate officials to take all actions necessary to consummate the transactions contemplated by this Agreement; and
- (2) An opinion from the City Attorney, dated the Closing Date and in a form satisfactory to Southern District, as to the representations, warranties, and other matters set forth in Paragraph 17 of this Agreement.

**24. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.**

The representations, warranties, and agreements of the Parties contained in this Agreement, or in any certificate or other writing delivered pursuant hereto, shall survive the making of this Agreement and the Closing.

**25. RESPONSIBLE PARTIES.**

**A. SOUTHERN DISTRICT.** Southern District shall be solely responsible for any loss, claim, action, suit, proceeding deficiency, or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation,

breach of representation, warranty or obligation, covenant or agreement, or default by Southern District under this Agreement, including the exhibits, or any documents delivered to PCUC in connection with this Agreement; (b) claims of negligence or strict liability arising from operation of the transferred Wastewater Assets prior to July 1, 2016, and the transferred Water Assets prior to the Closing; and (c) all contingent liabilities relating to Southern District or the Water and Wastewater Assets with respect to any state of facts or occurrences existing at or prior to the Closing.

**B. PCUC AND THE CITY.** PCUC and the City shall be solely responsible for any loss, claim, action, suit, proceeding deficiency, or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement, or default by PCUC or the City under this Agreement, including the exhibits, or any documents delivered to Southern District in connection with this Agreement; (b) claims of negligence or strict liability arising from operation of the transferred Wastewater Assets after July 1, 2016, and the transferred Water Assets after the Closing; and (c) all contingent liabilities relating to Southern District

or the Water and Wastewater Assets with respect to any state of facts or occurrences existing at or prior to the Closing.

26. **ENTIRE AGREEMENT.** This Agreement, including all of its exhibits hereto, constitutes the entire agreement of the Parties with respect to the subject matter hereof and may not be modified or amended or terminated except by written agreement specifically referring to this Agreement, and signed by all of the Parties.

**[Remainder of page intentionally left blank.]**

IN TESTIMONY WHEREOF, this Agreement has been executed in multiple counterparts, each of which is deemed to be an original, by the duly authorized officers of the Parties, as of the effective date of this Agreement.

**SOUTHERN WATER AND SEWER DISTRICT**

BY:   
**Paula Johnson, Chairperson**

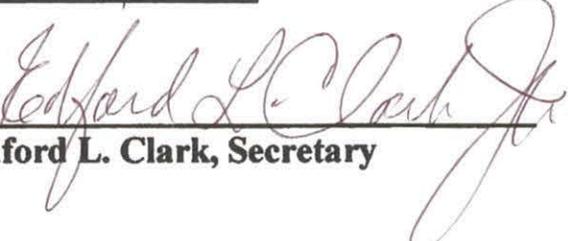
DATE: 12-19-16

ATTEST:   
**Barry Hall, Secretary**

**PRESTONSBURG CITY'S UTILITY COMMISSION**

BY:   
**Jimmy A. Calhoun, Chairman**

DATE: 12-20-16

ATTEST:   
**Edford L. Clark, Secretary**

**CITY OF PRESTONSBURG, KENTUCKY**

BY:   
**Les Stapleton, Mayor**

DATE: 12/20/16

ATTEST:   
**Sharon Setser, City Clerk**

**EXHIBIT 1**  
**SEWER LIFT STATIONS TO BE TRANSFERRED**

<b>ID Number</b>	<b>Wastewater Collection System</b>	<b>Name</b>	<b>Type and HP</b>	<b>Location</b>
SLS 1	Harold/Betsy Layne	Stanville	Myers 10HP	Bobcat Boulevard
SLS 2	Wayland	Wayland	Myers 20HP	Wayland City Park
SLS 3	Wayland	Estill Hill	Myers 15HP	Clearwater Road
SLS 4	Wayland	Estill Bottom	Myers 15HP	Estill Bottom Road
SLS 5	Wayland	Pumpkin Center	Myers 20HP	Pumpkin Center Road

**EXHIBIT 2**

**SOUTHERN WATER AND SEWER DISTRICT'S RATES  
FOR WATER SERVICE AS OF JANUARY 1, 2017**

All Meters:

First 2,000 Gallons  
Over 2,000 Gallons

\$24.60 Minimum Bill  
8.40 Per 1,000 Gallons

**EXHIBIT 3**

**SOUTHERN WATER AND SEWER DISTRICT'S RATES  
FOR SEWER SERVICE AS OF JANUARY 1, 2017**

All Meters:

First 2,000 Gallons  
Over 2,000 Gallons

\$28.38 Minimum Bill  
9.52 Per 1,000 Gallons

# **EXHIBIT 2**



PRESTONSBURG CITY'S UTILITIES COMMISSION  
 2560 SOUTH LAKE DRIVE  
 PRESTONSBURG, KY 41653  
 PHONE (606) 886 - 6871

COMMISSION  
 CHAIRMAN JIM CALHOUN  
 COMMISSIONER EDDY CLARK JR. DMD  
 COMMISSIONER GLEN D. MAY

SUPERINTENDENT - CEO  
 TURNER E. CAMPBELL

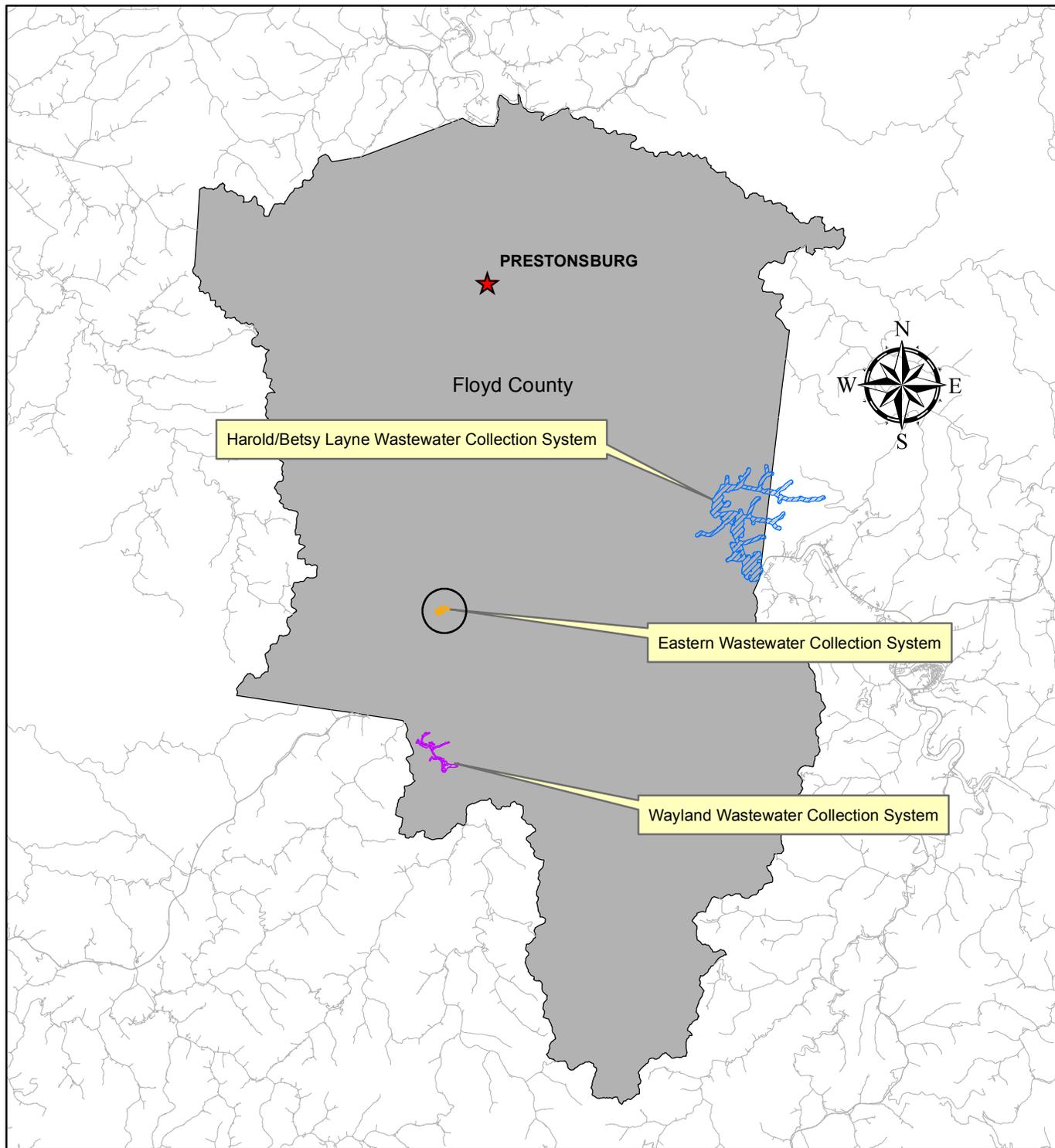
**SOUTHERN SEWER SYSTEM  
 ASSETS TO BE TRANSFERRED**

**Legend**

**Asset Purchase**

**Name**

-  Eastern Wastewater Collection System
-  Harold/Betsy Layne Wastewater Collection System
-  Wayland Wastewater Collection System
-  Floyd County



Name: Southern Water Asset Map  
 Drawn by: BM  
 Checked by: TEC  
 Date: 1-5-2017

**SEWER  
 ASSET  
 MAP**



PRESTONSBURG CITY'S UTILITIES COMMISSION  
 2560 SOUTH LAKE DRIVE  
 PRESTONSBURG, KY 41653  
 PHONE (606) 886 - 6871

COMMISSION  
 CHAIRMAN JIM CALHOUN  
 COMMISSIONER EDDY CLARK JR. DMD  
 COMMISSIONER GLEN D. MAY

SUPERINTENDENT - CEO  
 TURNER E. CAMPBELL

**SOUTHERN SEWER SYSTEM  
 ASSETS TO BE TRANSFERRED**

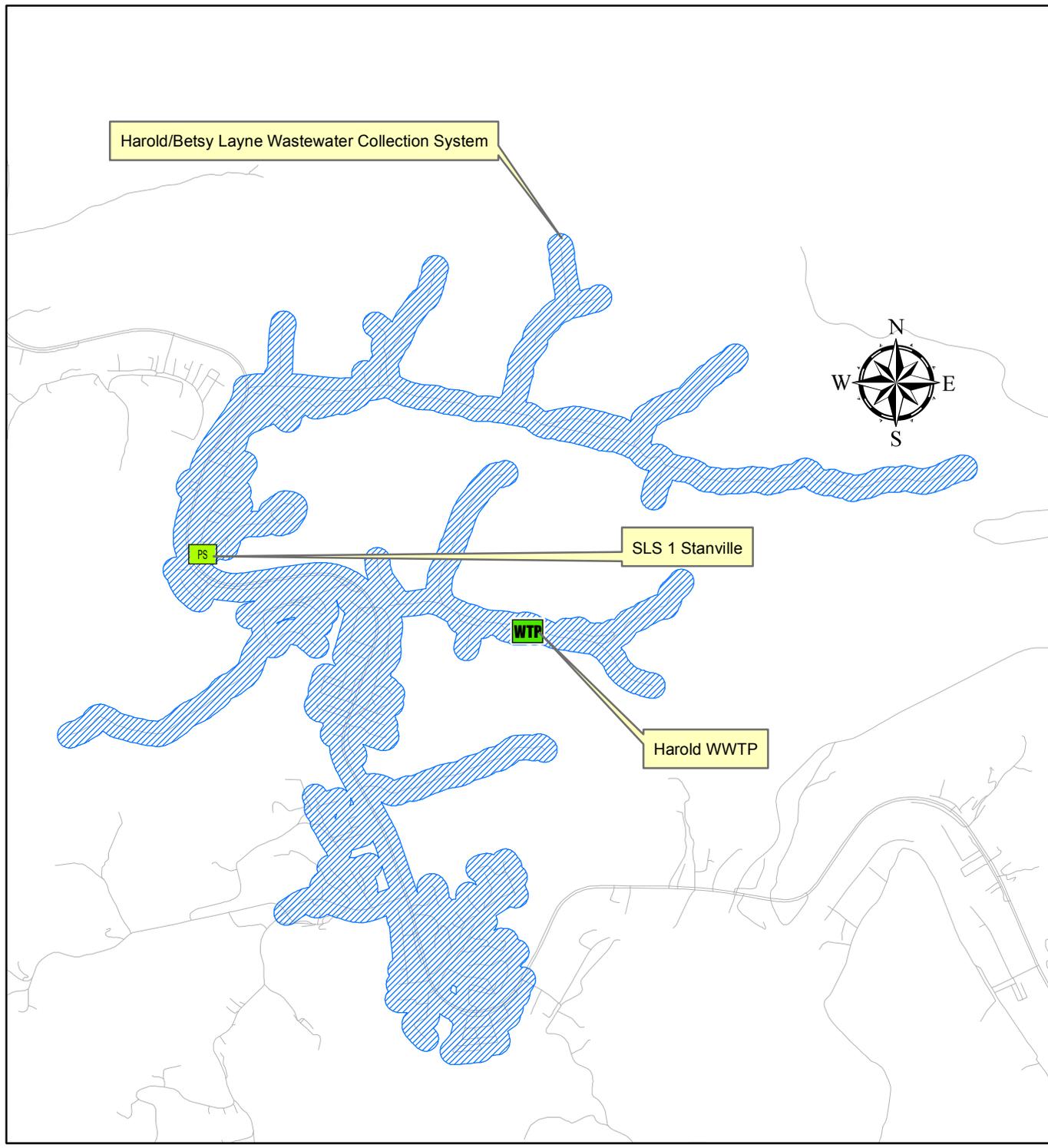
**HAROLD / BETSY LAYNE  
 WASTEWATER COLLECTION SYSTEM**

**Legend**

- WTP WWTP
- PS Sewer Lift Stations
- Harold/Betsy Layne Wastewater Collection System

Name: Harold / Betsy Layne WWCS  
 Drawn by: BM  
 Checked by: TEC  
 Date: 1-19-2017

**SEWER  
 ASSET  
 MAP**





PRESTONSBURG CITY'S UTILITIES COMMISSION  
 2560 SOUTH LAKE DRIVE  
 PRESTONSBURG, KY 41653  
 PHONE (606) 886 - 6871

COMMISSION  
 CHAIRMAN JIM CALHOUN  
 COMMISSIONER EDDY CLARK JR. DMD  
 COMMISSIONER GLEN D. MAY

SUPERINTENDENT - CEO  
 TURNER E. CAMPBELL

**SOUTHERN SEWER SYSTEM  
 ASSETS TO BE TRANSFERRED**

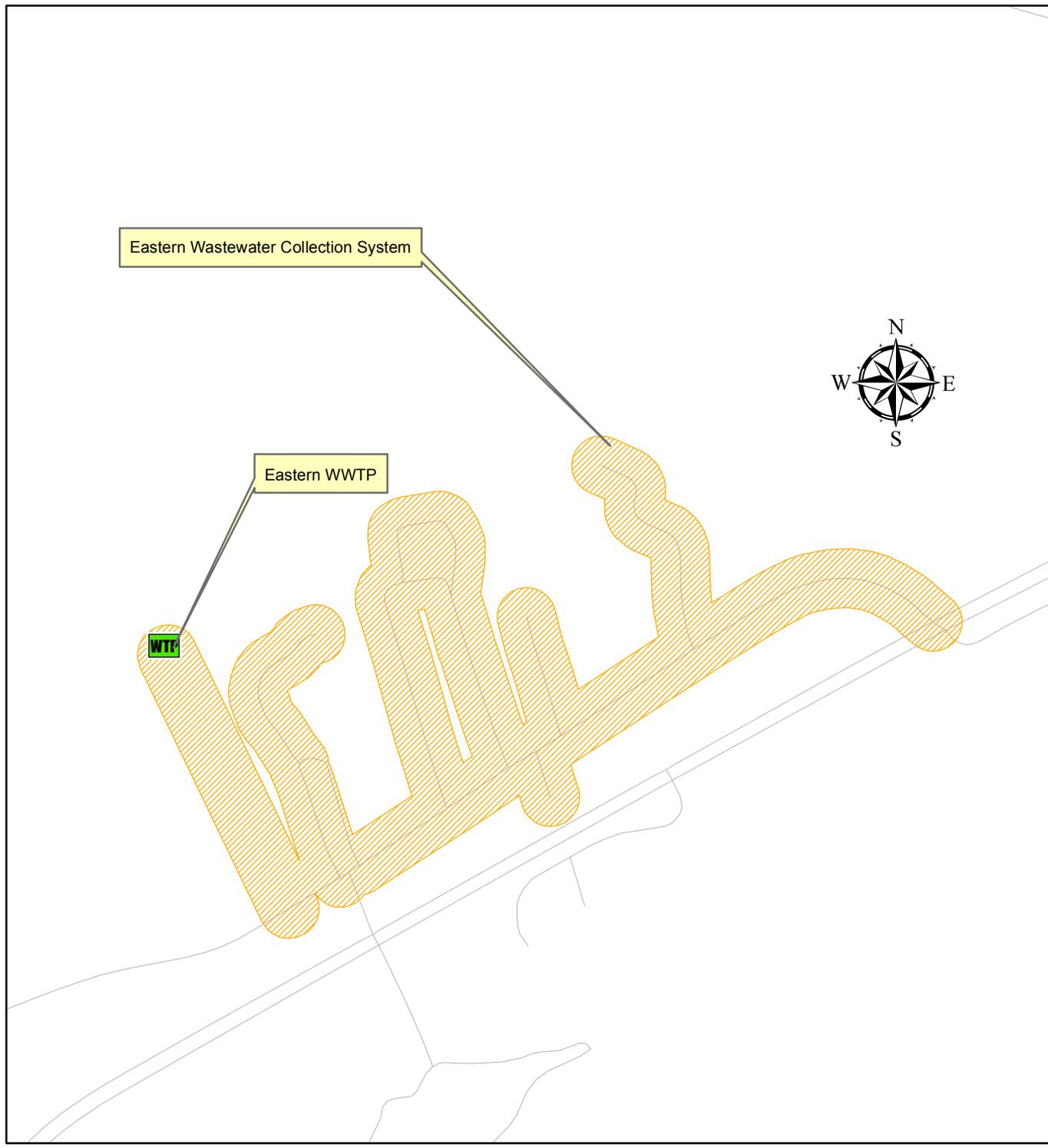
**EASTERN  
 WASTEWATER COLLECTION SYSTEM**

**Legend**

-  WWT
-  Eastern Wastewater Collection System

Name: Eastern WWCS
Drawn by: BM
Checked by: TEC
Date: 1-19-2017

SEWER  
 ASSET  
 MAP





PRESTONSBURG CITY'S UTILITIES COMMISSION  
 2560 SOUTH LAKE DRIVE  
 PRESTONSBURG, KY 41653  
 PHONE (606) 886 - 6871

COMMISSION  
 CHAIRMAN JIM CALHOUN  
 COMMISSIONER EDDY CLARK JR. DMD  
 COMMISSIONER GLEN D. MAY

SUPERINTENDENT - CEO  
 TURNER E. CAMPBELL

**SOUTHERN SEWER SYSTEM  
 ASSETS TO BE TRANSFERRED**

**WAYLAND  
 WASTEWATER COLLECTION SYSTEM**

**Legend**

-  WWTP
-  Sewer Lift Stations

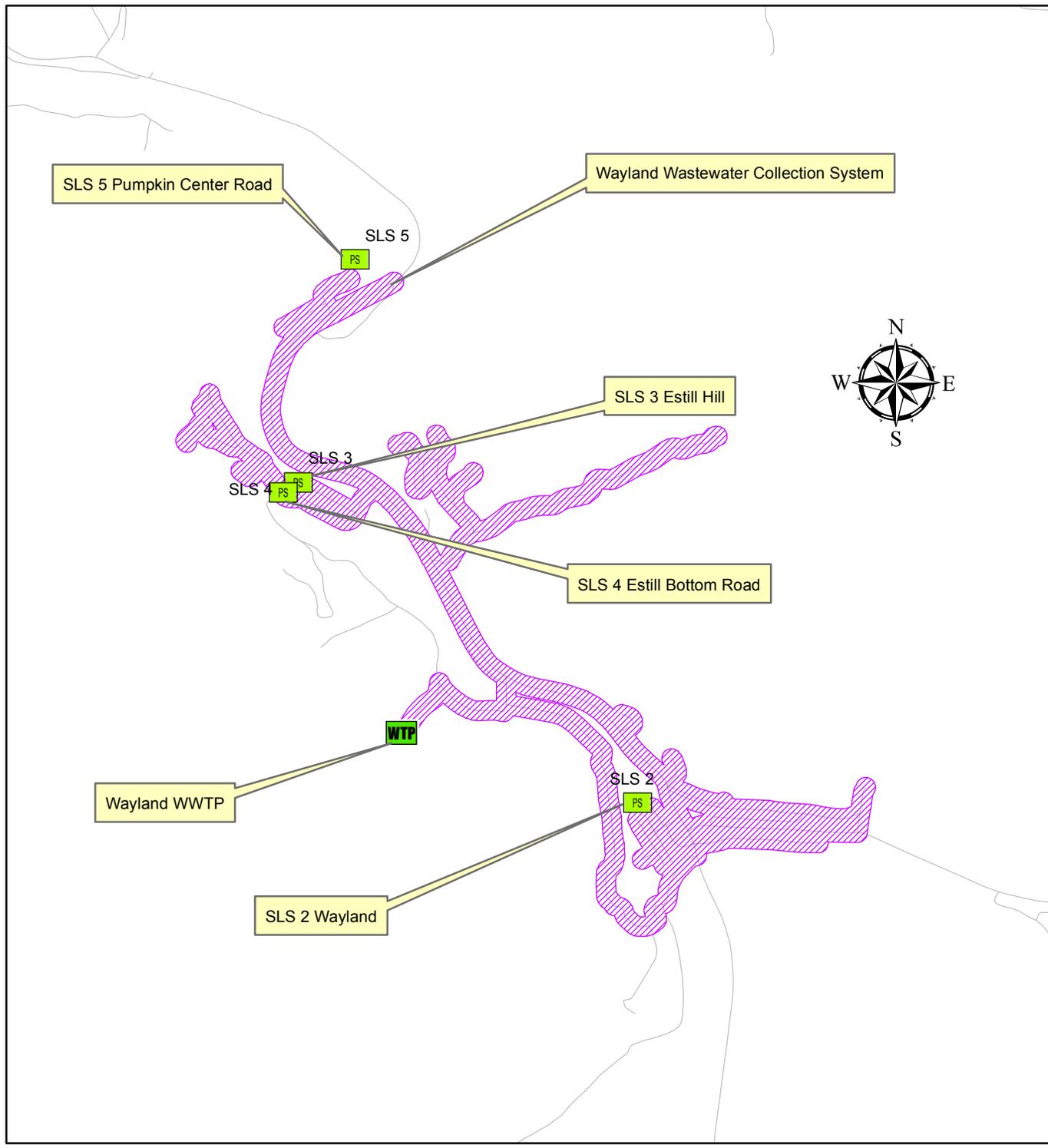
**Asset Purchase**

**Name**

-  Wayland Wastewater Collection System

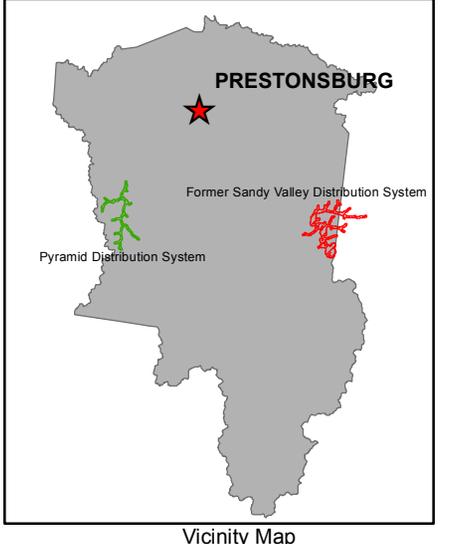
Name: Wayland WWCS
Drawn by: BM
Checked by: TEC
Date: 1-19-2017

SEWER  
 ASSET  
 MAP

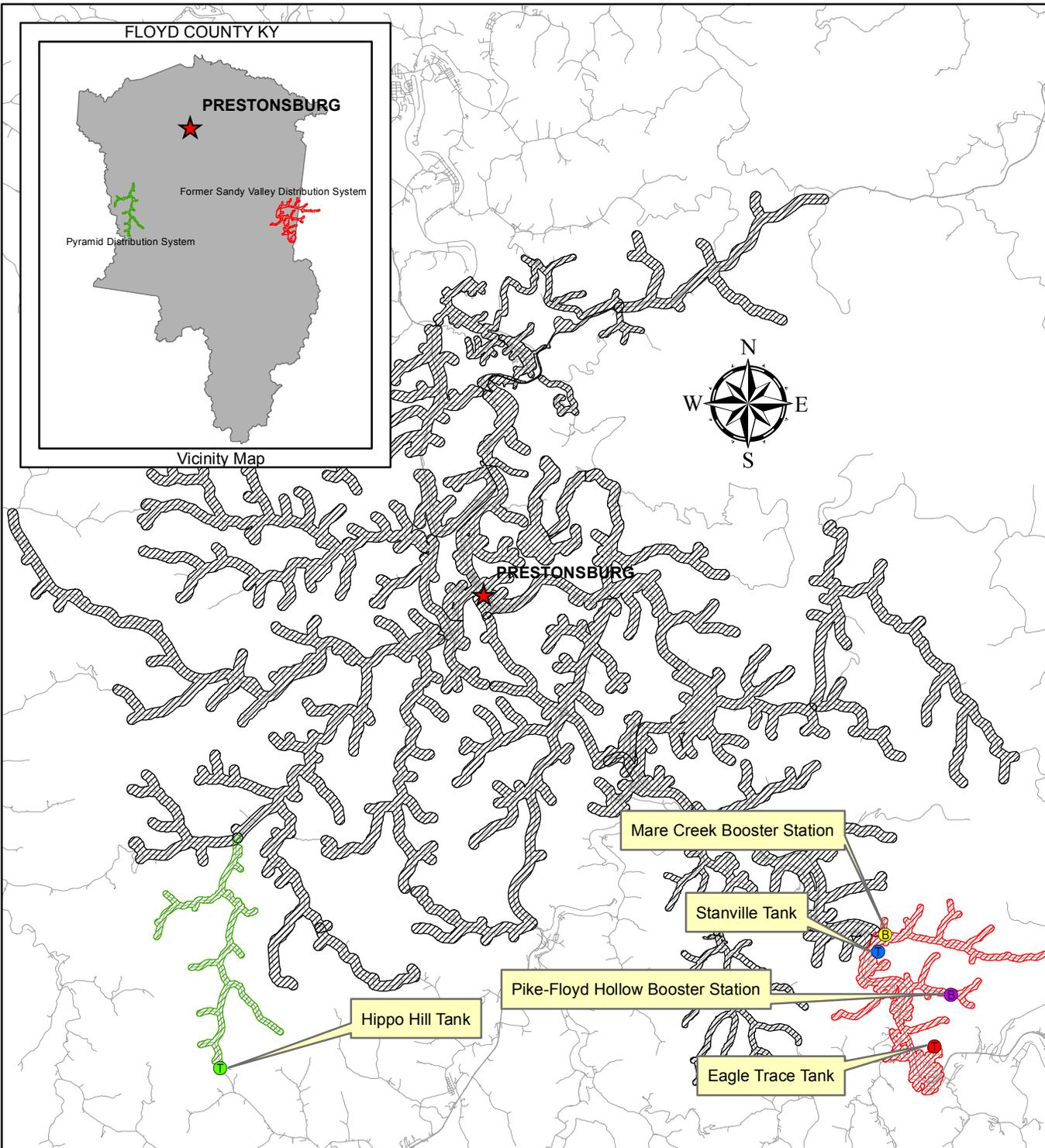


# **EXHIBIT 3**

FLOYD COUNTY KY



Vicinity Map



PRESTONSBURG CITY'S UTILITIES COMMISSION  
 2560 SOUTH LAKE DRIVE  
 PRESTONSBURG, KY 41653  
 PHONE (606) 886 - 6871

COMMISSION  
 CHAIRMAN JIM CALHOUN  
 COMMISSIONER EDDY CLARK JR. DMD  
 COMMISSIONER GLEN D. MAY

SUPERINTENDENT - CEO  
 TURNER E. CAMPBELL

### SOUTHERN WATER SYSTEM ASSETS TO BE TRANSFERRED

**Legend**

- ★ PRESTONSBURG
- ▨ PCUC Distribution System
- Asset Purchase**
- Name**
- ▨ Former Sandy Valley Water Distribution System
- ▨ Pyramid Distribution System
- PotableStorage**
- WT\_ID**
- Eagle Trace Tank
- Stanville Tank
- Hippo Hill Tank
- Potable Booster Pumps**
- Pike-Floyd Hollow Road Booster Station
- Mare Creek Road Booster Station

Name: Southern Water Asset Map  
 Drawn by: BM  
 Checked by: TEC  
 Date: 1-5-2017

**WATER  
 ASSET  
 MAP**

# **EXHIBIT 4**

**RESOLUTION 2016-12-01**

**RESOLUTION OF THE SOUTHERN WATER AND SEWER DISTRICT APPROVING THE ASSET PURCHASE AGREEMENT BETWEEN THE SOUTHERN WATER DISTRICT, AS SELLER, AND THE CITY OF PRESTONSBURG, AS BUYER; AND AUTHORIZING THE CHAIRPERSON TO EXECUTE SAID AGREEMENT.**

**WHEREAS**, the Southern Water and Sewer District (the “Southern District”) is a water district organized under the provisions of KRS Chapter 74;

**WHEREAS**, Southern District currently owns and operates both water supply, treatment, and distribution facilities (the “Southern Water System”) and wastewater collection and treatment facilities (the “Southern Wastewater System”);

**WHEREAS**, the Prestonsburg City’s Utility Commission (the “PCUC”) is a duly organized and existing independent, component unit and agency of the City of Prestonsburg;

**WHEREAS**, the City of Prestonsburg (the “City”) currently owns, and PCUC manages and operates, water supply, treatment, and distribution facilities (the “PCUC Water System”) and wastewater collection and treatment facilities (the “PCUC Wastewater System”);

**WHEREAS**, certain portions of the Southern Water System are adjacent to certain portions of the PCUC Water System and certain portions of the Southern

Wastewater System are adjacent to certain portions of the PCUC Wastewater System;

**WHEREAS**, PCUC has a larger and more experienced workforce dedicated to its operations than Southern District has for its wastewater operations;

**WHEREAS**, PCUC has more financial resources than Southern;

**WHEREAS**, it appears that combining and consolidating the Southern Wastewater System with the PCUC Wastewater System will result in economies of scale, will substantially reduce the likelihood of fines being levied on Southern District by the Division of Enforcement of the Kentucky Energy and Environment Cabinet (the “DOE”), and will allow the combined wastewater systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, the portion of the Southern Water System located along Kentucky Route 850 from the point where Southern District currently interconnects with PCUC near Kentucky Route 404 to the summit of the hill on Kentucky Route 850 (the “Pyramid Area”) is a remote portion of the Southern Water System;

**WHEREAS**, the portion of the Southern Water System located along U.S. Highway 23 (the “US 23”) Corridor from Mare Creek at Stanville south to the Pike County line, including the areas east of US 23 and the areas west of US 23 known

as Justell and Harold Bottom is also a remote portion of the Southern Water System;

**WHEREAS**, it appears that PCUC can more easily provide adequate and reliable water service to the Pyramid Area and the Stanville/Betsy Layne/Harold Area than can be provided by Southern District;

**WHEREAS**, it appears that transferring certain portions of the Southern Water System to the City, for the use and benefit of PCUC, will result in economies of scale, will improve the adequacy and reliability of water service to the customers in the Pyramid Area and in the Stanville/Betsy Layne/Harold Area, and will allow the combined systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, it appears that PCUC has the financial, technical, and managerial abilities to provide adequate and reliable water service and wastewater service to Southern District's existing customers that will be transferred to PCUC;

**WHEREAS**, the transfer of the Southern Wastewater System and portions of the Southern Water System to the City, for the use and benefit of PCUC, will improve Southern District's financial position and will enable Southern District to focus its efforts on maintaining and improving the quality and reliability of service to the remaining portion of the Southern Water System;

**WHEREAS**, the City, for the use and benefit of PCUC, has the authority, pursuant to KRS Chapters 82, 96, and 106 and other applicable laws, to acquire portions of Southern District's Water and Wastewater Systems;

**WHEREAS**, Southern District and PCUC executed a Statement of Intent, effective June 2, 2016, whereby Southern District expressed its intent to transfer and convey certain portions of its Water and Wastewater Systems to the City, for the use and benefit of PCUC, and PCUC expressed its intent to acquire, by and through the City, certain portions of Southern District's Water and Wastewater Systems, subject to the terms, conditions, and provisions set forth in the Statement of Intent;

**WHEREAS**, since July 1, 2016, PCUC has been managing, operating, repairing, and maintaining the Southern Wastewater System pursuant to an Operating Agreement executed by Southern District and PCUC;

**WHEREAS**, since assuming responsibility for the management, operation, repair, and maintenance of the Southern Wastewater System, and in anticipation of administrative orders from the DOE to remedy deficiencies in the Southern Wastewater System, PCUC has commenced, at its own expense, the rehabilitation of the Wayland Wastewater Treatment Plant and lift stations, and PCUC has also made repairs and improvements to the Harold and Eastern WWTTPs; and

**WHEREAS**, certain representatives of Southern District and certain representatives of PCUC have negotiated the terms of an Asset Purchase Agreement (the “Agreement”) whereby the City, for the use and benefit of PCUC, will acquire certain portions of Southern District’s Water and Wastewater Systems, subject to the approval of the Agreement by the governing bodies of Southern District, the City, and PCUC and execution of the Agreement by the duly authorized officials.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE SOUTHERN WATER AND SEWER DISTRICT AS FOLLOWS:**

**Section 1.** The facts, recitals, and statements contained in the foregoing preamble of this Resolution are true and correct and are hereby affirmed and incorporated as a part of this Resolution.

**Section 2.** It is hereby determined and declared to be necessary, desirable, and in the public interest for Southern District to transfer portions of its Water and Wastewater Systems to the City, for the use and benefit of PCUC, pursuant to the terms, conditions, and provisions contained in the Agreement.

**Section 3.** The Agreement, in substantially the form submitted to Southern District, with such modifications as the Chairperson, upon advice of counsel, may subsequently approve, as evidenced by her signature thereon, is hereby approved.

The Chairperson is authorized and directed to execute and deliver the Agreement for and on behalf of Southern District.

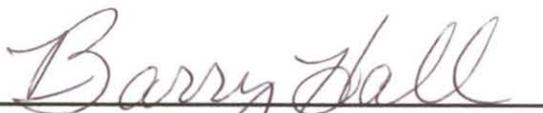
**Section 4.** The Chairperson, Manager, and all other appropriate officers, officials, employees, or representatives of Southern District are hereby authorized and directed to take any and all actions and to execute and deliver all documents as may be reasonably necessary to effectuate the terms of the Agreement.

**Section 5.** This Resolution shall take effect upon its adoption.

The Chairperson declared the foregoing Resolution adopted on December 19, 2016.

**SOUTHERN WATER AND SEWER DISTRICT**

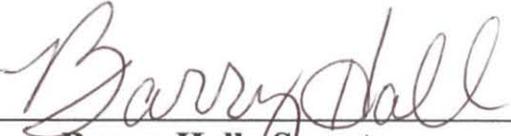
BY:   
**Paula Johnson, Chairperson**

ATTEST:   
**Barry Hall, Secretary**

## CERTIFICATION

I, the undersigned, do hereby certify that I am the duly qualified and acting Secretary of the Southern Water and Sewer District. As such Secretary I further certify that the foregoing is a true, correct and complete copy of a Resolution duly adopted by the Board of Commissioners of said District at a duly convened meeting held on December 19, 2016, signed by the Chairperson, attested by me as Secretary, and now in full force and effect, all as appears from the official records of said District in my possession and under my control.

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of December, 2016.

  
\_\_\_\_\_  
**Barry Hall, Secretary**

# **EXHIBIT 5**

**RESOLUTION 2016-12-01**

**RESOLUTION OF PRESTONSBURG CITY'S UTILITY COMMISSION RECOMMENDING THAT THE CITY COUNCIL OF THE CITY OF PRESTONSBURG APPROVE THE ASSET PURCHASE AGREEMENT BETWEEN THE SOUTHERN WATER AND SEWER DISTRICT AS SELLER, AND THE CITY OF PRESTONSBURG, AS BUYER; APPROVING SAID AGREEMENT; AND AUTHORIZING THE CHAIRMAN TO EXECUTE SAID AGREEMENT.**

**WHEREAS**, the City of Prestonsburg, Kentucky (the "City") is a duly organized and existing municipal corporation of the home rule class of the Commonwealth of Kentucky;

**WHEREAS**, the Prestonsburg City's Utility Commission (the "PCUC") is a duly organized and existing independent, component unit and agency of the City;

**WHEREAS**, the City currently owns natural gas distribution facilities (the "PCUC Gas System"), water supply, treatment, and distribution facilities (the "PCUC Water System") and wastewater collection and treatment facilities (the "PCUC Wastewater System");

**WHEREAS**, PCUC currently operates, maintains, and makes improvements to the PCUC Gas System, PCUC Water System, and PCUC Wastewater System. PCUC manages and operates these systems as a combined and consolidated municipal utilities system;

**WHEREAS**, the Southern Water and Sewer District (the “Southern District”) is a water district organized under the provisions of KRS Chapter 74;

**WHEREAS**, Southern District currently owns and operates both water supply, treatment, and distribution facilities (the “Southern Water System”) and wastewater collection and treatment facilities (the “Southern Wastewater System”);

**WHEREAS**, certain portions of the PCUC Water System are adjacent to certain portions of the Southern Water System and certain portions of the PCUC Wastewater System are adjacent to certain portions of the Southern Wastewater System;

**WHEREAS**, PCUC’s existing wastewater treatment plant (the “PCUC WWTP”) is currently operating at maximum capacity;

**WHEREAS**, Southern District’s Harold/Betsy Layne Wastewater Treatment Plant (the “Harold WWTP”) is modern, operates at approximately 50% of its rated capacity of 100,000 gallons per day, is expandable to 400,000 gallons per day, and is strategically located along the U. S. Highway 23 corridor (the “US 23 Corridor”);

**WHEREAS**, if PCUC acquires the Harold WWTP, it can reverse the flow of wastewater, divert a substantial portion of the wastewater from its existing

wastewater treatment plant to the Harold WWTP, and create additional capacity at the PCUC WWTP;

**WHEREAS**, acquisition of the Harold WWTP will enable PCUC to forego substantial capital improvements at the PCUC WWTP;

**WHEREAS**, acquisition of the Harold WWTP will enable PCUC to more economically extend wastewater service along the US 23 Corridor to the Floyd/Pike County Line;

**WHEREAS**, PCUC has a larger and more experienced workforce dedicated to its operations than Southern District has for its wastewater operations;

**WHEREAS**, PCUC has more financial resources than Southern District;

**WHEREAS**, it appears that combining and consolidating the Southern Wastewater System with PCUC's Wastewater System will result in economies of scale, will enable PCUC to more economically extend wastewater service to the US 23 Corridor, and will allow the combined wastewater systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, the portion of the Southern Water System located along Ky. Route 850 from the point where Southern District currently interconnects with PCUC near Ky. Route 404 to the summit of the hill on Ky. Route 850 (the "Pyramid Area") is a remote portion of the Southern Water System;

**WHEREAS**, the portion of the Southern Water System located along the US 23 Corridor from Mare Creek at Stanville south to the Pike County line, including the areas east of US 23 and the areas west of US 23 known as Justell and Harold Bottom is a remote portion of the Southern Water System;

**WHEREAS**, it appears that PCUC can more easily provide adequate and reliable water service to the Pyramid Area and the Stanville/Betsy Layne/Harold Area than can be provided by Southern District;

**WHEREAS**, it appears that acquiring certain portions of the Southern Water System by PCUC will result in economies of scale, will improve the adequacy and reliability of water service to the customers in the Pyramid Area and in the Stanville/Betsy Layne/Harold Area, and will allow the combined systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, it appears that PCUC has the financial, technical, and managerial abilities to provide adequate and reliable water service and wastewater service to Southern District's existing customers that will be transferred to PCUC without adversely affecting the quality of service presently afforded PCUC's existing customers;

**WHEREAS**, the City, for the use and benefit of PCUC, has the authority, pursuant to KRS Chapters 82, 96, and 106 and other applicable laws, to acquire portions of Southern District's Water and Wastewater Systems;

**WHEREAS**, Southern District and PCUC executed a Statement of Intent, effective June 2, 2016, whereby Southern District expressed its intent to transfer and convey certain portions of its Water and Wastewater Systems to the City, for the use and benefit of PCUC, and PCUC expressed its intent to acquire, by and through the City, certain portions of Southern District's Water and Wastewater Systems, subject to the terms, conditions, and provisions set forth in the Statement of Intent;

**WHEREAS**, since July 1, 2016, PCUC has been managing, operating, repairing, and maintaining the Southern Wastewater System pursuant to an Operating Agreement executed by PCUC and Southern District;

**WHEREAS**, since assuming responsibility for the management, operation, repair, and maintenance of the Southern Wastewater System, and in anticipation of administrative orders from DOE to remedy deficiencies in the Southern Wastewater System, PCUC has commenced, at its own expense, the rehabilitation of the Wayland Wastewater Treatment Plant and lift stations, and PCUC has also made repairs and improvements to the Harold and East WWTTPs; and

**WHEREAS**, certain representatives of PCUC and certain representatives of Southern District have negotiated the terms of an Asset Purchase Agreement (the "Agreement") whereby the City, for the use and benefit of PCUC, will acquire certain portions of Southern District's Water and Wastewater Systems, subject to

the approval of the Agreement by the governing bodies of Southern District, the City, and PCUC and execution of the Agreement by the duly authorized officials.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE PRESTONSBURG CITY'S UTILITY COMMISSION AS FOLLOWS:**

**Section 1.** The facts, recitals, and statements contained in the foregoing preamble of this Resolution are true and correct and are hereby affirmed and incorporated as a part of this Resolution.

**Section 2.** It is hereby determined and declared to be necessary, desirable, and in the public interest for PCUC, by and through the City, to acquire certain portions of Southern District's Water and Wastewater Systems, pursuant to the terms, conditions, and provisions contained in the Agreement.

**Section 3.** The Agreement, in substantially the form submitted to PCUC, with such modifications as the Chairman, upon advice of counsel, may subsequently approve, as evidenced by his signature thereon, is hereby approved. The Chairman is authorized and directed to execute and deliver the Agreement for and on behalf of PCUC.

**Section 4.** PCUC hereby recommends that the City Council of the City of Prestonsburg adopt a Resolution or Municipal Order approving the Agreement and authorizing PCUC to take all necessary actions to effectuate the acquisition of the

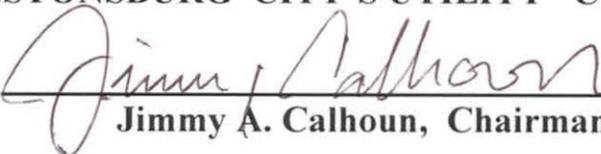
portions of Southern District's Water and Wastewater Systems described in the Agreement.

**Section 5.** The Chairman, Superintendent/CEO, and all other appropriate officers, officials, employees or representatives of PCUC are hereby authorized and directed to take any and all actions and to execute and deliver all documents as may be reasonably necessary to effectuate the terms of the Agreement.

**Section 6.** This Resolution shall take effect upon its adoption.

The Chairman declared the foregoing Resolution adopted on December 13, 2016.

**PRESTONSBURG CITY'S UTILITY COMMISSION**

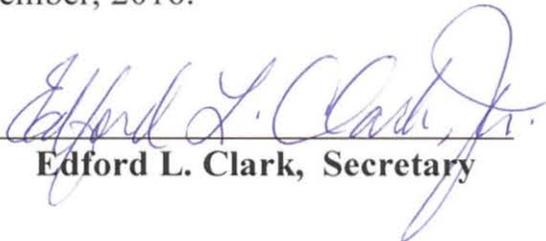
BY:   
Jimmy A. Calhoun, Chairman

ATTEST:   
Edford L. Clark, Secretary

## CERTIFICATION

I, the undersigned, do hereby certify that I am the duly qualified and acting Secretary of the Prestonsburg City's Utility Commission. As such Secretary I further certify that the foregoing is a true, correct and complete copy of a Resolution duly adopted by the Board of Commissioners of PCUC at a duly convened Special Meeting held on December 13, 2016, signed by the Chairman, attested by me as Secretary, and now in full force and effect, all as appears from the official records of PCUC in my possession and under my control.

IN WITNESS WHEREOF, I have hereunto set my hand this 13<sup>th</sup> day of December, 2016.

  
\_\_\_\_\_  
**Edford L. Clark, Secretary**

# **EXHIBIT 6**

**RESOLUTION NO. 09-2016**

**RESOLUTION OF THE CITY OF PRESTONSBURG, KENTUCKY AUTHORIZING THE ACQUISITION OF THE WASTEWATER SYSTEM AND CERTAIN PORTIONS OF THE WATER DISTRIBUTION SYSTEM OWNED BY SOUTHERN WATER AND SEWER DISTRICT; APPROVING THE ASSET PURCHASE AGREEMENT BETWEEN THE SOUTHERN WATER AND SEWER DISTRICT, AS SELLER, AND THE CITY OF PRESTONSBURG, KENTUCKY, AS BUYER; AND AUTHORIZING THE MAYOR TO EXECUTE SAID AGREEMENT AND OTHER DOCUMENTS NECESSARY TO CONSUMMATE THE ACQUISITION.**

**WHEREAS**, the City of Prestonsburg, Kentucky (the “City”) is a duly organized and existing municipal corporation of the home rule class of the Commonwealth of Kentucky;

**WHEREAS**, the Prestonsburg City’s Utility Commission (the “PCUC”) is a duly organized and existing independent, component unit and agency of the City;

**WHEREAS**, the City currently owns natural gas distribution facilities (the “PCUC Gas System”), water supply, treatment, and distribution facilities (the “PCUC Water System”), and wastewater collection and treatment facilities (the “PCUC Wastewater System”);

**WHEREAS**, PCUC currently operates, maintains, and makes improvements to the PCUC Gas System, PCUC Water System, and PCUC Wastewater System. PCUC manages and operates these systems as a combined and consolidated municipal utilities system;

**WHEREAS**, the Southern Water and Sewer District (the “Southern District”) is a water district organized under the provisions of KRS Chapter 74;

**WHEREAS**, Southern District currently owns and operates both water supply, treatment, and distribution facilities (the “Southern Water System”) and wastewater collection and treatment facilities (the “Southern Wastewater System”);

**WHEREAS**, certain portions of the PCUC Water System are adjacent to certain portions of the Southern Water System and certain portions of the PCUC Wastewater System are adjacent to certain portions of the Southern Wastewater System;

**WHEREAS**, the City’s existing wastewater treatment plant (the “City WWTP”) is currently operating at maximum capacity;

**WHEREAS**, Southern District’s Harold/Betsy Layne Wastewater Treatment Plant (the “Harold WWTP”) is modern, operates at approximately 50% of its rated capacity of 100,000 gallons per day, is expandable to 400,000 gallons per day, and

is strategically located along the U. S. Highway 23 corridor (the “US 23 Corridor”);

**WHEREAS**, if the City acquires the Harold WWTP, PCUC can reverse the flow of wastewater, divert a substantial portion of the wastewater from its existing wastewater treatment plant to the Harold WWTP, and create additional capacity at the City WWTP;

**WHEREAS**, acquisition of the Harold WWTP will enable the City and PCUC to forego substantial capital improvements at the City WWTP;

**WHEREAS**, acquisition of the Harold WWTP will enable the City and PCUC to more economically extend wastewater service along the US 23 Corridor to the Floyd/Pike County Line;

**WHEREAS**, PCUC has a larger and more experienced workforce dedicated to its operations than Southern District has for its wastewater operations;

**WHEREAS**, PCUC has more financial resources than Southern District;

**WHEREAS**, it appears that combining and consolidating the Southern Wastewater System with PCUC’s Wastewater System will result in economies of scale, will enable PCUC to more economically extend wastewater service to the US 23 Corridor, and will allow the combined wastewater systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, it appears that acquiring certain portions of the Southern Water System by the City, for the use and benefit of PCUC, will result in economies of scale, will improve the adequacy and reliability of water service to the customers in these areas, and will allow the combined systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, it appears that PCUC has the financial, technical, and managerial abilities to provide adequate and reliable water service and wastewater service to Southern District's existing customers that will be transferred to PCUC without adversely affecting the quality of service presently afforded PCUC's existing customers;

**WHEREAS**, the City, for the use and benefit of PCUC, has the authority, pursuant to KRS Chapters 82, 96, and 106 and other applicable laws, to acquire portions of Southern District's Water and Wastewater Systems;

**WHEREAS**, Southern District and PCUC executed a Statement of Intent, effective June 2, 2016, whereby Southern District expressed its intent to transfer and convey certain portions of its Water and Wastewater Systems to the City, for the use and benefit of PCUC, and PCUC expressed its intent to acquire, by and through the City, certain portions of Southern District's Water and Wastewater Systems, subject to the terms, conditions, and provisions set forth in the Statement of Intent;

**WHEREAS**, certain representatives of the City and PCUC and certain representatives of Southern District have negotiated the terms of an Asset Purchase Agreement (the “Agreement”) whereby the City, for the use and benefit of PCUC, will acquire certain portions of Southern District’s Water and Wastewater Systems, subject to the approval of the Agreement by the governing bodies of Southern District, the City, and PCUC and execution of the Agreement by the duly authorized officials; and

**WHEREAS**, the Board of Commissioners of PCUC, by Resolution adopted on December 13, 2016, has approved the Agreement and recommended that the City Council of the City of Prestonsburg, Kentucky approve the Agreement and authorize PCUC to take all necessary actions to effectuate the acquisition of the portions of Southern District’s Water and Wastewater Systems described in the Agreement.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF PRESTONSBURG, KENTUCKY AS FOLLOWS:**

**Section 1.** The facts, recitals, and statements contained in the foregoing preamble of this Resolution are true and correct and are hereby affirmed and incorporated as a part of this Resolution.

**Section 2.** It is hereby determined and declared to be necessary, desirable, and in the public interest for the City, for the use and benefit of PCUC, to acquire

certain portions of Southern District's Water and Wastewater Systems, pursuant to the terms, conditions, and provisions contained in the Agreement.

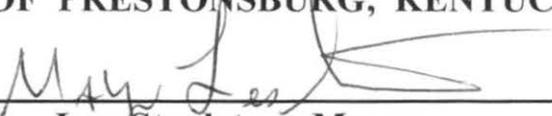
**Section 3.** The Agreement, in substantially the form submitted to the City of Prestonsburg, Kentucky, with such modifications as the Mayor, upon advice of the City Attorney, may subsequently approve, as evidenced by his signature thereon, is hereby approved. The Mayor is authorized and directed to execute and deliver the Agreement for and on behalf of the City of Prestonsburg, Kentucky.

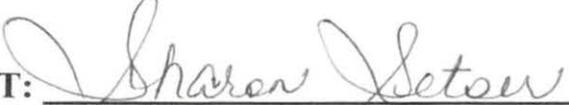
**Section 4.** The Mayor, City Clerk, and all other appropriate officers, officials, employees or representatives of the City are hereby authorized and directed to take any and all actions and to execute and deliver all documents as may be reasonably necessary to effectuate the terms of the Agreement.

**Section 5.** This Resolution shall take effect upon its adoption.

The Mayor declared the foregoing Resolution adopted on December 19, 2016.

**CITY OF PRESTONSBURG, KENTUCKY**

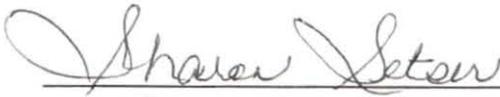
BY:   
\_\_\_\_\_  
**Les Stapleton, Mayor**

ATTEST:   
\_\_\_\_\_  
**Sharon Setser, City Clerk**

## CERTIFICATION

I, the undersigned, do hereby certify that I am the duly qualified and acting City Clerk of the City of Prestonsburg, Kentucky. As such City Clerk, I further certify that the foregoing is a true, correct and complete copy of a Resolution duly adopted by the City Council of the City of Prestonsburg, Kentucky at a duly convened Regular Meeting held on December 19, 2016, signed by the Mayor, attested by me as City Clerk, and now in full force and effect, all as appears from the official records of the City of Prestonsburg, Kentucky in my possession and under my control.

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of December, 2016.

  
\_\_\_\_\_  
**Sharon Setser, City Clerk**

# **EXHIBIT 7**

## **OPERATING AGREEMENT**

This is an Operating Agreement, having an effective date of July 1, 2016, made and entered into by and between the **SOUTHERN WATER AND SEWER DISTRICT**, P. O. Box 610, McDowell, Kentucky 41647, hereinafter referred to as “Southern”; and the **PRESTONSBURG CITY’S UTILITY COMMISSION**, 2560 South Lake Drive, Prestonsburg, Kentucky 41653, hereinafter referred to as “PCUC”;

### **WITNESSETH**

**WHEREAS**, the Southern Water and Sewer District (the “Southern”) is a water district organized under the provisions of KRS Chapter 74;

**WHEREAS**, Southern currently owns and operates water supply, treatment, and distribution facilities (the “Southern Water System”) and wastewater collection and treatment facilities (the “Southern Wastewater System”);

**WHEREAS**, the Prestonsburg City’s Utility Commission (the “PCUC”) is a duly organized and existing independent, component unit and agency of the City of Prestonsburg;

**WHEREAS**, PCUC currently owns and operates both water supply, treatment, and distribution facilities (the “PCUC Water System”) and wastewater collection and treatment facilities (the “PCUC Wastewater System”);

**WHEREAS**, portions of the PCUC Water System are adjacent to the Southern Water System and portions of the PCUC Wastewater System are adjacent to the Southern Wastewater System;

**WHEREAS**, Southern is facing imminent enforcement actions by the Division of Enforcement of the Kentucky Energy and Environment Cabinet (the “DOE”) for alleged wastewater violations;

**WHEREAS**, the DOE is likely to view favorably PCUC’s proposed operation and maintenance of Southern’s Wastewater System and PCUC’s proposed rehabilitation of the Wayland Wastewater Treatment Plant and lift stations;

**WHEREAS**, the consolidation of Southern’s Wastewater System with PCUC’s Wastewater System will achieve greater economies of scale, will mitigate any civil penalties arising from any administrative or legal proceedings concerning the operation of Southern’s Wastewater System, and will allow the combined wastewater systems to be managed, operated, and maintained in a more cost effective manner;

**WHEREAS**, PCUC employs more experienced, certified wastewater treatment plant operators and other wastewater personnel than does Southern;

**WHEREAS**, PCUC has greater financial resources than Southern;

**WHEREAS,** PCUC is willing to operate and maintain Southern's Wastewater System, if there is a plan in place to ultimately transfer ownership of Southern's Wastewater System to PCUC;

**WHEREAS,** PCUC is willing to undertake, at its own expense, the immediate rehabilitation of the Wayland Wastewater Treatment Plant and lift stations, if there is a plan in place to ultimately transfer ownership of Southern's Wastewater System to PCUC;

**WHEREAS,** on June 2, 2016, the Parties executed a Statement of Intent whereby Southern declared and stated its intent to transfer and convey its Wastewater System to PCUC and PCUC declared and stated its intent to acquire Southern's entire Wastewater System, subject to the terms, conditions, and provisions set forth in the Statement of Intent;

**WHEREAS,** as set forth in paragraph 5 of the Statement of Intent, it will be mutually advantageous to the Parties if PCUC commences, on July 1, 2016, managing, operating, repairing, and maintaining Southern's Wastewater System while they negotiate the detailed terms of the Asset Purchase Agreement (the "Agreement") and obtain approval of the proposed transfer of Assets from Southern's creditors and the Kentucky Public Service Commission (the "PSC");

**WHEREAS**, it is uncertain when approval of the proposed transfer by Southern's creditors and the PSC will be obtained;

**WHEREAS**, PCUC has made plans and taken steps to commence managing and operating Southern's Wastewater System on July 1, 2016;

**WHEREAS**, KRS 74.414 authorizes a water district's Board of Commissioners to contract with a city for the operation of the district's wastewater system; and

**WHEREAS**, the Parties desire for PCUC to manage, operate, repair, and maintain Southern's Wastewater System beginning July 1, 2016.

**NOW, THEREFORE, FOR AND IN CONSIDERATION** of the mutual promises, covenants, and conditions contained herein and in the Statement of Intent, the Parties agree as follows:

1. **Defined Terms.** The terms used in this Operating Agreement and not defined herein shall have the meanings assigned to them in the Statement of Intent.

2. **Affirmation of Preamble.** The facts, recitals, and statements contained in the foregoing preamble of this Operating Agreement are true and correct and are hereby affirmed and incorporated as a part of this Operating Agreement.

3. **General Benefits.** In accordance with KRS 74.414, Southern's Board of Commissioners has determined, and does hereby declare, that it is necessary, desirable, in the public interest, in the best interests of its customers, and for the general benefit of the water district itself to contract with PCUC to manage, operate, repair, and maintain Southern's Wastewater System.

4. **Ownership of Assets.** During the term of this Operating Agreement, Southern shall retain ownership of all its Water and Wastewater assets, including the Assets described in paragraph two (2) of the Statement of Intent.

5. **Closing.** Transfer of ownership of the Assets and final closing of the transaction contemplated by the Statement of Intent (the "Closing") cannot take place until: (a) the Parties negotiate and execute an Asset Purchase Agreement; (b) Southern's creditors approve the proposed transfer of Assets; (c) the PSC approves the proposed transfer of Assets; and (d) certain other Closing requirements have been satisfied.

6. **Term.** The term of this Operating Agreement shall commence on July 1, 2016, and shall continue until the Closing as defined in the preceding paragraph of this Operating Agreement; PROVIDED, HOWEVER, in the event no Closing occurs before June 30, 2018, this Operating Agreement shall expire on that date unless the Parties negotiate a new Operating Agreement.

7. **Operation and Maintenance of Assets.** During the term of this Operating Agreement, PCUC shall manage, operate, repair, and maintain Southern's Wastewater System, which consists of the Assets described in paragraph 2B of the Statement of Intent. Beginning July 1, 2016, PCUC shall be responsible, except as stated below in this Operating Agreement, for all expenses incurred in the operation, repair, and maintenance of Southern's Wastewater System.

8. **Compensation.** As consideration for PCUC undertaking the management, operation, repair, and maintenance of Southern's Wastewater System, Southern shall pay PCUC a monthly fee of \$3,000.00. This fee shall be paid on or before the last business day of the following month (e.g., July's fee shall be paid on or before August 31).

9. **Revenues.** Southern shall continue to receive all revenues for wastewater services rendered during the term of this Operating Agreement.

10. **Billing and Collection.** During the term of this Operating Agreement, Southern shall continue to read its water meters, bill for water service and wastewater service, and collect the water and wastewater revenues.

11. **Utilities.** Southern shall continue to be responsible for the costs of all utility services incurred during the term of this Operating Agreement.

12. **Debt Service.** During the term of this Operating Agreement, Southern shall remain responsible for making: (a) all its required monthly or semi-annual debt service payments; (b) all required transfers to its Depreciation Reserve Fund and other Sinking Funds; and (c) all other transfers or payments required by its Bond Resolutions and loan agreements.

13. **Capital Improvements.** PCUC shall commence, at its own expense, the immediate rehabilitation of the Wayland Wastewater Treatment Plant and lift stations, and PCUC shall undertake other major repairs and capital improvements (the “Capital Improvements”) to the Assets during the term of this Operating Agreement. Southern hereby consents to, and authorizes PCUC to make, these Capital Improvements. PCUC acknowledges that it will be making these Capital Improvements at its own risk and expense. PCUC shall not seek reimbursement from Southern for the cost of these Capital Improvements.

14. **Cooperation.** Southern and PCUC shall cooperate with DOE and jointly negotiate with DOE to mitigate the scope and cost of the corrective actions that DOE may require to avoid or resolve any administrative or civil proceedings brought by DOE to enforce state and federal water quality laws and to minimize the fines and penalties that could result from such proceedings.

15. **Customer Deposits.** Southern shall **not** transfer any customer deposits to PCUC during the term of this Operating Agreement.

16. **Insurance.** During the term of this Operating Agreement, Southern shall, at its expense, keep the Assets insured with an insurance company or companies against fire and such other hazards as are included within extended coverage in an amount at least equal to the amount that Southern currently carries on the Assets. PCUC shall, at its expense, maintain comprehensive public liability insurance in an amount not less than \$1,000,000 combined single limits for each occurrence for claims for bodily injury or death and property damage along with excess liability coverage (umbrella policy) of not less than \$2,000,000. All such insurance policies shall name Southern as an additional insured or certificate holder.

17. **Indemnification.** PCUC hereby agrees to indemnify Southern for, and hold Southern harmless from, any and all losses, liabilities, costs and expenses (including, but not limited to, reasonable attorneys' fees) incurred by Southern as a result of any negligence or willful misconduct by PCUC, its employees, contractors, and agents, arising from PCUC's management, operation, repair, and maintenance of the Assets pursuant to the provisions of this Operating Agreement. To that end, immediately upon notification by Southern, PCUC shall assume, at its own cost, the defense of any such action or suit which may be brought against Southern because of PCUC's operation and maintenance of the Assets.

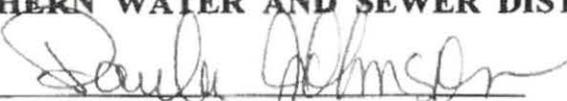
18. **No Transfer of Ownership or Control.** This Operating Agreement does not transfer ownership of any of Southern's Assets nor does it grant PCUC any right to control Southern as "control" is defined in KRS 278.020(6) and (7). Once the Parties negotiate the terms of the Asset Purchase Agreement and it has been approved by their respective governing bodies, the Parties shall file a joint Application with the PSC seeking approval of the transfer of ownership of Southern's entire Wastewater System and certain portions of its Water System as described in paragraph 2 of the Statement of Intent.

19. **No Assignment.** PCUC shall not assign this Operating Agreement.

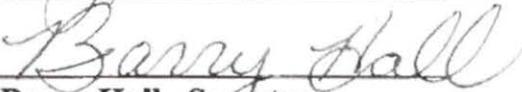
**[Remainder of page intentionally left blank.]**

IN TESTIMONY WHEREOF, this Operating Agreement has been executed in multiple counterparts, each of which is deemed to be an original, by the duly authorized officers and officials of the Parties, as of its effective date.

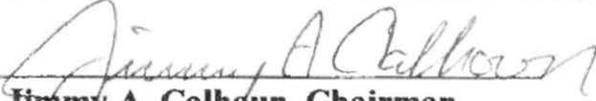
**SOUTHERN WATER AND SEWER DISTRICT**

BY:   
**Paula Johnson, Chairperson**

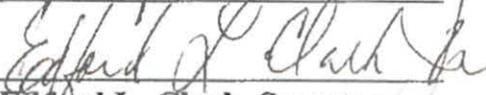
DATE: June 27<sup>th</sup> 2016

ATTEST:   
**Barry Hall, Secretary**

**PRESTONSBURG CITY'S UTILITY COMMISSION**

BY:   
**Jimmy A. Calhoun, Chairman**

DATE: 6/28/16

ATTEST:   
**Edford L. Clark, Secretary**

# **EXHIBIT 8**

**PRESTONSBURG CITY'S  
UTILITIES COMMISSION  
Prestonsburg, Kentucky**

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**FINANCIAL STATEMENTS  
June 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Prestonsburg City's Utilities Commission  
Prestonsburg, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Prestonsburg City's Utilities Commission, a component unit of the City of Prestonsburg, Kentucky as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Prestonsburg City's Utilities Commission'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.

### ***Auditors' Responsibility***

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 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 auditors' 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 opinion.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Prestonsburg City's Utilities Commission, as of June 30, 2016 and the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 3-5, and 19-20 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2017, on our consideration of the Prestonsburg City's Utilities Commission'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 Prestonsburg City's Utilities Commission's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
January 13, 2017

**PRESTONSBURG CITY'S UTILITIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

As management of the Prestonsburg City's Utilities Commission (Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning and ending unrestricted cash balance for the Commission was \$602,556 and \$621,175 respectively. The Commission had restricted cash at year end in the amount of \$397,579.
- Overall operating revenue for the Commission increased approximately 1.6% from the prior year. This increase in overall operating revenue can be attributed predominantly to slightly higher demand.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. The basic financial statements are that of an enterprise fund that is a component unit of the City of Prestonsburg and maintains separate and distinct accounting records.

**Commission-wide financial statements.** The Commission-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The statement of net assets presents information showing how the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement.

The Commission-wide financial statements outline functions of the Commission that are principally supported by intergovernmental revenues (government activities.) The governmental activities of the Commission include sales of water and natural gas to customers; charges for sewer services; and related tap and connection fees; in addition to late payment charges. Fixed assets and related debt is also supported by these revenues.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Commission-wide and its fund financial statements.

## COMMISSION-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$8,968,928 as of June 30, 2016.

A portion of the Commission's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The Commission used these capital assets to provide services to its customer; consequently, these assets are not available for future spending. Although the Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Commission's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition of capital assets, and the depreciation of capital assets.

**Net Assets for the period ending June 30, 2016 and 2015, respectively:**

<b>ASSETS</b>	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Total Current Assets	\$ 2,968,786	\$ 3,396,168
Total Capital and Noncurrent Assets	<u>21,221,576</u>	<u>22,800,310</u>
<b>Total Assets</b>	<b>\$ 24,190,362</b>	<b>\$ 26,196,478</b>
<b>DEFERRED OUTFLOWS</b>	<u>\$ 1,161,260</u>	<u>\$ 228,357</u>
<b>LIABILITIES</b>		
Total Current Liabilities	\$ 1,776,942	\$ 1,677,364
Total Non-current Liabilities	<u>14,605,752</u>	<u>13,584,091</u>
Total Liabilities	<b>\$ 16,382,694</b>	<b>\$ 15,261,455</b>
<b>DEFERRED INFLOWS</b>	<u>\$ -</u>	<u>\$ 273,602</u>
<b>NET POSITION</b>		
Investments in Capital Assets, net of related debt	\$ 9,527,030	\$ 11,184,094
Unrestricted	(955,681)	(700,805)
Restricted	<u>150,360</u>	<u>406,489</u>
Total Net Position	<u><b>\$ 8,968,928</b></u>	<u><b>\$ 10,889,778</b></u>

The Commission has recognized \$4,557,199 for Net Pension Liability as of June 30, 2016.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Water Sales	\$ 5,139,307	\$ 4,752,353
Gas Sales	1,495,504	1,814,630
Sewer Service	1,412,273	1,300,004
Tap Fees	46,700	37,098
Rent Lease Income	1,200	1,200
Penalties and Arrears	264,761	187,977
Reconnection and Collection Fees	19,301	19,530
<b>Total Operating Revenue</b>	<u>8,379,046</u>	<u>8,093,049</u>
<b>OPERATING EXPENSES</b>		
Water Purchase	38,770	8,213
Gas Purchase	568,233	760,541
Maintenance Materials and Supplies	1,214,914	1,134,439
Lab Testing Fee	30,043	30,107
Electric Power	596,043	594,707
Management and General	7,617,618	7,217,223
<b>Total Expenses</b>	<u>10,065,621</u>	<u>9,745,230</u>
Operating Income (Loss)	(1,686,575)	(1,652,181)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(234,275)</u>	<u>(114,769)</u>
<b>Change in Net Assets</b>	(1,920,850)	(1,537,412)
<b>Total Net Assets – Beginning (restated)</b>	10,889,778	12,427,190
<b>Total Net Assets - Ending</b>	<u>\$ 8,968,928</u>	<u>\$ 10,889,778</u>

#### Comments on Budget Comparisons

- The Commission's total operating revenues for the fiscal year ended June 30, 2016 were \$8,379,046.
- Operating budget compared to actual revenue varied slightly from line item to line item with the ending actual revenues being \$113,531 more than budgeted revenue.
- General fund budget operating expenditures compared to actual varied from line item to line item with the ending actual expenditures being \$254,321 more than budget.

Questions regarding this report should be directed to **Stephanie Keathley, Controller, Prestonsburg City's Utilities Commission** at (606) 886-6871 or by mail at 2560 South Lake Drive, Prestonsburg, KY 41653.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**STATEMENT OF NET POSITION**  
June 30, 2016

**ASSETS**

<b>Current assets</b>	
Cash and cash equivalents	\$ 621,175
Investments	1,300,000
Accounts receivable, net	769,899
Inventory	160,798
Other current assets	<u>116,914</u>
<b>Total current assets</b>	<u><b>2,968,786</b></u>
<b>Noncurrent assets</b>	
Restricted cash and equivalents	397,579
Restricted investments	7,389
Construction in progress	573,594
<b>Capital assets</b>	
Property, plant and equipment	54,665,739
Less accumulated depreciation	<u>(34,422,725)</u>
<b>Total noncurrent assets</b>	<u><b>21,221,576</b></u>
<b>Total assets</b>	<b>24,190,362</b>
Deferred outflows - pension	<u>1,161,260</u>
<b>Total assets and deferred outflows of resources</b>	<u><b>\$ 25,351,622</b></u>

**LIABILITIES**

<b>Current liabilities</b>	
Accounts payable	\$ 490,823
Customer deposits	244,572
Accrued liabilities	161,028
Unearned revenues	13,300
Current portion of long-term debt	<u>867,219</u>
<b>Total current liabilities</b>	<u><b>1,776,942</b></u>
<b>Noncurrent liabilities</b>	
Net pension liability	4,557,199
Compensated absences	199,788
Bonds and loans payable	<u>9,848,765</u>
<b>Total noncurrent liabilities</b>	<u><b>14,605,752</b></u>
<b>Total liabilities</b>	<u><b>16,382,694</b></u>

**NET POSITION**

Net investment in capital assets	9,527,030
<b>Restricted</b>	
Customer deposits	247,219
Debt service	150,360
Unrestricted	<u>(955,681)</u>
<b>Total net position</b>	<u><b>8,968,928</b></u>
<b>Total liabilities and net position</b>	<u><b>\$ 25,351,622</b></u>

The accompanying notes are an integral part  
of the financial statements.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**for the year ended June 30, 2016**

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<b>Operating revenues</b>	
Water revenue	\$ 5,139,307
Sewer revenue	1,412,273
Gas revenue	1,495,504
Tap fees	46,700
Reconnection and collection fees	19,301
Penalties	182,785
Miscellaneous	<u>83,176</u>
<b>Total operating revenues</b>	<u>8,379,046</u>
<b>Operating expenses</b>	
Salaries and wages	3,720,762
Depreciation	2,218,278
Maintenance and materials	1,214,914
Retirement	733,916
Electric power	596,043
Purchased gas	568,233
Other operating expenses	360,759
Payroll taxes	195,053
Office expenses	177,265
Professional fees	154,480
Insurance	87,148
Purchased water	<u>38,770</u>
<b>Total operating expenses</b>	<u>10,065,621</u>
<b>Operating (loss)</b>	<u>(1,686,575)</u>
<b>Nonoperating revenues (expenses)</b>	
Interest revenue	5,404
Gain on sale of asset	799
Miscellaneous revenue	63,174
Project income	51,328
Interest expenses	(270,263)
Donated services	<u>(84,717)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(234,275)</u>
<b>Change in net position</b>	(1,920,850)
Net position at beginning of year, as restated	<u>10,889,778</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 8,968,928</u>

The accompanying notes are an integral part  
of the financial statements.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**STATEMENT OF CASH FLOWS**  
for the year ended June 30, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 8,261,598
Payments to suppliers	(3,119,636)
Payments for employee services and benefits	(4,340,843)
Receipts of customer meter deposits	<u>(1,556)</u>
Net cash provided by operating activities	<u>799,563</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Miscellaneous revenue	63,174
Project income	51,328
Donated services	<u>(84,717)</u>
Net cash provided by noncapital financing activities	<u>29,785</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(640,339)
Proceeds from loans	286,403
Proceeds from sale of assets	799
Principal paid on capital debt	(780,170)
Interest paid on capital debt	<u>(270,263)</u>
Net cash (used in) capital and related financing activities	<u>(1,403,570)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net change in investments	585,880
Interest income	<u>5,404</u>
Net cash provided by investing activities	<u>591,284</u>
Net increase in cash and cash equivalents	17,062
Cash and cash equivalents at beginning of year	<u>1,001,692</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,018,754</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$ (1,686,575)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	2,218,278
Net pension adjustment	286,203
Change in assets and liabilities:	
Receivables, net	(117,448)
Inventory	27,734
Other current assets	(50,162)
Accounts payable and other accrued liabilities	100,404
Customer deposits	(1,556)
Compensated absences	<u>22,685</u>
Net cash provided by operating activities	<u>\$ 799,563</u>
Cash and cash equivalents consists of the following:	
Unrestricted cash and cash equivalents	\$ 621,175
Restricted cash and cash equivalents	<u>397,579</u>
Total cash and cash equivalents	<u>\$ 1,018,754</u>

The accompanying notes are an integral part  
of the financial statements.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Prestonsburg City's Utilities Commission (the Commission) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body of governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

**A. Reporting Entity**

The Prestonsburg City's Utilities Commission is a municipally owned gas, water and sewer facility created as a public project in 1956 by ordinance of the City of Prestonsburg, Kentucky. The facility is supervised and managed by three commission members each with staggered six-year terms, who are appointed by the Mayor. Gas and sewage services are provided in Prestonsburg, and local surrounding areas; water services are provided in Prestonsburg and extend throughout most of Floyd County, either directly or indirectly through sales to wholesale water customers.

The Commission is a component unit of the City of Prestonsburg and maintains separate and distinct accounting records. The City of Prestonsburg transferred to the Commission, by Ordinance in 1956, all powers of the City to improve, operate and maintain the utility systems, including the power to determine utility rates and financial practices.

**B. Basis of Presentation, Fund Accounting**

The Commission has one enterprise fund which has been established to account for the acquisition, operation, and maintenance of the Commission facilities and services, which are entirely or predominately self-supported by user charges.

The enterprise fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, net position, revenues and expenses, as appropriate.

**C. Basis of Accounting**

The enterprise fund is accounted for on the accrual basis of accounting. The revenues are recognized in the period earned, and expenses are recognized at the time liabilities are incurred. Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of the Commission is generated by charges to customers for sales and services. The Commission also recognizes as operating revenue connection fees intended to recover the costs of connecting new customers to the utility 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.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for account balances deemed not collectible, and the time period used to depreciate the utility plants. Actual results could differ from estimated amounts.

**E. Budgetary Control and Encumbrances**

**Budget Policy** - The Board annually prepares and approves a budget. The budget is prepared on the same basis as the financial statements. Appropriations lapse at year end; however, uncompleted capital projects may be re-appropriated at the beginning of each fiscal year.

**Encumbrances** - The Commission does not report its financial statements on an encumbrance basis.

**F. Assets, Liabilities, and Net Position**

**Cash and cash equivalents** - For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand, cash on deposit with banks, and certificates of deposit with an original maturity of less than three months (including amounts held in restricted assets accounts).

**Inventory** - Inventory is reduced on a periodic basis to reflect consumption. Inventory is valued at cost and consumption is considered on a first-in-first-out method of accounting.

**Investments** - Investments are reported at fair value. Investments of the Commission consist of certificates of deposits with an original maturity of three months or greater.

**Receivables** - Customer accounts receivable reflect revenues earned or accrued in the current period from customers of the water and sewer system. These accounts are stated at face value less an allowance for uncollectible accounts of \$769,899.

**Capital Assets** - Expenditures having a useful life greater than one year are capitalized. Capital assets are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method as follows:

Water Plant and Distribution System	5-40 years
Sewer Plant and Collection System	5-50 years
Gas Distribution System	5-50 years
Motor Vehicles	4-5 years
Office and Other Equipment	5-10 years
Other Buildings and Improvements	5-40 years
Land Improvements	20 years

Construction in progress represents construction projects for capital assets that have not yet been placed in service.

**Long-Term Obligations** - Long-term liabilities include (a) principal outstanding on revenue bonds and notes, (b) net pension liability, and (c) accrued compensated absences, which reflect the extent that future benefits have been earned as it relates to rights attributable to employee services already rendered, and are probable of being paid out.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Assets, Liabilities, and Net Position, continued**

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Restricted Net Position - Restricted net position reflect funds held in reserve to pay out customer deposits when they come due as well as amounts set aside for future debt service. It is the policy of the Commission to spend restricted funds first when both restricted and unrestricted funds are available.

**G. Management's Review of Subsequent Events**

The Commission has evaluated and considered the need to recognize or disclose subsequent events through January 13, 2017; which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2016, have not been evaluated by the Commission.

**2. CASH AND INVESTMENTS**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Commission's funds on deposit with the banks may not be returned or the Commission will not be able to recover collateral securities in the possession of an outside party. The Commission's policy requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2016, all of the Commission's funds were fully insured or collateralized. Bank deposits at June 30, 2016 totaled \$2,174,490, of which \$501,239 was covered by FDIC, and \$1,673,250 was covered by pledged collateral.

Under KRS 66.480, 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.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Commission does not have a policy related to interest rate risk.

Prestonsburg City's Utility Commission only invests in certificates of deposit, which at June 30, 2016 amounted to \$1,307,389.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

**3. CAPITAL ASSETS**

The following is a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Land and improvements	\$ 425,597	\$ -	\$ -	\$ 425,597
Buildings and improvements	988,085	-	-	988,085
Office and other equipment	1,152,570	26,378	-	1,178,948
Water plant and equipment	26,769,176	53,713	-	26,822,889
Sewer plant and equipment	21,972,048	43,308	-	22,015,356
Gas Distribution system	871,886	721	-	872,607
Motor vehicles	<u>2,219,187</u>	<u>208,659</u>	<u>(65,589)</u>	<u>2,362,257</u>
	54,398,549	332,779	(65,589)	54,665,739
Accumulated depreciation	<u>(32,270,763)</u>	<u>(2,218,278)</u>	<u>66,316</u>	<u>(34,422,725)</u>
	<u>\$ 22,127,786</u>	<u>\$ (1,885,449)</u>	<u>\$ 727</u>	<u>\$ 2,233,014</u>

Depreciation expense was charged to operations as follows:

Land and improvements	\$ 1,700
Buildings and improvements	38,914
Office and other equipment	74,940
Water plant and equipment	1,004,930
Sewer plant and equipment	873,475
Gas Distribution system	26,332
Motor vehicles	<u>197,987</u>
	<u>\$ 2,218,278</u>

**4. RETIREMENT PLAN**

Prestonsburg City's Utilities Commission is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

*Plan Description* – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. 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 (COLA) adjustments are provided at the discretion of state legislature.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**4. RETIREMENT PLAN (CONTINUED)**

*Contributions* – For the year ended June 30, 2016, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.06% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The Commission contributed \$447,013 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$325,434 to the CERS pension fund and \$121,579 to the CERS insurance fund.

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

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

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**4. RETIREMENT PLAN (CONTINUED)**

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.

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2016, the Commission reported a liability of \$4,557,199 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

For the year ended June 30, 2016, the Commission recognized pension expense of \$656,666. At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 40,852	\$ -
Changes of assumptions	459,544	-
Net difference between projected and actual earnings on Plan Investments	37,872	-
Changes in proportion and differences between Company contributions and proportionate share of contributions	297,558	-
Company contributions subsequent to the measurement date	<u>325,434</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 1,161,260</u></b>	<b><u>\$ -</u></b>

The \$325,434 of deferred outflows of resources resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2017	\$ (326,936)
2018	(326,936)
2019	(171,742)
2020	(10,212)

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**4. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 time frame. 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 nominal real rates of return for each major asset class are summarized in the following table:

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

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**4. RETIREMENT PLAN (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50 percent. 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 28 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 does not use a municipal bond rate.

*Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>Discount rate</u>	<u>Company's proportionate share of net pension liability</u>
1% decrease	6.50%	\$ 5,817,834
Current discount rate	7.50%	\$ 4,557,199
1% increase	8.50%	\$ 3,477,582

*Payable to the Pension Plan* – At June 30, 2016, the Commission reported a payable of \$47,356 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

**5. LONG-TERM DEBT**

Outstanding bonds represent acquisition of water systems and expansion of water and sewer lines in prior years. Outstanding loans payable represent expansion of water and sewer lines in prior years and acquisition of vehicles and machinery in the current year. Construction in progress loans represent amounts drawn on project budget for water and sewer line expansion as financed by the Kentucky Infrastructure Authority. The debt service requirements for construction in progress loans cannot yet be determined.

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2016

**5. LONG-TERM DEBT (CONTINUED)**

Bonds and notes payable are summarized as follows:

	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Bonds Payable</b>							
USDA	4.50%	1/1/2038	\$ 146,000	\$ -	\$ 4,000	\$ 142,000	\$ 4,000
USDA	4.75%	1/1/2039	219,000	-	5,000	214,000	5,500
USDA	4.50%	1/1/2041	925,000	-	20,000	905,000	20,000
USDA	4.50%	1/1/2043	645,500	-	12,000	633,500	12,500
USDA	4.50%	1/1/2043	131,000	-	2,500	128,500	2,500
KADDLT	6.15%	6/30/2031	<u>1,840,000</u>	<u>-</u>	<u>75,000</u>	<u>1,765,000</u>	<u>75,000</u>
Total Bonds			<u>3,906,500</u>	<u>-</u>	<u>118,500</u>	<u>3,788,000</u>	<u>119,500</u>
<b>Loans Payable</b>							
KIA	1.30%	6/1/2019	132,750	-	32,545	100,205	32,970
KIA	1.80%	12/1/2020	286,461	-	50,006	236,455	50,910
KIA	1.00%	12/1/2021	234,839	-	41,745	193,094	42,164
KIA	0.70%	12/1/2028	1,863,537	-	132,092	1,731,445	133,018
KIA	1.07%	12/1/2028	587,102	-	40,648	546,454	41,084
KIA	1.00%	12/1/2030	292,665	-	17,547	275,118	17,723
KIA	1.00%	6/1/2031	221,852	-	12,852	209,000	12,982
KIA	1.00%	6/1/2031	641,088	-	37,141	603,947	37,513
KIA	1.00%	6/1/2033	1,162,210	-	59,239	1,102,971	59,833
KIA	1.00%	6/1/2033	<u>1,690,618</u>	<u>-</u>	<u>86,173</u>	<u>1,604,445</u>	<u>87,036</u>
Total Loans			<u>7,113,122</u>	<u>-</u>	<u>509,988</u>	<u>6,603,134</u>	<u>515,233</u>
Bank Loans	3.50-4.75%	3/10/2018	<u>190,129</u>	<u>286,403</u>	<u>151,682</u>	<u>324,850</u>	<u>232,486</u>
Total			<u>\$ 11,209,751</u>	<u>\$ 286,403</u>	<u>\$ 780,170</u>	<u>\$ 10,715,984</u>	<u>\$ 867,219</u>

The future obligations of the above bonds and loans at June 30, 2016, are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 867,219	\$ 202,579	\$ 1,069,798
2018	722,631	189,377	912,008
2019	676,169	177,850	854,019
2020	633,043	167,641	800,684
2021	596,116	157,537	753,653
2022-2026	2,901,671	638,649	3,540,320
2027-2031	2,724,276	355,208	3,079,484
2032-2036	972,859	122,253	1,095,112
2037-2041	531,000	52,107	583,107
2042-2046	<u>91,000</u>	<u>6,166</u>	<u>97,166</u>
Total	<u>\$ 10,715,984</u>	<u>\$ 2,069,367</u>	<u>\$ 12,785,351</u>

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**5. LONG-TERM DEBT (CONTINUED)**

The changes in long term debt are as follows:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
Bonds and loans payable	\$ 11,209,751	\$ 286,403	\$ 780,170	\$ 10,715,984
Net pension liability	3,036,793	1,493,406	-	4,557,199
Compensated absences	<u>177,103</u>	<u>22,685</u>	<u>-</u>	<u>199,788</u>
	<u>\$ 14,450,647</u>	<u>\$ 1,802,494</u>	<u>\$ 780,170</u>	<u>\$ 15,472,971</u>

**6. RESTATEMENT OF NET POSITION**

The following table summarizes restatements in net position of the Commission as previously reported:

Net position, as previously reported	\$ 10,679,645
Deferred inflows and outflows - pension	297,407
Compensated absences	(177,103)
Accrued liabilities	<u>89,829</u>
Net position, as restated	<u>\$ 10,889,778</u>

**7. SUBSEQUENT EVENTS**

On June 2, 2016 the Commission executed a Statement of Intent with Southern Water and Sewer District (Southern) which declared the Commission's intent to acquire Southern's entire Wastewater System. The Commission began to manage, operate, repair and maintain Southern's Wastewater System, under an Operating Agreement effective July 1, 2016. As of January 13, 2017, an Asset Purchase agreement had not been executed to transfer the assets to the Commission.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PRESTONSBURG CITY'S UTILITIES COMMISSION  
REQUIRED SUPPLEMENTARY SCHEDULE  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
Last Three Fiscal Years**

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	2016	2015	2014
Company's proportion of the net pension liability	0.11%	0.09%	0.09%
Company's proportionate share of the net pension liability (asset)	\$ 4,557,199	\$ 3,063,793	\$ 3,160,793
Company's covered employee payroll	\$ 2,620,242	\$ 2,482,031	\$ 2,261,817
Company's share of the net pension liability (asset) as a percentage of its covered employee payroll	173.92%	123.44%	139.75%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%	61.22%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**PRESTONSBURG CITY'S UTILITIES COMMISSION  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF CONTRIBUTIONS  
Last Three Fiscal Years**

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	2016	2015	2014
Contractually required employer contribution	\$ 325,434	\$ 316,459	\$ 297,740
Contributions relative to contractually required employer contribution	<u>\$ 325,434</u>	<u>\$ 316,459</u>	<u>\$ 297,740</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Company's covered employee payroll	\$ 2,620,242	\$ 2,482,031	\$ 2,261,817
Employer contributions as a percentage of covered-employee payroll	12.42%	12.75%	13.16%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.



**INDEPENDENT AUDITORS' 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**

To the Board of Commissioners  
Prestonsburg City's Utilities Commission  
Prestonsburg, 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 Prestonsburg City's Utilities Commission, a component unit of the City of Prestonsburg, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Prestonsburg City's Utilities Commission's basic financial statements, and have issued our report thereon dated January 13, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Prestonsburg City's Utilities Commission'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Prestonsburg City's Utilities Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Prestonsburg City's Utilities Commission'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 a deficiency in internal control that we consider to be a significant deficiency.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses (2016-001) to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Prestonsburg City's Utilities Commission'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*.

### **The Prestonsburg City's Utilities Commission's Response to Finding**

The Prestonsburg City's Utilities Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Prestonsburg City's Utilities Commission'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.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
January 13, 2017

**PRESTONSBURG CITY'S UTILITIES COMMISSION**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
June 30, 2016

---

**FINDING:**  
2016-001

**Criteria:** The Commission is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

**Cause:** The Commission has the expertise and experience to maintain financial records in accordance with generally accepted accounting principles. However the Commission has elected to have the auditors prepare the draft financial statements and related notes.

**Effect:** Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

**Recommendation:** We recommend management review the costs and benefits involved to retain a consultant to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

**RESPONSE:**

Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

# **EXHIBIT 9**

**REPORT OF THE AUDIT OF THE  
CITY OF PRESTONSBURG, KY**

**For The Fiscal Year Ended  
June 30, 2015**

**ROSS & COMPANY, PLLC  
Certified Public Accountants**

**800 Envoy Circle**

**Louisville, KY**

**Telephone (502) 499-9088**

**Facsimile (502) 499-9132**

**[www.rosscpas.com](http://www.rosscpas.com)**

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Honorable Les Stapleton, Mayor  
Members of the City Council  
City of Prestonsburg, Kentucky

Independent Auditor's Report

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Prestonsburg, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Prestonsburg, 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.

Independent Auditor's Report  
City of Prestonsburg, Kentucky  
Fiscal Year Ending June 30, 2015

### **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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Prestonsburg, Kentucky, as of June 30, 2015, 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*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information for the General Fund on page 45, the Schedule of Pension Liabilities and Related Ratios on page 47, and the Schedule of Pension Contributions on page 49 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. 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Prestonsburg, 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.

Independent Auditor's Report  
City of Prestonsburg, Kentucky  
Fiscal Year Ending June 30, 2015

**Other Matters (Continued)**

*Other Information (Continued)*

The combining and individual nonmajor fund financial statements are the responsibility of management and was 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, 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 February 4, 2016 on our consideration of the City of Prestonsburg, 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.<sup>9</sup> 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 Prestonsburg, Kentucky's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and included herein, which discusses the following report comment:

2015-01 Budgets Should Be Developed, Approved, and Implemented For All Funds

Respectfully submitted,



Ross and Co., PLLC  
Louisville, KY  
February 4, 2016

**CITY OF PRESTONSBURG, KENTUCKY  
STATEMENT OF NET POSITION**

**June 30, 2015**

**CITY OF PRESTONSBURG  
STATEMENT OF NET POSITION**

**June 30, 2015**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 608,375	\$ 268,547	\$ 876,922	\$ 602,553
Cash - Restricted				399,126
Receivables, net	748,146	44,939	793,085	652,451
Inventory		290,603	290,603	188,532
Loans Receivable		1,193	1,193	
Due From Other Funds	1,656,328	110,294	1,766,622	
Other Receivables	77,682		77,682	
Prepaid and Other Assests	13,311		13,311	
Other Current Assets		59,795	59,795	66,752
<b>Total Current Assets</b>	<b>3,103,842</b>	<b>775,371</b>	<b>3,879,213</b>	<b>1,909,414</b>
<b>Noncurrent Assets:</b>				
Loans Receivable		2,711	2,711	
Investments				1,885,880
Investments - Restricted				7,363
<b>Capital Assets</b>				
Land and Construction In Progress	694,700		694,700	691,632
Other Capital Assests, Net of Accumulated Depreciation	13,950,455	549,791	14,500,246	21,702,189
<b>Total Noncurrent Assets</b>	<b>14,645,155</b>	<b>552,502</b>	<b>15,197,657</b>	<b>24,287,064</b>
<b>Total Assets</b>	<b>17,748,997</b>	<b>1,327,873</b>	<b>19,076,870</b>	<b>26,196,478</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable	84,548	61,891	146,439	403,368
Customer Meter Deposits				246,128
Other Payables	450		450	237,747
Short Term Debt	239,025			
Due To Other Funds	194,720	1,461,608	1,656,328	
Other Accrued Liabilities	94,947	187,927	282,874	13,300
Current Portion Of Long-Term Debt	176,276	40,500	216,776	743,202
<b>Total Current Liabilities</b>	<b>789,966</b>	<b>1,751,926</b>	<b>2,302,867</b>	<b>1,643,745</b>
<b>Noncurrent Liabilities:</b>				
Net Pension Liability	3,216,412		3,216,412	3,064,491
Long-Term Debt	680,098	218,435	898,533	10,466,525
<b>Total Noncurrent Liabilities</b>	<b>3,896,510</b>	<b>218,435</b>	<b>4,114,945</b>	<b>13,531,016</b>
<b>Total Liabilities</b>	<b>4,686,476</b>	<b>1,970,361</b>	<b>6,417,812</b>	<b>15,174,761</b>
<b>DEFERRED INFLOWS</b>				
Pension Inflows	358,453		358,453	342,072
<b>Total Deferred Inflows</b>	<b>358,453</b>		<b>358,453</b>	<b>342,072</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**STATEMENT OF NET POSITION**  
**June 30, 2015**  
**(Continued)**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>	
<b>NET POSITION</b>				
Invested in Capital Assets, Net of Related Debt	\$ 10,572,369	\$ 293,567	\$ 10,865,936	\$ 11,184,094
Restricted For:				
Prepays	13,311		13,311	
Special Revenue Fund	667,058		667,058	
Capital Projects	258		258	
Mountain Arts Center		124,492	124,492	
Prestonsburg Motor Sports Revolving Fund		51,021 84,893	51,021 84,893	
Prestonsburg City's Utilities Commission				406,489
Unrestricted (Deficit)	1,451,072	(1,196,461)	254,611	(910,938)
Total Net Position	<u>\$ 12,704,068</u>	<u>\$ (642,488)</u>	<u>\$ 12,061,580</u>	<u>\$ 10,679,645</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG  
STATEMENT OF ACTIVITIES**

**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG  
STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 1,630,498	\$ 589,050	\$	\$ 336,200
Public Safety	1,299,123	138,627	85,651	
Public Works	782,740			274,875
Fire	807,680		40,263	
Landscaping	132,585			
Economic Development	38,007			
General Infrastructure	782,430		322,907	
Recreation and Culture	588,394	146,077	10,000	
Capital outlay	15,226			
Debt Service				
Interest on Long-Term Debt	13,692			
Depreciation	1,581,136			
Total Governmental Activities	<u>7,671,511</u>	<u>873,754</u>	<u>458,821</u>	<u>611,075</u>
Business-type Activities:				
Prestonsburg Park Board	472,035	124,496	5,604	
Mountain Arts Center	885,911	448,762	31,043	
Stonecrest Golf Course	788,431	450,139	5,604	
Prestonsburg Motor Sports	89,056	63,435		
Depreciation	93,915			
Interest Expense	5,351			
Total Business-type Activities	<u>2,334,699</u>	<u>1,086,832</u>	<u>42,251</u>	
Total Primary Government	<u>\$ 10,006,210</u>	<u>\$ 1,960,586</u>	<u>\$ 501,072</u>	<u>\$ 611,075</u>
<b>Component Unit:</b>				
Prestonsburg City's Utilities Commission	\$ 10,023,095	\$ 8,093,049	\$	\$
Total Component Units	<u>\$ 10,023,095</u>	<u>\$ 8,093,049</u>	<u>\$ 0</u>	<u>\$ 0</u>

**General Revenues:**

Property Taxes  
 Restaurant Taxes  
 Motor Vehicle Taxes  
 Insurance Taxes  
 Franchise Taxes  
 Occupational Taxes and Business Licenses  
 Licenses and Permits  
 Investment Income  
 Gain (Loss) On Sales of Capital Assets  
 Royalty Income  
 Miscellaneous  
 Transfers  
 Total General Revenues and Transfers

## Change in Net Position

Net Position - Beginning  
 Prior Period Adjustment (Note 13)  
 Net Position - Beginning - Restated  
 Net Position - Ending

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2015 (Continued)**  
**Net (Expenses) Revenues**  
**and Changes in Net Position**

<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	<b>Component Unit</b>
\$ (705,248)	\$	\$ (705,248)	\$
(1,074,845)		(1,074,845)	
(507,865)		(507,865)	
(767,417)		(767,417)	
(132,585)		(132,585)	
(38,007)		(38,007)	
(459,523)		(459,523)	
(432,317)		(432,317)	
(15,226)		(15,226)	
(13,692)		(13,692)	
(1,581,136)		(1,581,136)	
(5,727,861)		(5,727,861)	
	(341,935)	(341,935)	
	(406,106)	(406,106)	
	(332,688)	(332,688)	
	(25,621)	(25,621)	
	(93,915)	(93,915)	
	(5,351)	(5,351)	
	(1,205,616)	(1,205,616)	
(5,727,861)	(1,205,616)	(6,933,477)	
			(1,930,046)
			\$ (1,930,046)
767,081		767,081	
	618,990	618,990	
103,777		103,777	
734,689		734,689	
63,127		63,127	
2,062,839		2,062,839	
222,359		222,359	
	347	347	
			16,744
			12,412
59,633	49,626	109,259	363,478
	398,600	398,600	
4,013,505	1,067,563	730,565	392,634
(1,714,356)	(138,053)	(1,852,409)	(1,537,412)
17,993,289	(504,435)	17,488,854	15,792,630
(3,574,865)		(3,574,865)	(3,575,573)
14,418,424		14,418,424	12,217,057
\$ 12,704,068	\$ (642,488)	\$ 12,061,580	\$ 10,679,645

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG  
BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2015**

**CITY OF PRESTONSBURG**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2015**

	General Fund	Coal & Mineral Special Revenue Fund	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 232,869	\$ 156,465	\$ 9,703	\$ 209,338	\$ 608,375
Receivables					
Taxes	728,863				728,863
Accounts		19,283			19,283
Due From General Fund		194,720			194,720
Due From Archer Park Board	255,884				255,884
Due From Stonecrest Golf Course	1,125,471	77,807			1,203,278
Due From Mountain Arts Center	2,446				2,446
Other Receivable - Housing Authority	772				772
Other Receivable - Tourism Commission	21,027				21,027
Other Receivable - Sanitation	55,883				55,883
Prepaid Expenses	13,311				13,311
Total Assets	<u>\$ 2,436,526</u>	<u>448,275</u>	<u>9,703</u>	<u>209,338</u>	<u>3,103,842</u>

**LIABILITIES AND FUND BALANCES****LIABILITIES**

Accounts Payable	58,594	13,783	12,171		84,548
Due To Kentucky Opry	450				450
Due To Coal and Mineral	194,720				194,720
Accrued Wages and Payroll Taxes	94,947				94,947
Total Liabilities	<u>348,711</u>	<u>13,783</u>	<u>12,171</u>		<u>374,665</u>

**FUND BALANCES**

Nonspendable	13,311				13,311
Restricted		434,492		209,338	643,830
Unassigned	2,074,504		(2,468)		2,072,036
Total Fund Balances	<u>\$ 2,087,815</u>	<u>\$ 434,492</u>	<u>\$ (2,468)</u>	<u>\$ 209,338</u>	<u>\$ 2,729,177</u>
Total Liabilities and Fund Balances	<u>\$ 2,436,526</u>	<u>\$ 448,275</u>	<u>\$ 9,703</u>	<u>\$ 209,338</u>	<u>\$ 3,103,842</u>

**Reconciliation to the Statement of Net Position**

Fund Balances - Total Governmental Funds \$ 2,729,177

Amounts Reported For Governmental Activities In The Statement  
Of Net Assets Are Different Because:

Capital Assets Used in Governmental Activities Are Not Financial Resources  
And Therefore Are Not Reported in the Funds.

14,645,155

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

Net Pension Liability (3,216,412)

Deferred Pension Inflows (358,453)

Long Term Debt (1,095,399)

Net Position Of Governmental Activities \$ 12,704,068

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2015**

	General Fund	Coal & Mineral Special Revenue Fund	Municipal Road Aid Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes					
Property taxes	\$ 767,081	\$	\$	\$	\$ 767,081
Motor vehicle tax	103,777				103,777
Insurance taxes	734,689				734,689
Franchise taxes	63,127				63,127
Occupational taxes and business licenses	2,062,839				2,062,839
Intergovernmental revenues	666,944	336,200	322,907	61,606	1,387,657
Licenses & permits	159,232				159,232
Donations				1,000	1,000
Fines				5,267	5,267
Festival				17,616	17,616
Charges for services	727,677			146,077	873,754
Investment income	5,813	92	27	187	6,119
Miscellaneous revenues	12,180				12,180
Total Revenues	<u>5,303,359</u>	<u>336,292</u>	<u>322,934</u>	<u>231,753</u>	<u>6,194,338</u>
<b>Expenditures</b>					
General government	1,333,627	175,909		158	1,509,694
Public safety	1,207,603			129,230	1,336,833
Public works	782,740				782,740
Fire	807,680				807,680
Landscaping	132,585				132,585
Economic Development	38,007				38,007
General Infrastructure			782,430		782,430
Recreation and Culture	519,670	29,595		39,129	588,394
Capital outlay	246,768				246,768
Debt service	284,248				284,248
Total Expenditures	<u>5,352,928</u>	<u>205,504</u>	<u>782,430</u>	<u>168,517</u>	<u>6,509,379</u>
Excess (deficiency) of revenues over expenditures	<u>(49,569)</u>	<u>130,788</u>	<u>(459,496)</u>	<u>63,236</u>	<u>(315,041)</u>
<b>Other financing sources (uses)</b>					
Loan Proceeds	323,176				323,176
Sale of property	9,192				9,192
Operating transfers in	171,587	50,006	419,518	5,469	646,580
Operating transfers (out)	(214,609)	(256,883)		(76,708)	(548,200)
Total Other Financing Sources (uses)	<u>289,346</u>	<u>(206,877)</u>	<u>419,518</u>	<u>(71,239)</u>	<u>430,748</u>
Net change in fund balances	<u>239,777</u>	<u>(76,089)</u>	<u>(39,978)</u>	<u>(8,003)</u>	<u>115,707</u>
Fund balances (deficit) - beginning	1,848,038	510,581	37,510	217,341	2,613,470
Fund Balances - Ending	<u>\$ 2,087,815</u>	<u>\$ 434,492</u>	<u>\$ (2,468)</u>	<u>\$ 209,338</u>	<u>\$ 2,729,177</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**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, 2015**

**CITY OF PRESTONSBURG  
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, 2015**

Net Change in Fund Balances - Total Governmental Funds	\$ 115,707
 Amounts reported for governmental activities in the Statement of Activities are different because:	
 Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Capital Asset Purchases Capitalized	148,448
Depreciation Expense	(1,576,043)
 Repayment of principal is an expenditure in the governmental funds, but the repayments reduces long-term liabilities on the Statement of Activities:	
Loan Payable	(110,975)
 The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.	
Financing Obligations Payments	(477,898)
Bond Payments	<u>186,405</u>
 Change in Net Position of Governmental Activities	 <u><u>\$ (1,714,356)</u></u>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS**  
**June 30, 2015**

**CITY OF PRESTONSBURG  
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS**

**June 30, 2015**

	<b>Prestonsburg Park Board</b>	<b>Mountain Arts Center</b>	<b>StoneCrest Golf Course</b>	<b>Other Proprietary Funds</b>	<b>Totals</b>
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$ 43,755	\$ 112,594	\$ 28,098	\$ 84,100	\$ 268,547
Accounts Receivable, Net		4,921	40,018		44,939
Inventory			290,603		290,603
Loans Receivable				1,193	1,193
Due From Tourism	54,324	42,801	13,169		110,294
Other Current Assets		36,462	23,333		59,795
<b>Total Current Assets</b>	<b>98,079</b>	<b>196,778</b>	<b>395,221</b>	<b>85,293</b>	<b>775,371</b>
<b>Noncurrent Assets:</b>					
Loans Recivable				2,711	2,711
Capital Assets, Net of Accumulated Depreciation	67,302	130,865	303,614	48,010	549,791
<b>Total Noncurrent Assets</b>	<b>67,302</b>	<b>130,865</b>	<b>303,614</b>	<b>48,010</b>	<b>549,791</b>
<b>Total Assets</b>	<b>165,381</b>	<b>327,643</b>	<b>698,835</b>	<b>133,303</b>	<b>818,338</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts Payable	\$ 15,667	\$ 16,479	\$ 29,645	\$ 100	\$ 61,891
Due to General Fund	255,884	2,446	1,125,471		1,383,801
Due to Special Revenue - Coal & Mineral			77,807		77,807
Other Accrued Liabilities	299	184,226	3,402		187,927
Current Portion of Long-Term Debt			40,500		40,500
<b>Total Current Liabilities</b>	<b>271,850</b>	<b>203,151</b>	<b>1,276,825</b>	<b>100</b>	<b>1,751,926</b>
<b>Noncurrent Liabilities</b>					
Long-Term Debt			218,435		218,435
<b>Total Noncurrent Liabilities</b>			<b>218,435</b>		<b>218,435</b>
<b>Total Liabilities</b>	<b>271,850</b>	<b>203,151</b>	<b>1,495,260</b>		<b>1,970,361</b>
<b>Net Position</b>					
Invested in Capital Assets, Net of Related Debt	\$ 67,302	\$ 130,865	\$ 44,679	48,010	290,856
Unrestricted (Deficit)	(173,771)	(6,373)	(841,104)	87,904	(933,344)
<b>Total Net Position</b>	<b>\$ (106,469)</b>	<b>\$ 124,492</b>	<b>\$ (796,425)</b>	<b>\$ 135,914</b>	<b>\$ (642,488)</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS**

**For The Year Ended June 30, 2015**

	<b>Prestonsburg Park Board</b>	<b>Mountain Arts Center</b>	<b>StoneCrest Golf Course</b>	<b>Other Proprietary Funds</b>	<b>Totals</b>
<b>Operating Revenues</b>					
Charges for services	\$ 124,496	\$ 448,762	\$ 450,139	\$ 63,435	\$ 1,086,832
<b>Operating Expenses</b>					
Cost of services	173,008	418,386	359,673	89,056	1,040,123
Salaries, wages and related benefits	299,027	467,525	428,758		1,195,310
Depreciation	20,424	13,940	51,918	7,633	93,915
Total Operating Expenses	<u>492,459</u>	<u>899,851</u>	<u>840,349</u>	<u>96,689</u>	<u>2,329,348</u>
Operating Income (Loss)	<u>(367,963)</u>	<u>(451,089)</u>	<u>(390,210)</u>	<u>(33,254)</u>	<u>(1,242,516)</u>
<b>Nonoperating Revenues (Expenses)</b>					
Share of prestonsburg tourism tax	290,875	328,115			618,990
Contributions		9,985			9,985
Interest expense	(301)		(5,050)		(5,351)
Interest income	27	100		220	347
Royalty income	5,604		5,604		11,208
Intergovernmental		21,058			21,058
Sale of Surplus Property	7,125				7,125
Sponsor income		42,500			42,500
Transfers	140,000	105,962	152,638		398,600
Total Nonoperating Revenues (Expenses)	<u>443,330</u>	<u>507,720</u>	<u>153,192</u>	<u>220</u>	<u>1,104,462</u>
Change In Net Position	75,367	56,631	(237,018)	(33,034)	(138,054)
Total Net Position - Beginning	<u>(181,836)</u>	<u>67,861</u>	<u>(559,407)</u>	<u>168,948</u>	<u>(504,434)</u>
Total Net Position - Ending	<u>\$ (106,469)</u>	<u>\$ 124,492</u>	<u>\$ (796,425)</u>	<u>\$ 135,914</u>	<u>\$ (642,488)</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

**For The Year Ended June 30, 2015**

	<u>Prestonsburg Park Board</u>	<u>Mountain Arts Center</u>	<u>StoneCrest Golf Course</u>	<u>Other Proprietary Funds</u>	<u>Totals</u>
<b>Cash Flows From Operating Activities</b>					
<b>Cash Inflows</b>					
Payments Received From Customers	\$ 124,496	\$ 445,721	\$ 445,088	\$ 64,592	\$ 1,079,897
<b>Cash Outflows</b>					
Payments for salaries and benefits	(299,027)	(467,525)	(415,232)		(1,181,784)
Payments to suppliers for goods and services	(173,008)	(450,026)	(139,580)	(85,411)	(848,025)
Total Cash Outflow	(472,035)	(917,551)	(554,812)	(85,411)	(2,029,809)
Net Cash Provided (Used) By Operating Activities	(347,539)	(471,830)	(109,724)	(20,819)	(949,912)
<b>Cash Inflows From Noncapital and Related Financing Activities</b>					
State and Local Assistance	225,783	401,758			627,541
Contributions and Transfers	140,000	115,947	152,638		408,585
Total Cash Inflow	365,783	517,705	152,638		1,036,126
<b>Cash Outflows From Noncapital and Related Financing Activities</b>					
Payments on long term borrowings			(36,000)		(36,000)
Net Cash Provided (Used) By Noncapital and Related Financing Activities	365,783	517,705	116,638	0	1,000,126
<b>Cash Flows From Capital and Related Financing Activities</b>					
Purchases of Equipment		40,720			
Surplus Equipment Sales	7,125				7,125
Interest Expense	(301)		(5,050)		(5,351)
Royalty Income	5,604		5,604		11,208
Net Cash Provided By Capital and Related Financing Activities	12,428	40,720	554	0	11,208
<b>Cash Flows From Investing Activities</b>					
Interest Received	27	100		220	347
Net Cash Provided By Investing Activities	27	100		220	347
Net Cash Inflow (Outflow) from all Activities	30,699	86,695	7,468	(20,599)	104,263
Cash and Cash Equivalents at beginning of the period	13,056	25,899	20,630	104,699	164,284
Cash and Cash Equivalents at end of period	\$ 43,755	\$ 112,594	\$ 28,098	\$ 84,100	\$ 268,547

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUNDS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	Prestonsburg Park Board	Mountain Arts Center	StoneCrest Golf Course	Other Proprietary Funds	Totals
Operating Income (Loss)	\$ (367,963)	\$ (451,089)	\$ (394,044)	\$ (33,236)	\$ (1,246,332)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities					
Change In:					
Accounts Receivable		(6,236)	5,053		(1,183)
Other Current Assets		26,102			26,102
Inventory			(625)		(625)
Accounts Payable		(31,640)	(26,663)		(58,303)
Due to General Fund		(23,965)	246,756	4,068	226,859
Prior Year Voided Checks				(441)	(441)
Loan Receivable			7,336	1,157	8,493
Other Accrued Liabilities		1,058	545		1,603
Depreciation Expense	20,424	13,940	51,918	7,633	93,915
 Net Cash Provided By Operating Activities	 <u>\$ (347,539)</u>	 <u>\$ (471,830)</u>	 <u>\$ (109,724)</u>	 <u>\$ (20,819)</u>	 <u>\$ (949,912)</u>

The accompanying notes are an integral part of the financial statements.

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**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The City of Prestonsburg, Kentucky (the City) is a fourth class city located in Floyd County, Kentucky. It operates under an elected mayor-council form of government. The City provides the following services authorized by its charter: police, fire, sanitation, street maintenance, recreation and community economic development. Primary revenue sources are property taxes, sanitation fees, occupational taxes, insurance tax, base court revenue, and charges for services.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA.) (See part D for additional discussion on basis of presentation.)

**B. Reporting Entity**

The financial statements of the City include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organizations provide their services exclusively to the primary government, and the City is able to impose its will on this organization. The Mountain Arts Center, the Prestonsburg Park Board, Prestonsburg Motorsports, and the Stonecrest Golf Course were deemed to be component units of the City. These organizations' balances and transactions are reported as though they are part of the City's primary government using the blending method.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organization. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organizations' separateness from the City's primary government.

Prestonsburg City's Utilities Commission

The Prestonsburg City's Utilities Commission (Commission) is a legally separate organization created as a public project in 1956 by ordinance of the City. The City Mayor appoints the three commission members each with staggered six-year terms. In addition the debt of the Commission creates a potential financial burden on the City. The financial statements of the Commission have been added to the City's statements as a discretely presented component unit. This information can be found on the Statement of Net Position and the Statement of Activities. The Commission issues separately audited financial statements. These can be obtained by contacting the Commission.

Related Organizations

A related organization is an entity for which the Government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the Government appoints a voting majority of the related organization's governing board. The Prestonsburg Housing Authority, Prestonsburg Tourism Commission and the Planning and Zoning Commission are considered related organizations to the City because the City appoints a voting majority of the boards; however, the appointment of the governing board is not considered an adequate demonstration of oversight and control. The city has no responsibility for their budgets, debt, financing deficits, or fiscal management. Additionally, the City does not influence their operations in any respect. Therefore, they are not considered to be a component unit of the City.

**C. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

A significant feature of the government-wide Statement of Activities is the presentation of each program's net cost. GAAP requires the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting program expenses from program revenues. Program expenses are those costs attributable to a particular function including certain indirect costs. GAAP permits both direct and indirect program expenses to be presented together in an "Expenses" column. Therefore, indirect expenses are not specifically identified with individual functions and activities.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenues once provider-imposed eligibility requirements have been met.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The city may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in a separate fund or where management requires that a separate fund be used for some function.

**Coal and Mineral Special Revenue Fund** - This fund is for receipt and expenditure of Coal and Mineral severance funds received from the Commonwealth of Kentucky. The primary source of revenue for this fund is state payments for mineral severance. The Commonwealth of Kentucky requires the City to maintain these receipts and expenditures separately from the General Fund.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Government-wide and Fund Financial Statements (Continued)**

Municipal Road Aid Special Revenue Fund - The primary purpose of this fund is to account for the road maintenance activities of the City. The primary sources of revenue for this fund are municipal road aid funds received from the Commonwealth of Kentucky. The Commonwealth of Kentucky requires the City to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Public Safety Fund, Nine One One Fund, and Senior Fund.

Special Revenue Funds:

The Coal and Mineral Fund, Municipal Road Aid Fund, Public Safety Fund, Nine One One Fund, and Senior Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Capital Projects Fund:

The Capital Projects Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities and purchase of capital assets.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary funds: Prestonsburg Park Board, Mountain Arts Center, and Stonecrest Golf Course.

The primary government reports the following non-major proprietary funds: Prestonsburg Motorsports and Revolving Fund.

Presentation of Component Unit

The financial statements present the following major discretely presented component unit: Prestonsburg City's Utilities Commission.

The component unit is presented on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Unit" to emphasize this organizations' separateness from the City's primary government.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Deposits and Investments**

The government'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.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**E. Capital Assets**

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at date of donation. Fixed assets with value of \$5,000 or greater are recorded. Fixed assets are not reported in the fund financial statements. As of June 30, 2003, estimated historical cost was used to value a majority of the assets acquired prior to that date and accumulated depreciation was calculated based on those estimates. Prior to June 30, 2003, governmental fund infrastructure assets were not required to be capitalized nor were they capitalized. Infrastructure assets are recorded beginning on that date forward. Depreciation of exhaustible assets is recorded in the statement of net position and accumulated depreciation on the statement of net position. Depreciation is recorded over the useful lives of assets using the straight-line method of depreciation. Estimated useful lives follows:

	Capitalization Threshold	Useful Life (Years)
Buildings and Building Improvements	\$ 5,000	10 to 25
Machinery and Equipment	\$ 5,000	5 to 15
Vehicles	\$ 5,000	5 to 7
Recreational Areas	\$ 5,000	10 to 25
Infrastructure	\$ 5,000	10 to 25
Furniture and Fixtures	\$ 5,000	7 to 10

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures which materially change capacities or useful lives of assets are capitalized. Upon sale or retirement of assets, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**G. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the City or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the city has designated the Mayor to carry out the intent of the City.

It is the policy of the City to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

**H. Budgetary Information**

The City follows procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets and budget amendments for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Encumbrances**

The City does not employ encumbrance accounting; wherein purchase orders, contracts, and other commitments for the expenditure of cash are recorded in order to preserve that portion of the applicable appropriation.

**J. Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include taxes receivable, consisting of property taxes, occupational taxes, insurance taxes, and franchise taxes. In addition to those tax receivables, there are also receivables for payroll reimbursements and taxes receivables from other organizations and receivables for grant revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, occupation tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available, Non-exchange transactions, collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

The City considers all receivables to be fully collectible; therefore, and allowance for doubtful accounts is not necessary with the exception of the Stone Crest Golf Course trade receivables which is shown net of an allowance for uncollectible. Trade accounts that are classified as inactive have been included in the allowance for uncollectible.

**K. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employee Retirement system (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**L. Due To And Due From Other Funds**

Interfund receivables and payables are recorded by all funds in the period in which transactions are executed on the fund financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

**M. Inventories**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories consist of lots, chemicals and fuel at the Stone Crest Golf Course.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**N. Prepaid Expenses**

Payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

**O. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements in general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and the noncurrent portion of capital leases that will be paid from government funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payment made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements unit due.

**P. Property Tax Revenue**

The City assesses property-taxes on January 1st of each calendar year and bills are due and payable by December 1st in the year assessed. All bills paid on or prior to November 30<sup>th</sup> are eligible for a 2% discount and all bills paid after December 31<sup>st</sup> are charged a 6% penalty per annum. Property tax revenue is recognized when it becomes due and payable. Property taxes are collected by the City Clerk; motor vehicle taxes are collected by the Floyd County Clerk's office. The property tax rate for this year was .231 per hundred dollars for real property and .35 per hundred dollars for tangible property and franchises not specifically exempted from taxation.

**Q. Occupational License Tax**

The City imposes a tax of 1.5 percent of wages on persons who work within the City of Prestonsburg in any business, profession, trade or occupation. Such amounts are to be withheld from the employee's wages remitted quarterly with a completed payroll tax return detailing total wages and tax withholdings.

**R. Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**S. Interfund Activity**

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 proprietary funds. Repayment from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government and Component Unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D).. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**B. Investments**

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The fiscal court is statutorily limited as to credit ratings, at the time of purchase. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- 1) Obligations of the United States and of its agencies and instrumentalities.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States Government.
- 4) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4)
- 5) Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by nationally recognized rating agency.
- 6) Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
- 7) Commercial paper rated in the highest category by a nationally recognized rating agency.
- 8) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities
- 9) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency and shares of mutual funds, each of which shall have the following characteristics:
  - a) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
  - b) The management company of the investment company shall have been in operation for at least five years.
  - c) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

The City is limited to investing no more than 20% in categories 5, 6, 7, 9, and 10 above per state statute and the fiscal court's investment policy. As of June 30, 2015, the City does not have any investments in these categories.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the fiscal court's investment in single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk. The City does not have 5% or more of the fiscal court's investments invested in any single security.

**Interest Rate Risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The fiscal court's policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. See table above for investments listed by type and duration.

**Note 3. Taxes Receivable**

Taxes receivable are comprised of the following at June 30, 2015:

Receivable Type:	Balance Sheet - Governmental Funds	
	General Fund	
Property Tax	\$	29,162
Franchise Tax		20,825
Insurance Tax		167,813
Occupational Tax		511,063
	\$	<u>728,863</u>

**Note 4. Interfund Receivables, Payables, and Transfers**

**Schedule of Interfund Balances as of June 30, 2015**

Due From:	Due To:	
	General Fund	
Stonecrest Golf Course	\$	1,125,471
Mountain Arts Center		2,446
Archer Park		<u>255,884</u>
Total Due To		
General Fund From Other Funds	\$	1,383,801

**The following transfers were made during the year:**

From	To	Amount	Purpose
General Fund	Archer Park	\$ 140,000	Operating Expenses
General Fund	Mountain Arts Center	105,962	Operating Expenses
General Fund	Stone Crest	152,638	Operating Expenses

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 5. Capital Assets**

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<b><u>Governmental Activities:</u></b>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 694,700	\$	\$	\$ 694,700
Total Capital Assets Not Being Depreciated	<u>694,700</u>			<u>694,700</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	8,738,733			8,738,733
Recreation areas	10,585,371		(13,000)	10,572,371
Infrastructure	8,451,957			8,451,957
Automobiles and trucks	1,858,044	73,644	(300,722)	1,630,966
Machinery and equipment	1,954,271	157,898		2,112,169
Total Capital Assets Being Depreciated	<u>31,588,376</u>	<u>231,542</u>	<u>(313,722)</u>	<u>31,506,196</u>
Less Accumulated Depreciation For:				
Buildings and improvements	(4,629,558)	(532,835)	13,000	(5,149,393)
Recreation areas	(4,752,389)	(430,292)		(5,182,681)
Infrastructure	(3,606,791)	(413,729)		(4,020,520)
Automobiles and trucks	(1,698,287)	(90,207)	288,222	(1,500,272)
Machinery and equipment	(1,588,802)	(114,073)		(1,702,875)
Total Accumulated Depreciation	<u>(16,275,827)</u>	<u>(1,581,136)</u>	<u>301,222</u>	<u>(17,555,741)</u>
Total Capital Assets, Being Depreciated, Net	<u>15,312,549</u>	<u>(1,349,594)</u>	<u>(12,500)</u>	<u>13,950,455</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,007,249</u>	<u>\$ (1,349,594)</u>	<u>\$ (12,500)</u>	<u>\$ 14,645,155</u>
<b><u>Business-Type Activities:</u></b>				
Capital Assets, Being Depreciated:				
Buildings, Vehicles, and Equipment	\$ 1,439,739	\$ 337,390	\$ (318,625)	\$ 1,458,504
Total Capital Assets Being Depreciated	<u>1,439,739</u>	<u>337,390</u>	<u>(318,625)</u>	<u>1,458,504</u>
Less Accumulated Depreciation For:				
Buildings, Vehicles, and Equipment	(996,874)	(93,915)	182,072	(908,717)
Total Accumulated Depreciation	<u>(996,874)</u>	<u>(93,915)</u>	<u>182,072</u>	<u>(908,717)</u>
Total Capital Assets, Being Depreciated, Net	<u>442,865</u>	<u>243,475</u>	<u>(136,553)</u>	<u>549,787</u>
Business-Type Activities Capital Assets, Net	<u>\$ 442,865</u>	<u>\$ 243,475</u>	<u>\$ (136,553)</u>	<u>\$ 549,787</u>

Depreciation expense was unallocated and appears as such on the Statement of Activities.

**Note 5. Capital Assets (continued)**

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

Capital asset activity of the discretely presented component unit:

		<u>2015</u>	<u>2014</u>
Water Plant and Distribution System	5-40 yrs	\$26,769,176	\$26,288,446
Sewer Plant and Collection System	5-50 yrs	21,972,048	21,965,055
Gas Distribution System	5-50 yrs	871,886	870,416
Motor Vehicles	4-5 yrs	2,219,187	2,183,582
Office and Other Equipment	5-10 yrs	1,152,570	1,033,599
Other Buildings and Improvements	5-40 yrs	988,085	988,085
Land Improvements	20 yrs	48,902	48,902
Land		376,695	376,695
Contruction in Progress		266,035	170,966
Total cost		<u>54,664,584</u>	<u>53,925,746</u>
Less: Accumulated Depreciation		<u>(32,270,763)</u>	<u>(30,048,236)</u>
Net Plant and Equipment		<u>\$22,393,821</u>	<u>\$ 23,877,510</u>

**Note 6. Short-term Debt - Promissory Note-Flood Damage**

On October 13, 2014 the City of Prestonsburg entered into a Line of Credit with First Commonwealth Bank for flash flooding damage of roads, slides and slips, leaning of drains, clearing of waterways etc. The line of credit was for \$350,000. The City is to pay in one payment of all outstanding principal plus all accrued unpaid interest on April 12, 2015. In addition, the City will pay regular monthly payments of all accrued unpaid interest due as of each payment date beginning November 12, 2014 with all subsequent interest payments to be due on the same day of each month after that. The interest rate on this note is a variable rate currently at 3.250% per annum, but is subject to change from time to time based on changes in the dependent index which is the New York Wall Street Journal Prime Rate. The interest rate will be no less than 3.250% and a maximum rate of 24%. The line of credit collateral is on a fire truck and accounts receivable from FEMA. On May 4, 2015 the City extended the maturity to May 4, 2016. The principal outstanding as of June 30, 2015 was \$239,025.

Changes In Short-term Liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Line of Credit-2014 Flood	\$	\$ 350,000	\$ 110,975	\$ 239,025	\$ 239,025
Short-term Liabilities	<u>\$ 0</u>	<u>\$ 350,000</u>	<u>\$ 110,975</u>	<u>\$ 239,025</u>	<u>\$ 239,025</u>

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt Governmental Activities**

**A. Street Sweeper**

On February 27, 2013 the City of Prestonsburg entered into a capital lease agreement with Branch Banking And Trust Company (BB&T) for a Street Sweeper. The principal was \$140,000 at a 1.91% interest rate for the period of 5 years, with principal and interest paid monthly. The principal outstanding as of June 30, 2015 was \$76,323. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 28,168	\$ 1,212
2017	28,711	669
2018	19,448	140
Totals	\$ 76,327	\$ 2,021

**B. Garbage Truck**

On September 30, 2011, City of Prestonsburg entered into a capital lease agreement with First Commonwealth Bank for the purchase of a 2011 International 44-Garbage Truck. The principal was \$96,833 at a 3.65% interest rate to be paid in 42 monthly installments of \$2,173. The principal outstanding as of June 30, 2015 was \$3,484. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 3,484	\$ 13
Totals	\$ 3,484	\$ 13

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**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 7. Long-term Debt Governmental Activities (Continued)**

**C. Loan – 911 Equipment**

On, July 14, 2014 the City of Prestonsburg entered into a loan agreement with First Commonwealth Bank for the purchase of 911 equipment. The loan was for \$127,898. The City is to pay in 36 payments of \$3,709 each with the first payment due September 10, 2014 and the final payment due August 10, 2017. The interest is 2.88% per annum. The collateral on this loan is the 911 system and all equipment.

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 42,480	\$ 2,021
2017	43,653	847
2018	7,392	25
Totals	<u>\$ 93,525</u>	<u>\$ 2,893</u>

**D. Changes In Long-term Liabilities Governmental Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government: Governmental Activities:</b>					
Financing Obligations	\$ 914,881	\$ 127,898	\$ 186,405	\$ 856,374	\$ 176,276
Governmental Activities Long-term Liabilities	<u>\$ 914,881</u>	<u>\$ 127,898</u>	<u>\$ 186,405</u>	<u>\$ 856,374</u>	<u>\$ 176,276</u>

**Note 8. Long-term Debt Business-type Activities**

**A. Silverado**

In January 2012, the City borrowed \$16,961 to purchase a 2008 Chevy Silverado for Archer Park. The note is to be paid in 48 monthly payments of \$381. The note carries a fixed interest rate of 3.75% and is secured by the truck. The balance of the note at June 30, 2015 is \$0 as the City paid off the loan during audited Fiscal Year.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 8. Long-term Debt Business-type Activities (continued)**

**B. Golf Carts**

In April 2012, the City borrowed \$233,535 for the purchase of 65 Golf Carts for Stone Crest and consolidate May 2009 golf cart note. The note is for a period of 36 months and carries a fixed interest rate of 3.33% and the note is secured by the golf carts. Under the terms of the note, the note is interest only for the month of October thru December; payments of \$4,500 plus accrued interest are due for the months of January thru September of each year. The remaining principals plus accrued interest are due in the final balloon payment scheduled for April 4, 2015. The balance outstanding on this note at June 30, 2015 is \$0, as the City consolidated this debt on April 21, 2015.

**C. Golf Carts**

In April 21, 2015, the City borrowed \$267,935 for the purchase of 61 Golf Carts for Stone Crest and consolidate April 2012 golf car note. The note is for a period of 48 months and carries a fixed interest rate of 2.68% and the note is secured by the golf carts. Under the terms of the note, the note is interest only for the month of October thru December; payments of \$4,500 plus accrued interest are due for the months of January thru September of each year. The remaining principals plus accrued interest are due in the final balloon payment scheduled for April 21, 2019. The balance outstanding on this note at June 30, 2015 is \$258,935 with \$48,561 due within one year.

The original amount of outstanding issues, the maturity dates, interest rates, and outstanding balances, at June 30, 2014 are summarized below:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 40,500	\$ 8,061
2017	40,500	6,712
2018	40,500	5,363
2019	137,435	3,439
Totals	<u>\$ 258,935</u>	<u>\$ 23,575</u>

**D. Changes In Long-term Debt – Business-type Activities**

**Primary Government:**

**Business Type Activities:**

Financing Obligations	<u>\$ 149,835</u>	<u>\$ 267,935</u>	<u>\$ 158,835</u>	<u>\$ 258,935</u>	<u>\$ 40,500</u>
Business Type Activities					
Long-term Liabilities	<u>\$ 149,835</u>	<u>\$ 267,935</u>	<u>\$ 158,835</u>	<u>\$ 258,935</u>	<u>\$ 40,500</u>

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 8. Long-term Debt Business-type Activities (continued)**

**E. Long-term Debt of Discretely Presented Component Unit**

	Issue Number	Interest Rate	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	
<b>Bonds Payable</b>									
USDA	91-12	4.50%	01/01/38	\$ 149,500		\$ 3,500	\$ 146,000	\$ 4,000	
USDA	91-15	4.75%	01/01/39	224,000		5,000	219,000	5,000	
USDA	93-21	4.50%	01/01/41	943,000		18,000	925,000	20,000	
USDA	91-23	4.50%	01/01/43	657,000		11,500	645,500	12,000	
USDA	91-25	4.50%	01/01/43	133,500		2,500	131,000	25,000	
KADDFT	2011 E	6.15%	06/30/31	1,915,000		75,000	1,840,000	75,000	
<b>Loans Payable</b>									
KIA	B98-01	1.30%	06/01/19	164,877		32,126	132,751	32,545	
KIA	A98-03	1.80%	12/01/20	335,578		49,118	286,460	50,006	
KIA	B99-01	1.00%	12/01/21	276,169		41,331	234,838	41,745	
KIA	B07-10	0.70%	12/01/28	1,994,710		131,172	1,863,538	132,092	
KIA	B08-08	1.07%	12/01/28	627,318		40,217	587,101	40,648	
KIA	F209-15	1.00%	12/01/30	310,036		17,373	292,663	17,547	
KIA	A09-15	1.00%	06/01/31	234,577		12,725	221,852	12,853	
KIA	A09-16	1.00%	06/01/31	677,859		36,772	641,087	37,141	
KIA	A209-33	1.00%	06/01/33	1,220,861		58,651	1,162,210	59,239	
KIA	A10-02	1.00%	06/01/33	1,775,935		85,317	1,690,618	86,172	
<b>Leases Payable</b>									
1st Comm Bank	74138585	3.50%	03/10/18		54,297	4,266	50,031	1,495	
1st Comm Bank	7413424	3.50%	01/15/18		20,205	2,670	17,535	6,598	
1st Comm Bank	7411677	3.50%	11/10/16		46,421	13,170	33,251	23,298	
1st Comm Bank	793458	3.48%	04/15/15	7,830		7,830	-	-	
1st Comm Bank	7401477	3.50%	02/20/16	36,334		21,543	14,791	14,791	
1st Comm Bank	7404115	3.75%	06/12/17	49,674		15,934	33,740	16,549	
1st Comm Bank	7400721	3.50%	12/15/15	40,904		27,027	13,877	13,877	
1st Comm Bank	7398816	3.75%	10/05/16	33,107		13,831	19,276	14,365	
1st Comm Bank	7406576	3.50%	12/23/15	22,419		14,813	7,606	7,606	
					#####	\$ 120,923	\$ 741,385	\$ 11,209,726	\$ 749,567

The annual debt service requirements to maturity as of June 30 each year for the long-term debt are as follows:

	Bonds		Loans		Construction in Progress		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 118,500	\$ 137,625	\$ 624,702	\$ 72,964			\$ 743,202	\$ 210,589
2017	119,500	134,009	572,395	64,170			691,895	198,179
2018	126,000	130,180	538,771	57,383			664,771	187,563
2019-2023	721,500	579,102	2,293,592	210,008			3,015,092	789,110
2024-2028	907,500	420,757	2,111,014	109,878			3,018,514	530,635
2029-2033	993,000	210,219	1,162,753	27,688			2,155,753	237,907
2034-2038	519,500	89,340					519,500	89,340
2039-2042	401,000	30,204					401,000	30,204
	<u>\$ 3,906,500</u>	<u>\$ 1,731,436</u>	<u>\$ 7,303,226</u>	<u>\$ 542,090</u>	<u>-</u>	<u>-</u>	<u>\$ 11,209,726</u>	<u>\$ 2,273,526</u>

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 9. Employee Retirement System**

**General Information about the Pension Plan**

*Plan description.* Employees of the City of Prestonsburg are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

*Benefits provided.* Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

*Contributions.* Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The City of Prestonsburg makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for the City of Prestonsburg were \$430,364 based on a rate of 17.67% of covered payroll for nonhazardous covered employees and 34.31% for hazardous covered employees. In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 9. Employee Retirement System (Continued)**

**General Information about the Pension Plan (Continued)**

The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution. By law, employer contributions are required to be paid. The KRS may intercept the City's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**Net Pension Liability**

The City of Prestonsburg's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. (See Note 13 for a restatement related to the net pension liability.)

*Actuarial assumptions.* The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0 percent
Salary increases	Representative values of the assumed annual rates of future salary increases from 4.75%-13.0% for nonhazardous members and 4.5%-20.0% for hazardous members, including inflation.
Investment rate of return	7.75% per annum, compounded annual for retirement and insurance benefits.

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2005 through June 30, 2008. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 9. Employee Retirement System (Continued)**

**Net Pension Liability (Continued)**

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 (See chart below.). 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 assumptions 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.

<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>	<b>Target Allocation</b>
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7.00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
Short-term securities		100.00%

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.75 percent based on a blending of the factors described above.

*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Knox County Ambulance District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability (asset) to changes in the discount rate.* The following presents the net pension liability (asset) of the City calculated using the discount rate of 7.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 9. Employee Retirement System (Continued)**

**Net Pension Liability (Continued)**

City of Prestonsburg's net pension liability	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Nonhazardous	\$ 4,175,414	\$ 3,172,975	\$ 2,287,284
Hazardous	56,819	43,436	32,069
Total	<u>\$ 4,232,232</u>	<u>\$ 3,216,411</u>	<u>\$ 2,319,353</u>

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

For the year ended June 30, 2015, the City recognized pension expense of \$366,432. At June 30, 2015, the City reported deferred inflows of resources for nonhazardous of \$358,453 from the net difference between expected and actual earnings on pension plan investments.

The City's net pension liability of \$3,216,412 was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. (See Note 13 for a restatement related to the net pension liability.)

The District'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 agencies, actuarially determined. At June 30, 2014, the City's proportion was 0.033 percent for non-hazardous.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30:</b>	
2016	\$ (89,613)
2017	(89,613)
2018	(89,613)
2019	(89,613)
	<u>\$ (358,453)</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**CITY OF PRESTONSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**  
**(Continued)**

**Note 10. Revolving Loan Fund**

The City of Prestonsburg established the Prestonsburg Development Fund on April 19, 1992, upon receipt of grant proceeds in the amount of \$170,000 from the Kentucky Heritage Council. The fund (Revolving Loan Fund) operates in conjunction with area financial institutions to provide below market rate loans to eligible applicants. Each individual loan package will consist of 55% bank funds and 45% City funds with the City's collateral position being subordinate to that of the participating banks. The City will pay the banks a fee for servicing the City's portion of the loan repayments. Interest earned on the City's funds and on the City's portion of loan repayments may be used to pay administrative costs. The goal of the fund is to provide financial incentive for business located within a designated project area to revitalize the central business district of downtown Prestonsburg. As of June 30, 2015 the fund had \$3,904 in outstanding receivables. The outstanding receivables consists of a long term with an interest rate of 3 percent.

**Note 11. North Floyd County Fire District**

The City and the North Floyd County Fire District entered in an agreement over 16 years ago whereby the City would service the North Floyd County Fire District in exchange for the tax revenues of the North Floyd County Fire District. This agreement was originally not intended to be an ongoing agreement; however it has continued through June 30, 2015. It should be noted the tax revenues received as a result of this agreement for the fiscal year ending June 30, 2015 was \$239,109 and the City's budget could be significantly impacted if this agreement is modified in subsequent years.

**Note 12. Operating Lease**

The City entered into an operating lease agreement with Konica Minolta on January 19, 2012 for a copier. The lease term is 60 monthly payments of \$385 through December 18, 2017. Rental expense for fiscal year ended June 30, 2015 was \$4,620. Future minimum lease payments are \$4,620 for 2016 and \$2,310 for 2017.

**Note 13. Prior Period Adjustments**

Beginning Net Position has been restated from the prior year in the amount of \$(3,216,412) for Net Pension Liability and by \$(358,453) for deferred pension inflows pursuant to first year implementation of GASB 68.

**CITY OF PRESTONSBURG**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Budgetary Basis**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Budgetary Basis**

**For The Year Ended June 30, 2015**

	<b>GENERAL FUND</b>			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 759,500	\$ 759,500	\$ 767,081	\$ 7,581
Motor vehicle tax	92,000	92,000	103,777	11,777
Insurance taxes	680,000	680,000	734,689	54,689
Franchise taxes	120,000	120,000	63,127	(56,873)
Occupational taxes and business licenses	2,028,000	2,028,000	2,062,839	34,839
Intergovernmental revenues	198,000	198,000	666,944	468,944
Licenses & permits	115,000	115,000	159,232	44,232
Charges for services	730,500	730,500	727,677	(2,823)
Investment income	500	500	5,813	5,313
Miscellaneous revenues	5,000	5,000	12,180	7,180
<b>Total Revenues</b>	<u>4,728,500</u>	<u>4,728,500</u>	<u>5,303,359</u>	<u>574,859</u>
<b>EXPENDITURES</b>				
General government	\$ 1,345,822	1,345,822	1,333,627	12,195
Public safety	1,150,175	1,150,175	1,207,603	(57,428)
Public works	790,254	790,254	782,740	7,514
Fire	821,096	821,096	807,680	13,416
Landscaping	141,230	141,230	132,585	8,645
Economic Development	32,841	32,841	38,007	(5,166)
Recreation and Culture	547,300	547,300	519,670	27,630
Capital outlay	108,000	108,000	246,768	(138,768)
Debt service	178,632	178,632	311,072	(132,440)
<b>Total Expenditures</b>	<u>5,115,350</u>	<u>5,115,350</u>	<u>5,379,752</u>	<u>(264,402)</u>
Excess (Deficiency) of Revenues Over				
Expenditures Before Other				
Financing Sources (Uses)				
	<u>(386,850)</u>	<u>(386,850)</u>	<u>(76,393)</u>	<u>310,457</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan Proceeds			350,000	350,000
Sale of property			9,192	9,192
Operating transfers in			171,587	171,587
Operating transfers (out)			(214,609)	(214,609)
<b>Total Other Financing Sources (uses)</b>			<u>316,170</u>	<u>316,170</u>
Net change in fund balances				
	(386,850)	(386,850)	239,777	626,627
Fund balances (deficit) - beginning	386,850	386,850	1,848,038	1,461,188
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,087,815</u>	<u>\$ 2,087,815</u>

**CITY OF PRESTONSBURG**  
**SCHEDULE OF PENSION LIABILITIES AND RELATED RATIOS**  
**Required Supplementary Information**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG**  
**SCHEDULE OF PENSION LIABILITIES AND RELATED RATIOS**  
**Required Supplementary Information**

**For The Year Ended June 30, 2015**

	<u>2014</u>
	<u>Hazardous</u>
Total Net Pension Liability for County Employees Retirement Systems	\$ 1,201,825,000
Employer's Proportion (Percentage) of Net Pension Liability	0.004%
Employer's Proportion (Amount) of Net Pension Liability	\$ 43,436
Employer's Covered-Employer payroll	\$ 18,306
Employer's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	237.28%
Total Pension Plan's Fiduciary Net Position	\$ 2,087,002,000
Total Pension Plan's Pension Liability	\$ 3,288,826,000
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	63.46%
	<u>Nonhazardous</u>
Total Net Pension Liability for County Employees Retirement Systems	\$ 3,244,376,000
Employer's Proportion (Percentage) of Net Pension Liability	0.098%
Employer's Proportion (Amount) of Net Pension Liability	\$ 3,172,975
Employer's Covered-Employer payroll	\$ 2,476,694
Employer's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	128.11%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,147,000
Total Pension's Plan Pension Liability	\$ 9,772,323,000

**CITY OF PRESTONSBURG**  
**SCHEDULE OF PENSION CONTRIBUTIONS**  
**Required Supplementary Information**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG  
SCHEDULE OF PENSION CONTRIBUTIONS  
Required Supplementary Information**

**For The Year Ended June 30, 2015**

	<u>2014</u>
Actuarially determined contribution	\$ 430,364
Contributions in relation to the actuarially determined contribution	<u>430,364</u>
Contribution deficiency (excess)	<u>\$</u>
Covered-employee payroll	\$ 2,476,694
Contributions as a percentage covered- employee payroll	17.38%

**CITY OF PRESTONSBURG  
COMBINING STATEMENT OF FUND NET POSITION -  
NON-MAJOR GOVERNMENTAL FUNDS  
Other Supplementary Information**

**June 30, 2015**

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF FUND NET POSITION -**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**Other Supplementary Information**

June 30, 2015

	<u>Special Revenue Funds</u>					Debt Service	Total Non-Major Governmental Funds
	Public Safety Fund	Nine One One Fund	Jenny Wiley Fund	Senior Fund	Capital Projects Fund		
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 53,861	\$ 145,622	\$ 3,184	\$ 6,413	\$ 258	\$	\$ 209,338
Total Assets	<u>53,861</u>	<u>145,622</u>	<u>3,184</u>	<u>6,413</u>	<u>258</u>	<u></u>	<u>209,338</u>
<b>FUND BALANCES</b>							
Restricted	53,861	145,622	3,184	6,413	258		209,338
Total Fund Balances	<u>\$ 53,861</u>	<u>\$ 145,622</u>	<u>\$ 3,184</u>	<u>\$ 6,413</u>	<u>\$ 258</u>	<u>\$ 0</u>	<u>\$ 209,338</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND NET POSITION- NON-MAJOR GOVERNMENTAL FUNDS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND NET POSITION - NON-MAJOR GOVERNMENTAL FUNDS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2015**

	Special Revenue Funds				Capital Projects Fund	Total Non-Major Governmental Funds
	Public Safety Fund	Nine One One Fund	Jenny Wiley Fund	Senior Fund		
<b>REVENUES</b>						
Parking fines	\$ 5,267				\$	\$ 5,267
Charges for services		138,627		7,450		146,077
Festival receipts			17,616			17,616
Donations				1,000		1,000
Intergovernmental	51,606		10,000			61,606
Interest income	56	117	11	3		187
Total Revenues	<u>56,929</u>	<u>138,744</u>	<u>27,627</u>	<u>8,453</u>		<u>231,753</u>
						-
<b>EXPENDITURES</b>						
Public safety	62,016	67,214				129,230
Recreation and Culture			31,824	7,305		39,129
General Government	158					158
Total Expenditures	<u>62,174</u>	<u>67,214</u>	<u>31,824</u>	<u>7,305</u>		<u>168,517</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(5,245)</u>	<u>71,530</u>	<u>(4,197)</u>	<u>1,148</u>		<u>63,236</u>
Other Financing Sources (uses)						
Operating transfers in	5,469					5,469
Operating transfers out		(76,708)				(76,708)
Total other financing sources (uses)	<u>5,469</u>	<u>(76,708)</u>				<u>(71,239)</u>
Net Change in Fund Balances	224	(5,178)	(4,197)	1,148		(8,003)
Fund Balances - Beginning	<u>53,637</u>	<u>150,800</u>	<u>7,381</u>	<u>5,265</u>	<u>258</u>	<u>217,341</u>
Fund Balances - Ending	<u>\$ 53,861</u>	<u>\$ 145,622</u>	<u>\$ 3,184</u>	<u>\$ 6,413</u>	<u>\$ 258</u>	<u>\$ 209,338</u>

**CITY OF PRESTONSBURG  
COMBINING STATEMENT OF FUND NET POSITION -  
NON-MAJOR PROPRIETARY FUNDS  
Other Supplementary Information**

**June 30, 2015**

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF FUND NET POSITION -**  
**NON-MAJOR PROPRIETARY FUNDS**  
**Other Supplementary Information**

June 30, 2015

	<u>Prestonsburg Motor Sports</u>	<u>Revolving Fund</u>	<u>Total Non-Major Proprietary Funds</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 3,111	\$ 80,989	\$ 84,100
Loans Receivable		1,193	1,193
Total Current Assets	<u>3,111</u>	<u>82,182</u>	<u>85,293</u>
<b>Non-current Assets</b>			
Loans Receivable	\$	\$ 2,711	\$ 2,711
Capital Assets, net of accumulated depreciation	48,010		48,010
Total Non-current Assets	<u>48,010</u>	<u>2,711</u>	<u>50,721</u>
Total Assets	<u>\$ 51,121</u>	<u>\$ 84,893</u>	<u>\$ 136,014</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 100	\$	\$ 100
Total Current Liabilities	<u>100</u>		<u>100</u>
Total Liabilities	<u>\$ 100</u>		<u>\$ 100</u>
<b>NET POSITION</b>			
Investment in Capital Assets, net of related debt	48,010		48,010
Unrestricted	3,011	84,893	87,904
Total Net Position	<u>\$ 51,021</u>	<u>\$ 84,893</u>	<u>\$ 135,914</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND NET POSITION - NON-MAJOR PROPRIETARY FUNDS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND NET POSITION - NON-MAJOR PROPRIETARY FUNDS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2015**

	<u>Prestonsburg Motor Sports</u>	<u>Revolving Fund</u>	<u>Total Non-Major Proprietary Funds</u>
<b>REVENUES</b>			
Charges for services	\$ 63,435	\$	\$ 63,435
<b>EXPENDITURES</b>			
Recreation and Culture	89,056		89,056
Festival			
Administration			
Dispatch			
Capital outlay			
Fire			
Depreciation	7,633		7,633
Total Expenditures	<u>96,689</u>		<u>96,689</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(33,254)</u>		<u>(33,254)</u>
Other Financing Sources (uses)			
Interest expense			
Interest Income	18	202	220
Transfers In			
Total other financing sources (uses)	<u>18</u>	<u>202</u>	<u>220</u>
Net Change in Fund Balances	(33,236)	202	(33,034)
Net Position - Beginning	<u>84,257</u>	<u>84,691</u>	<u>168,948</u>
Net Position - Ending	<u>\$ 51,021</u>	<u>\$ 84,893</u>	<u>\$ 135,914</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF CASH FLOWS - NON-MAJOR PROPRIETARY FUNDS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG**  
**COMBINING STATEMENT OF CASH FLOWS - NON-MAJOR PROPRIETARY FUNDS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2015**

	<u>Prestonsburg Motor Sports</u>	<u>Revolving Fund</u>	<u>Totals</u>
<b>Cash Flows From Operating Activities</b>			
<b>Cash Inflows</b>			
Payments Received From Customers	\$ 63,435	\$ 1,157	\$ 64,592
Total Cash Provided	63,435	1,157	64,592
<b>Cash Outflows</b>			
Payments to suppliers for goods and services	(85,411)		(85,411)
Total Cash Used	(85,411)		(85,411)
Net Cash Provided (Used) By Operating Activities	(21,976)	1,157	(20,819)
<b>Cash Flows From Investing Activities</b>			
Interest Received	18	202	220
Net Cash Provided By Investing Activities	18	202	220
Net Cash Inflow (Outflow) from all Activities	(21,958)	1,359	(20,599)
Cash and Cash Equivalents at beginning of the period	25,069	79,630	104,699
Cash and Cash Equivalents at end of period	\$ 3,111	\$ 80,989	\$ 84,100
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ (33,236)	\$	\$ (33,236)
Change In:			
Due to General Fund	4,068		4,068
Prior Year Voided Checks	(441)		(441)
Loan Receivable		1,157	1,157
Depreciation Expense	7,633		7,633
Net Cash Provided By Operating Activities	\$ (21,976)	\$ 1,157	\$ (20,819)

The accompanying notes are an integral part of the financial statements.

**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**

**ROSS & COMPANY, PLLC**  
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Honorable Les Stapleton, Mayor  
Members of the City Council  
City of Prestonsburg, Kentucky

**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**

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Prestonsburg as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Prestonsburg's basic financial statements, and have issued our report thereon dated February 4, 2016.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City of Prestonsburg'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 Prestonsburg's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Prestonsburg's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Comment and Recommendation that we consider to be a significant deficiency as item 2015-01.

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  
(Continued)

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Prestonsburg'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Comment and Recommendation as item 2015-01.

**City of Prestonsburg's Response to Findings**

The City of Prestonsburg's response to the finding identified in our audit is provided in the accompanying Comment and Recommendation. The City of Prestonsburg'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.

Respectfully submitted,



Ross and Co., PLLC  
Louisville, KY  
February 4, 2016

**CITY OF PRESTONSBURG  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2015**

**CITY OF PRESTONSBURG  
COMMENT AND RECOMMENDATION**

**Fiscal Year Ended June 30, 2015**

**2015-02 Budgets Should Be Developed, Approved, and Implemented For All Funds**

While the City of Prestonsburg has adopted a budget for the General Fund, no budget has been provided to the auditor for the remaining funds. Budgets have been adopted for the subsequent fiscal year, but the auditor is unable to include budgetary comparisons of the major special revenue funds in the audit report for the year ended June 30, 2015. The statutory requirements for Kentucky cities are grounded in two primary sources: Kentucky Constitution 157b and KRS 91A.030. The basic premise in these requirements is cities cannot expend funds without budgetary authorizations in place. The legal provisions do not make exceptions based on sources or uses of funds. All monies expended by cities must be authorized by a legally adopted budget. KRS 91A.030 (12) further describes the budget as being consistent in form with the accounting system chart of accounts. See Budget Schedule and Overview section of the "Kentucky Cities Financial Manual" as produced by the Office of Financial Management and Administration for guidance on budgeting. We recommend the budget as adopted in council minutes be in a form reflective of the chart of accounts and amendments be approved when unexpected revenues are obtained and spent.

# **EXHIBIT 10**

**EXHIBIT 10****CERTIFIED WASTEWATER TREATMENT OPERATORS AND  
CERTIFIED WASTEWATER COLLECTION SYSTEM OPERATORS  
PRESTSONSBURG CITY'S UTILITIES COMMISSION**

<b>Name</b>	<b>COLLECTION SYSTEM</b>		<b>WASTEWATER TREATMENT</b>	
	<b>Certification Level</b>	<b>License #</b>	<b>Certification Level</b>	<b>License #</b>
Patrick G. Burke	Class III	19228		
Jimmy W. Campbell	Class III	19230	Class II	1196
Turner E. Campbell	Class III	19234		
Alvin R. Hall			Class II	899
Stephen Harris	Class III	21095		
Carman R. Maines	Class III	27587		
Larry D. Prater			Class III	909
Ronald L. Robinson			Class II	20064

# **EXHIBIT 11**

**EXHIBIT 11****CERTIFIED WATER TREATMENT OPERATORS AND  
CERTIFIED WATER DISTRIBUTION SYSTEM OPERATORS  
PRESTONSBURG CITY'S UTILITIES COMMISSION**

<b>Name</b>	<b>DISTRIBUTION SYSTEM</b>		<b>WATER TREATMENT</b>	
	<b>Certification Level</b>	<b>License #</b>	<b>Certification Level</b>	<b>License #</b>
Jimmy W. Campbell	Class III	25086		
Turner E. Campbell	Class III	16401	Class III-A	17575
William M. Campbell	Class III	2021	Class III-A	1855
Donald R. Compton	Class III-D	6173	Class IV-A	5139
Darrell Crider II			Class IV-A	26380
Timothy A. Goble	Class III	17280	Class IV-A	707
Alvin R. Hall			Class III-A	2732
Jeffrey W. Holbrook	Class III	17085		
Woody G. Jarrell			Class III-A	16590
David S. Meade	Class III	17031		
Brian K. Music	Class III-D	390	Class IV-A	15390
Charles L. Rice			Class III-A	27439
Larry J. Slone			Class III-A	15123
Cameron J. Tincher	Class III	28066		

# **EXHIBIT 12**

FOR Southern Floyd & East Knott Counties, KY  
Community, Town or City

P.S.C. KY. NO. 1

2<sup>nd</sup> Revised SHEET NO. 2

Southern Water & Sewer District – Sewer Division  
(Name of Utility)

CANCELLING P.S.C. KY. NO. 1

1<sup>st</sup> Revised SHEET NO. 2

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**RATES & CHARGES**

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**A. MONTHLY SEWER RATES:**

First 2,000 Gallons	\$28.38	Minimum Bill
Over 2,000 Gallons	9.52	Per 1,000 Gallons

**B. DEPOSIT AMOUNT:**

All Customers: \$35.00

**C. SPECIAL NON-RECURRING CHARGES:**

Except for the list below, all non-recurring charges are listed in the Water Division tariff.

Tap Fees:

New Customers on gravity line	\$400.00
New Customers on force main	\$2,610.00

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DATE OF ISSUE July 25, 2013

Month / Date / Year

DATE EFFECTIVE July 12, 2013

Month / Date / Year

ISSUED BY Paula Johnson

(Signature of Officer)

TITLE Chairperson

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. 2012-00309 DATED July 12, 2013

**KENTUCKY  
PUBLIC SERVICE COMMISSION**

**JEFF R. DEROUEN  
EXECUTIVE DIRECTOR**

TARIFF BRANCH

*Brent Kirtley*

EFFECTIVE

**7/12/2013**

PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

# **EXHIBIT 13**

FOR Southern Floyd County, KY  
Community, Town or City

P.S.C. KY. NO. 2

5th Revised SHEET NO. 4

CANCELLING P.S.C. KY. NO. 2

4th Revised SHEET NO. 4

Southern Water & Sewer District  
(Name of Utility)

RATES & CHARGES

A. Monthly Water Rates:

All Meters:

First 2,000 Gallons	\$24.60	Minimum Bill	(I)
Over 2,000 Gallons	8.40	Per 1,000 Gallons	(I)

DATE OF ISSUE July 28, 2015  
Month / Date / Year

DATE EFFECTIVE July 10, 2015  
Month / Date / Year

ISSUED BY *Paula Johnson*  
(Signature of Officer)

TITLE CHAIRMAN

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. 2015-00192 DATED July 10, 2015

**KENTUCKY  
PUBLIC SERVICE COMMISSION**

**JEFF R. DEROUEN  
EXECUTIVE DIRECTOR**

TARIFF BRANCH

*Brent Kirtley*

EFFECTIVE  
**7/10/2015**  
PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

# **EXHIBIT 14**

**PRESTONSBURG'S WATER & SEWER RATES**

**WATER RATES**

	<b>Inside City</b>	<b>Outside City</b>
<b>Meter Service Fee<sup>1</sup></b>	\$9.15	\$9.15
<b>Volumetric Rate (1,000 Gallons)</b>	\$6.391	\$8.173

**Note 1.** The monthly Meter Service Fee varies with the meter size. Larger size meters have higher Meter Service Fees. The amount shown above is for a 5/8 x 3/4-inch meter.

**SEWER RATES**

	<b>Inside City</b>	<b>Outside City</b>
<b>Meter Service Fee</b>	None	None
<b>Volumetric Rate (1,000 Gallons)</b>	\$6.691	\$8.384