

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2008

Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA
Jerry W. Hensley, CPA
J. Carroll Luby, CPA

INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Paris
Paris, Kentucky

Marc T. Ray, CPA-ABV

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2008, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paris, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 29 through 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated January 16, 2009, on our consideration of the City of Paris' internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Paris, Kentucky, basic financial statements. The supplemental schedules on pages 32 through 35 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 16, 2009

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

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City of Paris, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Paris's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read the following in conjunction with the auditors' report on page 9 and the City's financial statements, which begin to appear on page 10.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditors' report, the basic financial statements of the City, and the independent auditor's report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

In the past, the primary focus of local government financial statements has been summarized by fund type information on a current financial resource basis. This approach has been modified; the City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the net assets of the City and the changes in them. One can think of the City's net assets—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities—Most of the City's basic services are reported here, including general government administration, police, dispatch and streets. Property taxes, licenses and permits, and grants finance most of these activities.

Business-type activities—The City collects fees from customers to cover the costs of the services, which includes electric, water, sewer and sanitation services.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

Governmental Fund—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom the governmental funds statement that explains the relationship (or differences) between them.

Proprietary Fund—Services for which the City charges customers a fee are generally reported in proprietary funds.

NET ASSETS

Our analysis begins with a summary of the City's Statement of Net Assets, which is presented on Table A-1 followed by an explanation of the results. Changes in net assets are presented in Table A-2, which is also followed by an explanation of the results.

Table A-1

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Current and Other Assets	\$ 1,375,333	\$ 2,389,566	\$ 3,764,899
Capital Assets	<u>4,512,143</u>	<u>13,565,442</u>	<u>18,077,585</u>
Total Assets	5,887,476	15,955,008	21,842,484
Long-Term Debt Outstanding	260,999	5,044,806	5,305,805
Current Liabilities	<u>582,022</u>	<u>1,750,437</u>	<u>2,332,459</u>
Total Liabilities	843,021	6,795,243	7,638,264
Net Assets			
Invested in Capital Assets			
net of debt	4,120,116	7,790,776	11,910,892
Restricted	51,795	770,816	822,611
Unrestricted	<u>872,544</u>	<u>598,173</u>	<u>1,470,717</u>
Total Net Assets	<u>\$ 5,044,455</u>	<u>\$ 9,159,765</u>	<u>\$ 14,204,220</u>

The capital assets of the City's governmental activities decreased from \$4,558,196 in 2007 to \$4,512,143 in 2008. This decrease was due to depreciation outpacing capital additions for the year. The City elected to record infrastructure assets going forward from July 1, 2003 as allowed by GASB 34. The capital assets of the business-type activities decreased from \$13,602,458 in 2007 to \$13,565,442 in 2008. Net assets from one activity generally cannot be used to make up for any deficits in the other activities.

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Revenues			
<u>Program Revenue</u>			
Charges for Service	\$ -0-	\$ 8,052,924	\$ 8,052,924
<u>General Revenue</u>			
Tax	632,910		632,910
Licenses	4,718,530		4,718,530
Intergovernmental	463,049	364,816	897,689
Fines & Forfeits	687		687
Other Revenue	<u>199,309</u>	<u>32,623</u>	<u>246,230</u>
Total Revenue	<u>6,014,485</u>	<u>8,450,363</u>	<u>14,464,848</u>
<u>Program Expenses</u>			
City Commission	574,718		574,718
General Government	1,648,323		1,648,323
Public safety-Police	1,745,684		1,745,684
Public safety-Fire	1,611,246		1,611,246
Public works-Streets	577,720		577,720
Public properties-building	189,197		189,197
Inspection and engineering	159,837		159,837
Parks and recreation	53,278		53,278
Interest on long-term debt	40,925		40,925
Electric		3,918,357	3,918,357
Water		1,389,584	1,389,584
Sanitation		1,168,561	1,168,561
Sewer		<u>1,838,220</u>	<u>1,838,220</u>
Total Program Expense	<u>6,600,928</u>	<u>8,314,722</u>	<u>14,915,650</u>
Net Change in Net Assets	<u>\$ (586,443)</u>	<u>\$ 135,641</u>	<u>\$ (450,802)</u>

The City's change in Net Assets above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities these numbers include "paper" depreciation expenses that are not cash expenditures of the City. Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the principal portions of debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities. The business-type activities have always been on the full accrual basis.

GOVERNMENTAL ACTIVITIES

Table A-3 details a condensed statement of the fiscal year's governmental activities.

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

Taxes	\$ 632,910
Licenses and permits	4,718,530
Intergovernmental	448,803
Fines & forfeits	687
Other revenues	<u>213,607</u>
Total Revenues	<u>6,014,537</u>
City Commission	574,770
General administration	1,572,400
Public safety-Police	1,638,819
Public safety-Fire	1,553,118
Public works-Streets	521,294
Public properties building	189,197
Inspection and engineering	159,837
Parks and recreation	51,584
Capital outlay	252,983
Debt service	<u>349,497</u>
Total Expenditures	<u>6,863,499</u>
Excess Expenditures over Revenues before other Financing sources	<u>\$ (848,962)</u>

The bottom number of Table A-3 above, should not be confused with the end-of-year "Fund Balance" figure shown in the City's General Fund Budget, because the above does not reflect the General Fund's beginning-of-year balance and any debt proceeds received during the fiscal year.

BUDGET HIGHLIGHTS

Over the course of the fiscal year, the City amended both the General Fund and Utility Fund Budgets. These amendments were made shortly after the beginning of the calendar year to reflect the actual beginning balances shortly after the beginning of said calendar year or due to unusual events that may potentially occur. The budget contains proposed expenditures and expected revenues. A comparison of the final amended budget to actual amounts for governmental activities is presented in the table below (Tables A-4 & 5).

Table A-4

Condensed Governmental Activities- Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 640,500	\$ 632,910	\$ (7,590)
Licenses and permits	4,560,000	4,718,530	158,530
Intergovernmental	492,000	448,803	(43,197)
Fines & Forfeits	-0-	687	687
Other Revenues	<u>566,000</u>	<u>213,607</u>	<u>(352,393)</u>
Total Revenues	<u>\$6,258,500</u>	<u>\$ 6,014,537</u>	<u>\$(243,963)</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
City Commission	\$ 461,700	\$ 574,770	\$ 113,070
General Administration	1,374,500	1,572,400	197,900
Public Safety- Police	1,406,500	1,638,819	232,319
Public Safety- Fire	1,413,000	1,553,118	140,118
Public Works- Streets	682,500	521,294	(161,206)
Public properties buildings	176,500	189,197	12,697
Inspection and engineering	114,500	159,837	45,337
Parks and Recreation	98,500	51,584	(46,916)
Capital Outlay	675,300	252,983	(422,317)
Debt Service	<u>175,500</u>	<u>349,497</u>	<u>173,997</u>
Total Expenditures	<u>\$6,578,500</u>	<u>\$6,863,499</u>	<u>\$ 284,999</u>

The City budgeted for a total of \$6,258,500 in revenues for 2008, but ended up having revenues of more than \$6,014,537. In other words, the City received 3.9 percent less revenue than budgeted. A total of about \$6,578,500 was budgeted for expenses, but expenditures totaled \$6,863,499 at the end of 2008. The City was over budget on the expenses by 4.3 percent.

CAPITAL ASSETS

Table A-1 showed summary totals for a broad range of capital assets, including police and fire equipment and vehicles, buildings, land, roads, bridges, storm sewers, and all of the equipment and materials involved in the operation of an electric, water and sanitary sewer utility. Table A-5 shows the breakdown of non-depreciated capital assets for both governmental and business-type activities.

Table A-6

Capital Assets at Year End Without Depreciation

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 966,979	\$ -	\$ 966,979
Infrastructure	712,742		712,742
Buildings	3,243,700		3,243,700
Vehicles	1,995,342		1,995,342
Equipment	510,895	2,720,831	3,231,726
Electric System		6,942,255	6,942,255
Water System		6,603,769	6,603,769
Sewer System	-	<u>16,617,999</u>	<u>16,617,999</u>
 Total Capital Assets	 <u>\$ 7,429,658</u>	 <u>\$ 32,884,854</u>	 <u>\$ 40,314,512</u>

DEBT

Table A-7 provides a summary of all of the City's outstanding indebtedness.

Table A-7

<u>Debt Outstanding at Year End</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Leases	\$ 82,001	\$ 68,632	\$ 150,633
Notes Payable	310,026	4,246,234	4,556,260
Bond Payable	-	<u>1,459,800</u>	<u>1,459,800</u>
Total Debt Outstanding	<u>\$ 392,027</u>	<u>\$ 5,774,666</u>	<u>\$ 6,166,693</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2009 budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue. They remain sensitive to unfunded mandates from the State and Federal governments, while trying to best meet the needs of the community within the framework of fiscal responsibility.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager at 525 High Street, Paris, Kentucky.

CITY OF PARIS, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			2007 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 97,071	\$ 242,128	\$ 339,199	\$ 1,159,933
Receivables (net)	1,206,944	638,584	1,845,528	2,429,537
Internal balances	21,170	-	21,170	134,011
Total current assets	<u>1,325,185</u>	<u>880,712</u>	<u>2,205,897</u>	<u>3,723,481</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	1,053,336	1,053,336	1,083,665
Restricted investments	-	31,702	31,702	109,359
Capital assets (Note 3)				
Land and improvements	966,979	-	966,979	966,979
Depreciable infrastructure	622,976	-	622,976	553,517
Depreciable buildings, property, and equipment, net	2,922,188	13,565,442	16,487,630	16,640,158
Other assets	50,148	423,816	473,964	398,971
Total noncurrent assets	<u>4,562,291</u>	<u>15,074,296</u>	<u>19,636,587</u>	<u>19,752,649</u>
Total assets	<u>\$ 5,887,476</u>	<u>\$ 15,955,008</u>	<u>\$ 21,842,484</u>	<u>\$ 23,476,130</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 187,295	\$ 646,540	\$ 833,835	\$ 776,196
Construction payable	-	-	-	216,200
Accrued leave payable	263,699	108,236	371,935	337,887
Accrued liabilities	-	33,482	33,482	102,050
Other liabilities	-	211,149	211,149	191,959
Internal balances	-	21,170	21,170	134,011
Deferred revenue	-	-	-	23,951
Current portion of long-term obligations (Notes 4 & 5)	131,028	729,860	860,888	1,413,940
Total current liabilities	<u>582,022</u>	<u>1,750,437</u>	<u>2,332,459</u>	<u>3,196,194</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	260,999	5,044,806	5,305,805	5,624,914
Total liabilities	<u>843,021</u>	<u>6,795,243</u>	<u>7,638,264</u>	<u>8,821,108</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,120,116	7,790,776	11,910,892	11,121,800
Restricted for:				
Debt service	-	770,816	770,816	800,871
Other purposes	51,795	-	51,795	38,404
Unrestricted	872,544	598,173	1,470,717	2,693,947
Total net assets	<u>5,044,455</u>	<u>9,159,765</u>	<u>14,204,220</u>	<u>14,655,022</u>
Total liabilities and net assets	<u>\$ 5,887,476</u>	<u>\$ 15,955,008</u>	<u>\$ 21,842,484</u>	<u>\$ 23,476,130</u>

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

CITY OF PARIS, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2007 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
City commission	\$ 574,718	\$ -	\$ -	\$ -	\$ (574,718)	\$ -	\$ (574,718)	\$ (505,555)
General government	1,648,323	-	80,917	-	(1,567,406)	-	(1,567,406)	(1,265,366)
Public safety-Police	1,745,684	-	110,665	-	(1,635,019)	-	(1,635,019)	(1,403,099)
Public safety-Fire	1,611,246	-	118,882	-	(1,492,364)	-	(1,492,364)	(1,241,931)
Public works-Streets	577,720	-	152,585	-	(425,135)	-	(425,135)	(431,922)
Public properties bldg	189,197	-	-	-	(189,197)	-	(189,197)	(235,652)
Inspection and engineer	159,837	-	-	-	(159,837)	-	(159,837)	(102,096)
Parks & recreation	53,278	-	-	-	(53,278)	-	(53,278)	(75,351)
Interest on long-term debt	40,925	-	-	-	(40,925)	-	(40,925)	(49,050)
Total governmental activities	6,600,928	-	463,049	-	(6,137,879)	-	(6,137,879)	(5,310,022)
Business-type activities								
Electric	3,918,357	4,110,074	-	-	-	191,717	191,717	299,731
Sanitation	1,168,561	895,062	-	-	-	(273,500)	(273,500)	(185,588)
Water	1,389,584	1,333,580	-	364,816	-	308,811	308,811	405,073
Sewer	1,838,220	1,714,210	-	-	-	(124,011)	(124,011)	(120,218)
Total business-type activities	8,314,722	8,052,924	-	364,816	-	103,018	103,018	398,998
Total primary government	\$ 14,915,650	\$ 8,052,924	\$ 463,049	\$ 364,816	(6,137,879)	103,018	(6,034,861)	(4,911,024)
General revenues								
Taxes								
Property taxes, levied for general purposes								
					632,910	-	632,910	583,522
License fees:								
Franchise								
					141,376	-	141,376	128,225
Payroll								
					2,490,867	-	2,490,867	2,487,332
Insurance premiums								
					1,717,164	-	1,717,164	1,709,070
Net profit								
					345,250	-	345,250	366,240
Other licenses and permits								
					23,873	-	23,873	16,394
Fines and forfeits								
					687	-	687	579
Grants and contributions not restricted								
to specific programs								
					3,170	-	3,170	3,976
Investment earnings								
					8,420	32,623	41,043	63,900
Rents								
					168,544	-	168,544	181,381
Miscellaneous								
					19,175	-	19,175	41,224
Total general revenues								
					5,551,436	32,623	5,584,059	5,581,843
Transfers								
					-	-	-	-
Change in Net Assets								
					(586,443)	135,641	(450,802)	670,819
Net assets-beginning								
					5,630,898	9,024,124	14,655,022	13,984,203
NET ASSETS-ENDING								
					\$ 5,044,455	\$ 9,159,765	\$ 14,204,220	\$ 14,655,022

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

CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds	2007 Totals
ASSETS				
Cash and cash equivalents	\$ 45,276	\$ 51,795	\$ 97,071	\$ 535,299
Receivables, net	1,206,944	-	1,206,944	1,523,049
Due from other funds	21,170	-	21,170	134,011
Other assets	50,148	-	50,148	53,554
Total assets	\$ 1,323,538	\$ 51,795	\$ 1,375,333	\$ 2,245,913
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 187,295	\$ -	\$ 187,295	\$ 222,097
Accrued leave payable	263,699	-	263,699	237,193
Refundable deposit	-	-	-	55,274
Total liabilities	450,994	-	450,994	514,564
Fund balances				
Unreserved, reported in				
General fund	872,544	-	872,544	1,692,945
Special revenue funds	-	51,795	51,795	38,404
Debt service funds	-	-	-	-
Total fund balances	872,544	51,795	924,339	1,731,349
Total liabilities and fund balances	\$ 1,323,538	\$ 51,795	\$ 1,375,333	\$ 2,245,913

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

Fund balances per above	\$ 924,339	\$ 1,731,349
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,512,143	4,558,196
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are reported in the funds.	(392,027)	(658,647)
Net assets of governmental activities	\$ 5,044,455	\$ 5,630,898

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

CITY OF PARIS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds	2007 Totals
REVENUES				
Taxes	\$ 632,910	\$ -	\$ 632,910	\$ 583,522
Licenses and permits	4,718,530	-	4,718,530	4,707,261
Fees and fines	687	-	687	579
Intergovernmental	296,218	152,585	448,803	545,896
Other revenues	211,729	1,878	213,607	226,868
Total revenues	<u>5,860,074</u>	<u>154,463</u>	<u>6,014,537</u>	<u>6,064,126</u>
EXPENDITURES				
Current				
City commission	574,770	-	574,770	505,554
General administration	1,572,400	-	1,572,400	1,373,945
Public safety-Police	1,638,819	-	1,638,819	1,396,979
Public safety-Fire	1,553,118	-	1,553,118	1,283,939
Public works	521,294	-	521,294	537,591
Public properties bldg	189,197	-	189,197	235,652
Inspection and engineer	159,837	-	159,837	102,096
Parks & recreator	51,584	-	51,584	75,351
Capital outlay	120,571	132,412	252,983	377,551
Debt service	-	349,497	349,497	334,200
Total expenditures	<u>6,381,590</u>	<u>481,909</u>	<u>6,863,499</u>	<u>6,222,858</u>
Excess (deficiency) of revenues over expenditures	<u>(521,516)</u>	<u>(327,446)</u>	<u>(848,962)</u>	<u>(158,732)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	41,952	-	41,952	160,560
Transfers in (out)	(340,837)	340,837	-	-
Total other financing sources (uses)	<u>(298,885)</u>	<u>340,837</u>	<u>41,952</u>	<u>160,560</u>
Net change in fund balances	<u>(820,401)</u>	<u>13,391</u>	<u>(807,010)</u>	<u>1,828</u>
Fund balances-beginning	<u>1,692,945</u>	<u>38,404</u>	<u>1,731,349</u>	<u>1,729,521</u>
Fund balances-ending	<u>\$ 872,544</u>	<u>\$ 51,795</u>	<u>\$ 924,339</u>	<u>\$ 1,731,349</u>
Reconciliation to government-wide change in net assets				
Net change in fund balances			\$ (807,010)	\$ 1,828
add: capital outlay expenditures			252,983	377,551
add: debt service expenditures			349,497	334,200
less: debt proceeds			(41,952)	(160,560)
less: depreciation on governmental activities assets			(299,036)	(271,439)
less: interest on long term debt			(40,925)	(49,050)
Change in net assets Governmental Activities			<u>\$ (586,443)</u>	<u>\$ 232,530</u>

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

CITY OF PARIS, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2008

	Business-Type Activities Utility Fund	2007 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 242,128	\$ 624,634
Receivables (net)	638,584	906,488
Total current assets	880,712	1,531,122
Noncurrent assets		
Restricted cash and cash equivalents	1,053,336	1,083,665
Restricted investments	31,702	109,359
Other assets	423,816	345,417
Capital assets		
Utility systems	32,884,854	31,846,616
Less accumulated depreciation	(19,319,412)	(18,244,158)
Total non current assets	15,074,296	15,140,899
Total assets	\$ 15,955,008	\$ 16,672,021
LIABILITIES		
Current liabilities		
Accounts payable	\$ 646,540	\$ 554,099
Construction payable	-	216,200
Meter deposits	211,149	191,959
Accrued leave payable	108,236	100,694
Accrued interest payable	33,482	46,776
Other payables	21,170	134,011
Deferred revenues	-	23,951
Current portion of long-term debt	729,860	1,119,838
Total current liabilities	1,750,437	2,387,528
Noncurrent liabilities		
Bonds, notes, and loans payable		
Total noncurrent liabilities	5,044,806	5,260,369
Total liabilities	6,795,243	7,647,897
NET ASSETS		
Invested in capital assets, net of related debt	7,790,776	7,222,251
Restricted for debt service	770,816	800,871
Unrestricted	598,173	1,001,002
Total net assets	9,159,765	9,024,124
Total liabilities and net assets	\$ 15,955,008	\$ 16,672,021

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

CITY OF PARIS, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2008

	Business-type Activities Utility Fund	2007 Totals
Operating revenues		
Charges for services	\$ 8,052,924	\$ 7,637,819
Total operating revenues	8,052,924	7,637,819
Operating expenses		
Utility administration	734,298	561,327
Electric department	3,516,114	3,112,973
Water distribution	975,502	983,122
Sewer treatment	900,953	922,496
Sanitation	929,050	896,334
Depreciation	1,075,254	1,011,010
Total operating expenses	8,131,171	7,487,262
Operating income (loss)	(78,247)	150,557
Nonoperating revenues (expenses)		
KIA Grant	-	217,261
Donated assets	364,816	244,540
Interest and investment revenue	32,623	39,291
Interest expense	(183,551)	(213,360)
Total nonoperating revenue (expenses)	213,888	287,732
Transfers	-	-
Change in net assets	135,641	438,289
Total net assets-beginning	9,024,124	8,585,835
TOTAL NET ASSETS-ENDING	\$ 9,159,765	\$ 9,024,124

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

CITY OF PARIS, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2008

	Business-Type Activities Utility Fund	2007 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 8,320,828	\$ 7,599,815
Payments to suppliers	(4,752,959)	(4,685,214)
Payments for employee services and benefits	(2,287,836)	(1,767,329)
Customer deposits	19,190	16,641
	<u>1,299,223</u>	<u>1,163,913</u>
CASH FLOWS FROM NON- CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment under interfund agreements	-	-
	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	68,633	-
Purchases of capital assets	(889,622)	(564,316)
Principal paid on capital debt	(725,374)	(307,591)
Advances to GF	(112,841)	93,694
Grant proceeds	(23,952)	217,261
Interest paid on capital debt	(139,183)	(172,134)
	<u>(1,822,339)</u>	<u>(733,086)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	32,623	39,291
	<u>32,623</u>	<u>39,291</u>
Net increase (decrease) in cash and cash equivalents	(490,493)	470,118
Balances-beginning of the year	1,817,659	1,347,541
	<u>1,817,659</u>	<u>1,347,541</u>
BALANCES-END OF THE YEAR	\$ 1,327,166	\$ 1,817,659
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (78,247)	\$ 150,557
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,075,254	1,011,010
Change in assets and liabilities:		
Receivables, net	267,904	(38,004)
Inventory	(78,499)	-
Other assets	(6,361)	(722)
Customer deposits	19,190	16,641
Accounts and other payables	92,440	13,771
Accrued expenses	7,542	10,660
	<u>7,542</u>	<u>10,660</u>
Net cash provided by operating activities	\$ 1,299,223	\$ 1,163,913

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paris, Kentucky operates under the City Manager form of government and provides the following services as authorized by its charter: public safety, public works, recreation and community development. The accounting policies of the City of Paris conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The financial statements of the City of Paris, Kentucky include the funds, account groups and entities over which the Mayor and Commission exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. The only entity included in the financial statements is the Paris, Kentucky Public Properties Corporation.

The following entities have been excluded from the financial statements because they do not meet the criteria described above:

1. Paris-Bourbon County Community Development Agency
2. Paris-Bourbon County Emergency Medical Services
3. Paris Independent Schools
4. Paris-Bourbon County E-911
5. Paris-Bourbon County Tourism Commission

B. Basis of Presentation

The City's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No 34, "**Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments**" and consist of the following:

- Management's discussion and analysis (required supplementary information)
- Basic Financial Statements
 - Government-wide financial statements
 - Fund financial statements
- Notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements include a statement of net assets and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

B. Basis of Presentation (continued)

Fund Financial Statements

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

Governmental Funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary Fund Types are used to account for operations that are financed and operated in a manner similar to business enterprises - where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.

The following funds are used by the City of Paris:

Governmental Funds

General Fund - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund. Most of the essential governmental services such as police and fire protection, community services and general administration are reported in this fund.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted by law to be expended for specific purposes. The following Special Revenue Funds are maintained by the City:

Industrial Development Fund - A special revenue fund used to account for industrial development activities. Such activities include loans for economic development to Central Manufacturing and a revolving loan fund to channel contributions from Kentucky Bank.

Municipal Road Aid Fund - A special revenue fund used to account for state municipal road aid.

GO Bond and Debt Service Funds - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Proprietary Funds

Proprietary Funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

Enterprise Funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The City's enterprise operations include the following

Combined Utilities Fund – The Combined Utilities Fund accounts for the electric, water, sewer, and garbage disposal and incinerator services provided to residents of the City and surrounding areas, the operations of which are financed by user charges.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available in all funds.

D. Budgeting

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

Budgeted amounts in the financial statements are as adopted by ordinance of the City.

E. Other Accounting Policies

Accounts receivable from customers are stated less an allowance for doubtful accounts of \$30,000 in the proprietary fund.

Investments are reported at fair value. Investments of the city consist of certificates of deposits and U.S. government obligations. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Cash and cash equivalents - The City of Paris considers all cash, both restricted and unrestricted, as cash for purposes of the Statement of Cash Flows.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Other Accounting Policies (continued)

Inventories are valued at the lower of cost (first-in, first-out) or market. The cost is recorded as an expenditure at the time individual inventory items are purchased. Inventory of the Combined Utility Fund consists of materials, supplies and fuel.

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

Bond discounts and issue costs are being amortized over the life of the bonds using the straight-line method

Deferred revenues represent grant revenues received but unearned. Revenues are recognized when eligible expenditures are incurred

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Paris.

The preparation of financial statements in conformity with generally accepted accounting principles 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Under Kentucky Revised Statute 66.480 the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

The City of Paris' deposits and investments at June 30, 2008 were fully covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The book balance of the City's deposits was \$1,424,237 and the bank balances were \$1,404,456.

The governmental and proprietary funds only invest in certificates of deposit, which are included in the cash and cash equivalent category.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

3. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Government Type Activities				
Capital assets not depreciated:				
Land and Improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Capital assets that are depreciated:				
Building and Improvements	3,243,700	-	-	3,243,700
Vehicles	1,845,305	150,037	-	1,995,342
Equipment	505,166	5,729	-	510,895
Totals	<u>5,594,171</u>	<u>155,766</u>	<u>-</u>	<u>5,749,937</u>
Total Non-Infrastructure Assets	<u>6,561,150</u>	<u>155,766</u>	<u>-</u>	<u>6,716,916</u>
Recording infrastructure Assets:				
Infrastructure Assets	615,525	97,217	-	712,742
Total Capital Assets	<u>7,176,675</u>	<u>252,983</u>	<u>-</u>	<u>7,429,658</u>
Less Accumulated Depreciation:				
Building and Improvements	1,325,853	82,498	-	1,408,351
Vehicles	1,026,898	133,556	-	1,160,454
Equipment	203,720	55,224	-	258,944
Infrastructure Assets	62,008	27,758	-	89,766
Totals	<u>2,618,479</u>	<u>299,036</u>	<u>-</u>	<u>2,917,515</u>
Depreciable capital assets, net	<u>\$ 4,558,196</u>	<u>\$ (46,053)</u>	<u>\$ -</u>	<u>\$ 4,512,143</u>
Business-Type Activities				
Equipment & Vehicles	\$ 2,537,751	\$ 183,079	\$ -	\$ 2,720,831
Electric Lines, Poles, and Plant	6,679,646	262,609	-	6,942,255
Water Treatment Plant, Land and Water System Improvements	6,297,807	305,962	-	6,603,769
Sewer Treatment Plant, Land and Improvements	16,331,411	286,588	-	16,617,999
Total	<u>31,846,615</u>	<u>1,038,238</u>	<u>-</u>	<u>32,884,854</u>
Less Accumulated Depreciation	<u>18,244,157</u>	<u>1,075,254</u>	<u>-</u>	<u>19,319,412</u>
Capital Assets Net	<u>\$ 13,602,458</u>	<u>\$ (37,016)</u>	<u>\$ -</u>	<u>\$ 13,565,442</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 75,923
Police	106,865
Fire	58,128
Public works	56,426
Total Depreciation Expense	<u>\$ 299,036</u>

Capital assets acquired are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

Infrastructure	30-50 years
Buildings	20-50 years
Improvements	10-40 years
Vehicles, furniture and equipment	3-20 years

**CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT

Kentucky Infrastructure Loan

The City of Paris entered into a long-term financing assistance agreement with the Kentucky Infrastructure Authority in December 1999 to provide financing for utility system improvements. The note totaled \$6,345,954. The note accrues interest at 1.8% and is amortized over twenty years. The annual debt service is approximately \$390,000. The following summarizes the changes in the note payable during the fiscal year:

Note balance at July 1, 2007	\$ 4,546,608
Note principal payments	<u>(300,374)</u>
Note balance at June 30, 2008	<u>\$4,246,234</u>

Following is a summary of principal and interest requirements for the utility fund obligation:

	Principal	Interest	Service Fee	Total
2009	305,804	75,062	8,340	389,206
2010	311,334	72,310	7,725	391,369
2011	316,962	66,731	7,100	390,793
2012	322,694	61,051	6,464	390,209
2013	328,528	55,269	5,815	389,612
Thereafter	<u>2,660,912</u>	<u>219,324</u>	<u>21,731</u>	<u>2,901,967</u>
Total	<u>\$ 4,246,234</u>	<u>\$ 549,747</u>	<u>\$ 57,175</u>	<u>\$ 4,853,156</u>

Lease Payable

The City of Paris entered into a long-term financing agreement with CNH Capital for a backhoe during fiscal year ended June 30, 2008. The cost of the backhoe was \$68,633 with 58 payments of \$1,290 beginning in August of 2008. The lease matures on May 1, 2013 and carries an interest rate of approximately 3.5%.

Following is a summary of principal and interest requirements for the utility fund obligation:

	Principal	Interest	Total
2009	\$ 12,056	\$ 3,427	\$ 15,483
2010	13,715	1,769	15,484
2011	14,204	1,280	15,484
2012	14,711	773	15,484
2031	<u>13,946</u>	<u>246</u>	<u>14,192</u>
Total	<u>\$ 68,632</u>	<u>\$ 6,205</u>	<u>\$ 74,837</u>

**CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT (Continued)

PROPRIETARY FUND CHANGES IN BONDS PAYABLE

	Issued	Rate	Balance Outstanding 6/30/07	Issued (Retired) During Year	Balance Outstanding 6/30/08
2003A Series	\$1,480,000	2.00-2.10%	\$ 825,000	\$ 425,000	\$ 400,000
2005 Series	\$1,111,000	4.125%	\$ 1,111,000	-	<u>1,111,000</u>
					1,511,000
Less: Deferred amount on refunding					<u>(51,200)</u>
					<u>\$ 1,459,800</u>

The City of Paris entered into a long term financing assistance agreement with the Rural Development Authority in 2006 to provide financing for utility system improvements. The note totaled \$1,111,000. The note accrues interest at 4.125% and is amortized over forty years.

Following is a summary of principal and interest requirements for the 2005 Series obligation:

	Principal	Interest	Total
2009	\$ 12,000	\$ 45,581	\$ 57,581
2010	13,000	45,066	58,066
2011	13,000	44,530	57,530
2012	14,000	43,395	57,395
2013	14,000	43,973	57,973
Thereafter	<u>1,045,000</u>	<u>868,293</u>	<u>1,913,293</u>
Total	<u>\$ 1,111,000</u>	<u>\$ 1,090,838</u>	<u>\$ 2,201,838</u>

Following is a summary of principal and interest requirements for the 2003A Series:

Year ending June 30	Bond Principal	Bond Interest	Total	Deferred Amount on Refunding
2009	\$ 400,000	\$ 4,200	\$ 404,200	\$51,201

The total business-type long-term debt is summarized as follows:

Current portion	\$ 729,860
Long-term portion	<u>5,044,806</u>
Total	<u>\$ 5,774,666</u>

**CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT

A summary of changes in governmental long-term debt follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Lease One Corp.	\$ 107,974	\$ -	\$ 53,195	\$ 54,779
Lease One Corp.	-	41,952	14,730	27,222
Traditional Bank Loan	80,490	-	45,018	35,472
Farmers Bank Loan	300,183	-	25,629	274,554
General Obligation Refunding Bonds Series, 2003 B	<u>170,000</u>	<u>-</u>	<u>170,000</u>	<u>-</u>
	<u>\$ 658,647</u>	<u>\$ 41,952</u>	<u>\$ 308,572</u>	<u>\$ 392,027</u>

LEASE OBLIGATIONS

In 2007, the City acquired 8 police cruisers through a capital lease with Lease One Corp. The lease agreement provided for 3 annual payments in the amount of \$56,810 beginning in fiscal year 2007 through 2009.

The future debt service requirements are as follows:

	Principal	Interest	Total
2009	\$ 54,779	\$ 2,031	\$ 56,810

In fiscal year 2008, the City acquired 3 vehicles through another capital lease with Lease One Corp. The lease agreement provides for 3 annual payments in the amount of \$14,848 beginning in fiscal year 2008 through 2010.

The future debt service requirements are as follows:

	Principal	Interest	Total
2009	\$ 13,214	\$ 1,633	\$ 14,847
2010	<u>14,008</u>	<u>840</u>	<u>14,848</u>
	<u>\$ 27,222</u>	<u>\$ 2,473</u>	<u>\$ 29,695</u>

TRADITIONAL BANK LOAN

The City obtained a loan in the amount of \$134,260 for capital improvements in 2007. The loan matures on March 20, 2009 and carries an interest rate of 5%. \$45,018 was paid in principal during 2008.

The future debt service requirements are as follows:

	Principal	Interest	Total
2009	\$ 35,472	\$ 743	\$ 36,215

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT (Continued)

FARMERS BANK LOAN

The City obtained a loan in the amount of \$330,106 for capital improvements in 2007. The loan matures on March 15, 2016 and carries an interest rate of 7%. \$25,629 was paid in principal during 2008.

The future debt service requirements are as follows:

	Principal	Interest	Total
2009	\$ 27,563	\$ 18,602	\$ 46,165
2010	29,585	16,582	46,167
2011	31,754	14,413	46,167
2012	34,050	12,117	46,167
2013	36,579	9,588	46,167
Thereafter	<u>115,023</u>	<u>8,797</u>	<u>123,820</u>
	<u>\$ 274,554</u>	<u>\$ 80,099</u>	<u>\$ 354,653</u>

GENERAL OBLIGATIONS BONDS

The City of Paris issued \$680,000 of General Obligation Bonds, Series 2003B to refinance the City's debt in the public properties corporation issued for the purchase and refurbishing of administrative offices with First Mortgage Revenue Bonds Series 1993. The 2003 G.O. Bonds are dated March 1, 2004 and matured March 1, 2008 with a \$170,000 principal payment. The bond bore an interest rate from 2%-2.75%.

The total government activities long-term debt is summarized as follows:

Current portion Lease One Corp 1	\$ 54,779
Current portion of Farmers note	27,563
Current portion of Lease One Corp 2	13,214
Current portion of Traditional note	<u>35,472</u>
	131,028
Long-term portion	<u>260,999</u>
Total	<u>\$ 392,027</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

6. PARIS, KENTUCKY PUBLIC PROPERTIES CORPORATION

The Paris, Kentucky Public Properties Corporation was established as a nonprofit corporation pursuant to a resolution of the Board of Commissioners of the City to act as an agency and instrumentality of the City. The purpose of the corporation was to finance the cost of constructing and equipping a new fire station and to purchase a new fire truck, both of which were leased to the General Fund of the City. The Corporation financed the costs related to the project by issuance of \$435,000 first mortgage revenue bonds dated June 1, 1978. The City has agreed to lease the facilities from the Corporation with minimum rentals equal to the debt service on the mortgage revenue bonds. The General Fund has the option each year to renew the lease until 2008, at which time it assumes ownership of the property.

In 1993 the Corporation financed the costs of purchasing and refurbishing a facility for the administrative offices of the City issuing \$2,290,000 first mortgage revenue bonds dated March 1, 1993. The City has agreed to lease this facility from the Corporation with minimum rentals equal to the debt service requirements of the bond issue. The general fund has the option each year to renew the lease until 2008 at which time it assumes ownership of the property.

7. INDUSTRIAL REVENUE BONDS

The City is the issuer of certain industrial revenue bonds issued in order to promote the local construction of production facilities. The facilities, which are constructed from the bond proceeds, are leased to the industrial companies for an amount required to annually service the debt. The lessee assumes ownership of the facilities at the completion of all lease payments required to fully service the debt. The lease payments are remitted directly to the trustee (bank) with whom the facilities are mortgaged. These bonds constitute a limited obligation of the City payable solely from the revenues and receipts derived from the lease agreement. Accordingly, the assets and liabilities relating to these bonds are not recorded on the books of the City.

8. RETIREMENT PLAN

The City of Paris 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 separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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.

Contributions – For the year ended June 30, 2008, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), 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 contributions rates are necessary to satisfy

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

8. RETIREMENT PLAN (Continued)

requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2008, participating employers contributed 16.17% 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.

The required contribution (employee and employer) and the actual percentage contributed for the City for the current and previous two years are as follows:

Year	Required Contribution	Percentage Contributed
2008	\$ 1,237,698	100%
2007	\$ 935,439	100%
2006	\$ 786,839	100%

9. PROPERTY TAX CALENDER

Property taxes for fiscal year 2008 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2007 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Per K.R.S. 134.020
1. Due date for payment of taxes	Upon receipt
2. Face value amount payment date	December 31
3. Delinquent date, 10% penalty, 12% interest	January 1

Vehicle taxes are collected by the County Clerk of Bourbon County and are due and collected in the birth month of the vehicle's licensee.

10. RISK MANAGEMENT

The City of Paris is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

11. RECLASSIFICATION

Some amounts have been reclassified from the prior year to better conform to the current year presentation. These reclassifications have no affect on net assets.

SUPPLEMENTAL INFORMATION

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2008**

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
Taxes				
Property taxes	\$ 575,000	\$ 575,000	\$ 571,103	\$ (3,897)
Delinquent taxes	7,500	7,500	5,950	(1,550)
Payment in lieu of taxes	50,000	50,000	50,000	-
Penalties and interest	8,000	8,000	5,857	(2,143)
	<u>640,500</u>	<u>640,500</u>	<u>632,910</u>	<u>(7,590)</u>
Licenses and permits				
Occupational license	2,475,000	2,475,000	2,490,867	15,867
Insurance license	1,625,000	1,625,000	1,717,163	92,163
Net profits license fee	300,000	300,000	345,250	45,250
Franchise fees	130,000	130,000	141,376	11,376
Building inspection fees	15,000	15,000	6,400	(8,600)
Alcohol beverage fees	15,000	15,000	17,473	2,473
	<u>4,560,000</u>	<u>4,560,000</u>	<u>4,718,530</u>	<u>158,529</u>
Fines and forfeits				
Parking fines	-	-	687	687
	<u>-</u>	<u>-</u>	<u>687</u>	<u>687</u>
Intergovernmental revenues				
Police incentive pay	85,000	85,000	108,332	23,332
Fire incentive pay	110,000	110,000	106,571	(3,429)
Homeland security	-	-	-	-
Highway safety and other grants	-	-	398	398
FEMA Revenue	-	-	(24,444)	(24,444)
CDBG	-	-	-	-
Fiscal court	72,000	72,000	-	(72,000)
E911	-	-	48,339	48,339
CDBG - Meteer Hall	-	-	2,250	2,250
Transfer from Municipal Aid	200,000	200,000	-	(200,000)
District court	25,000	25,000	54,772	29,772
	<u>492,000</u>	<u>492,000</u>	<u>296,218</u>	<u>(195,782)</u>
Other revenues				
Rent	100,000	100,000	168,544	68,544
Interest income	15,000	15,000	6,542	(8,458)
Emergency Cont	-	55,000	-	(55,000)
Other	175,000	175,000	36,643	(138,357)
	<u>290,000</u>	<u>345,000</u>	<u>211,729</u>	<u>(133,271)</u>
Restricted Revenues				
Fire Grant	96,000	96,000	-	(96,000)
Reserve for debt	125,000	125,000	-	(125,000)
	<u>221,000</u>	<u>221,000</u>	<u>-</u>	<u>(221,000)</u>
Note proceeds				
Note Traditional Bank, Inc	-	-	41,952	41,952
Total	<u>\$ 6,203,500</u>	<u>\$ 6,258,500</u>	<u>\$ 5,902,026</u>	<u>\$ (356,475)</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
for the year ended June 30, 2008

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
CITY COMMISSION				
Personnel services	\$ 87,200	\$ 87,200	\$ 85,371	\$ (1,829)
Contractual services	39,000	39,000	34,299	(4,701)
Material and supplies	2,000	2,000	4,196	2,196
Other expenses	<u>333,500</u>	<u>333,500</u>	<u>450,904</u>	<u>117,404</u>
	<u>461,700</u>	<u>461,700</u>	<u>574,770</u>	<u>113,070</u>
GENERAL ADMINISTRATION				
Personnel services	1,201,000	1,201,000	1,324,877	123,877
Contractual services	153,500	153,500	156,743	3,243
Materials and supplies	12,000	12,000	87,798	75,798
Other expenses	<u>8,000</u>	<u>8,000</u>	<u>2,982</u>	<u>(5,018)</u>
	<u>1,374,500</u>	<u>1,374,500</u>	<u>1,572,400</u>	<u>197,900</u>
POLICE DEPARTMENT				
Personnel services	1,088,000	1,088,000	1,187,994	99,994
Contractual services	195,000	195,000	223,878	28,878
Materials and supplies	122,500	122,500	224,986	102,486
Other expenses	<u>1,000</u>	<u>1,000</u>	<u>1,961</u>	<u>961</u>
	<u>1,406,500</u>	<u>1,406,500</u>	<u>1,638,819</u>	<u>232,319</u>
FIRE DEPARTMENT				
Personnel services	1,115,000	1,115,000	1,191,637	76,637
Contractual services	176,000	176,000	191,739	15,739
Materials and supplies	82,000	82,000	129,602	47,602
Other expenses	<u>40,000</u>	<u>40,000</u>	<u>40,140</u>	<u>140</u>
	<u>1,413,000</u>	<u>1,413,000</u>	<u>1,553,118</u>	<u>140,118</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2008

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
STREET DEPARTMENT				
Personnel services	\$ 288,000	\$ 288,000	\$ 272,202	\$ (15,798)
Contractual services	314,500	314,500	177,067	(137,433)
Materials and supplies	<u>80,000</u>	<u>80,000</u>	<u>72,025</u>	<u>32,859</u>
	<u>682,500</u>	<u>682,500</u>	<u>521,294</u>	<u>(120,372)</u>
PUBLIC PROPERTIES BUILDING				
Personnel services	38,500	38,500	37,851	(649)
Contractual services	125,500	125,500	136,221	10,721
Material and supplies	<u>12,500</u>	<u>12,500</u>	<u>15,125</u>	<u>2,625</u>
	<u>176,500</u>	<u>176,500</u>	<u>189,197</u>	<u>12,697</u>
INSPECTION AND ENGINEERING				
Personnel services	102,000	102,000	102,164	164
Contractual services	11,500	11,500	3,567	(7,933)
Materials and supplies	<u>1,000</u>	<u>1,000</u>	<u>54,106</u>	<u>53,106</u>
	<u>114,500</u>	<u>114,500</u>	<u>159,837</u>	<u>45,337</u>
PARKS & RECREATION				
Contractual services	94,500	94,500	30,260	(64,240)
Materials and supplies	<u>4,000</u>	<u>4,000</u>	<u>21,324</u>	<u>17,324</u>
	<u>98,500</u>	<u>98,500</u>	<u>51,584</u>	<u>(46,916)</u>
CAPITAL OUTLAY	<u>620,300</u>	<u>675,300</u>	<u>120,571</u>	<u>(554,729)</u>
EXPENSES BEFORE TRANSFERS	6,348,000	6,403,000	6,381,590	19,424
DEBT SERVICES TRANSFERS	<u>175,500</u>	<u>175,500</u>	<u>340,837</u>	<u>165,337</u>
Total	<u>\$ 6,523,500</u>	<u>\$ 6,578,500</u>	<u>\$ 6,722,427</u>	<u>\$ 184,761</u>

CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 ALL NONMAJOR FUNDS
 June 30, 2008

	Municipal Road Aid Fund	Industrial Development Fund	Debt Service	Total
ASSETS				
Cash	\$ 38,406	\$ 13,389	\$ -	\$ 51,795
Bond discount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 38,406</u>	<u>\$ 13,389</u>	<u>\$ -</u>	<u>\$ 51,795</u>
 LIABILITIES & FUND EQUITY				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Fund equity				
Fund balance	<u>38,406</u>	<u>13,389</u>	<u>-</u>	<u>51,795</u>
Total fund equity	<u>\$ 38,406</u>	<u>\$ 13,389</u>	<u>\$ -</u>	<u>\$ 51,795</u>

CITY OF PARIS, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL NONMAJOR FUNDS
 for the year ended June 30, 2008

	Municipal Road Aid Fund	Industrial Development Fund	Debt Service	Total
REVENUES				
Intergovernmental revenue	\$ 152,585	\$ -	\$ -	\$ 152,585
Other revenues	<u>1,601</u>	<u>277</u>	<u>-</u>	<u>1,878</u>
 Total revenues	 <u>154,186</u>	 <u>277</u>	 <u>-</u>	 <u>154,463</u>
EXPENDITURES				
Street department	-	-	-	-
Capital outlay	132,412	-	-	132,412
Debt service	<u>-</u>	<u>-</u>	<u>349,497</u>	<u>349,497</u>
 Total expenditures	 <u>132,412</u>	 <u>-</u>	 <u>349,497</u>	 <u>481,909</u>
Excess revenues over (under) expenditures before other financing sources (uses)	21,774	277	(349,497)	(327,446)
Other financing sources (uses)				
Operating transfer, net	-	-	340,837	340,837
Fund balances - July 1, 2007	<u>16,632</u>	<u>13,112</u>	<u>8,660</u>	<u>38,404</u>
 FUND BALANCES - JUNE 30, 2008	 <u>\$ 38,406</u>	 <u>\$ 13,389</u>	 <u>\$ -</u>	 <u>\$ 51,795</u>

**CITY OF PARIS UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
COMBINED UTILITY FUND
for the year ended June 30, 2008**

UTILITY ADMINISTRATION

Personnel services	\$ 544,321
Contractual services	159,140
Materials and supplies	10,548
Other expenses	<u>20,289</u>

734,298

ELECTRIC

Personnel services	340,931
Electric purchases	2,620,986
Contractual services	115,684
Materials and supplies	<u>438,513</u>

3,516,114

WATER SYSTEM

Personnel services	585,619
Contractual services	153,896
Materials and supplies	234,885
Other expenses	<u>1,102</u>

975,502

SEWER SYSTEM

Personnel services	472,853
Contractual services	302,183
Materials and supplies	<u>125,917</u>

900,953

TRASH PICK-UP

Personnel services	351,654
Contractual services	488,802
Materials and supplies	<u>88,594</u>

929,050

DEPRECIATION

1,075,254

Total Operating Expenses	<u>\$ 8,131,171</u>
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CITY OF PARIS, KENTUCKY
 COMBINED UTILITY FUND
 SCHEDULE OF REVENUE BOND REQUIREMENTS
 June 30, 2008

<u>FISCAL YEAR ENDING JUNE 30</u>	<u>2005 ISSUE</u>		<u>TOTAL DEBT SERVICE</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2009	\$ 12,000	\$ 45,581	\$ 57,581
2010	13,000	45,066	58,066
2011	13,000	44,530	57,530
2012	14,000	43,395	57,395
2013			
Thereafter	<u>1,059,000</u>	<u>912,266</u>	<u>1,971,266</u>
TOTAL	<u>\$ 1,111,000</u>	<u>\$ 1,090,838</u>	<u>\$ 2,201,838</u>

**CITY OF PARIS
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENT AUDIT
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Commission
City of Paris, Kentucky

We have audited the financial statements of the City of Paris as of and for the year ended June 30, 2008 and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe the following deficiency is a significant deficiency.

While management is certainly knowledgeable in regard to the numbers reported in the financial statements, identifying and applying new authoritative guidance in regard to elements reported in the notes to those statements is outside the scope of management.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

This report is intended for the information of the Board, management and appropriate regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 16, 2009