

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2012

CONTENTS

Management's Discussion and Analysis.....	1-8
Independent Auditors' Report.....	9-10
Government Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet-Governmental Funds.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds.....	14
Balance Sheet - Proprietary Funds.....	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	16
Statement of Cash Flows – Proprietary Funds	17
Notes to Financial Statements	18-30
Required Supplementary Information	
Budget Information.....	31-33
Combining Balance Sheet – Nonmajor Governmental Funds	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	35
Schedule of Operating Expenses – Combined Utility Fund	36
Schedule of Revenue Bond Requirements – Utility Fund	37
Report in Accordance with Government Auditing Standards	38-40

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, 2012. 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.

The focus of local government financial statements 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 **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 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	\$ 1,841,890	\$ 2,175,044	\$ 4,016,934
Capital Assets	<u>5,400,056</u>	<u>10,667,395</u>	<u>16,067,451</u>
Total Assets	7,241,946	12,842,439	20,084,385
Long-Term Debt Outstanding	615,546	3,840,765	4,456,311
Current Liabilities	<u>791,865</u>	<u>1,545,546</u>	<u>2,337,411</u>
Total Liabilities	1,407,411	5,386,311	6,793,722
Net Assets			
Invested in Capital Assets net of debt	4,539,921	6,436,641	10,976,562
Restricted	314,837	509,248	824,085
Unrestricted	<u>979,777</u>	<u>510,239</u>	<u>1,490,016</u>
Total Net Assets	<u>\$ 5,834,535</u>	<u>\$ 7,456,128</u>	<u>\$ 13,290,663</u>

The capital assets of the City's **governmental activities** decreased from \$5,620,491 in 2011 to \$5,400,056 in 2012. 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 \$11,071,786 in 2011 to \$10,667,395 in 2012. This **decrease was due to depreciation** outpacing capital additions for the year.

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	\$ -	\$ 8,504,856	\$ 8,504,856
<u>General Revenue</u>			
Tax	671,359		671,359
Licenses	4,485,335		4,485,335
Intergovernmental	466,016	220,000	686,016
Fines & Forfeits	360		360
Other Revenue	<u>538,282</u>	<u>137,479</u>	<u>675,761</u>
Total Revenue	<u>6,161,352</u>	<u>8,862,335</u>	<u>15,023,687</u>
<u>Program Expenses</u>			
City Commission	319,421		319,421
General Government	1,333,434		1,333,434
Public safety-Police	1,993,357		1,993,357
Public safety-Fire	1,692,255		1,692,255
Public works-Streets	528,909		528,909
Inspection, engineering, parks	292,049		292,049
Interest on long-term debt	29,133		29,133
Electric		4,573,376	4,573,376
Water		1,593,812	1,593,812
Sanitation		1,029,907	1,029,907
Sewer		<u>1,979,504</u>	<u>1,979,504</u>
Total Program Expense	<u>6,188,558</u>	<u>9,176,599</u>	<u>15,365,157</u>
Transfers	-	-	-
Net Change in Net Assets	<u>\$ (27,206)</u>	<u>\$ (314,264)</u>	<u>\$ (341,470)</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	\$ 671,359
Licenses and permits	4,485,335
Intergovernmental	466,016
Fines & forfeits	360
Other revenues	<u>538,282</u>
Total Revenues	6,161,352
City Commission	319,421
General administration	1,185,866
Public safety-Police	1,924,814
Public safety-Fire	1,551,820
Public works-Streets	470,346
Inspection, engineering, & parks	285,837
Capital outlay	200,885
Debt service	<u>268,261</u>
Total Expenditures	<u>6,207,250</u>
Excess Expenditures over Revenues before other Financing sources	<u>\$ (45,898)</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	\$ 764,000	\$ 671,359	\$ (92,641)
Licenses and permits	4,745,000	4,985,335	(259,665)
Intergovernmental	568,584	257,024	(311,560)
Fines & Forfeit	1,500	360	(1,140)
Other Revenues	<u>512,000</u>	<u>533,457</u>	<u>21,457</u>
Total Revenues	<u>\$6,591,084</u>	<u>\$ 5,947,535</u>	<u>\$(643,549)</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government & Capital			
Budgeting	\$1,873,342	\$1,992,009	\$ 118,667
Public Safety- Police	1,738,156	1,924,814	186,658
Public Safety- Fire	1,630,803	1,551,820	(78,983)
Public Works- Streets	526,499	470,346	(56,153)
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$5,768,800</u>	<u>\$5,938,989</u>	<u>\$ 170,189</u>

The City budgeted for a total of \$6,591,084 in revenues for 2012, but ended up having revenues of \$5,947,535. In other words, the City received 9.8 percent less revenue than budgeted.

A total of \$5,768,800 was budgeted for expenses, but expenditures totaled \$5,938,989 at the end of 2012. The City was **over budget** on the expenses by 3.0 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	1,924,571	-	1,924,571
Buildings	3,330,870	-	3,330,870
Vehicles	2,816,201	-	2,816,201
Equipment	761,108	2,834,185	3,595,293
Electric System	-	8,014,420	8,014,420
Water System	-	6,745,674	6,745,674
Sewer System	-	16,793,840	16,793,840
Total Capital Assets	<u>\$ 9,799,729</u>	<u>\$ 34,388,119</u>	<u>\$ 44,187,848</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	\$ 171,802	\$ 182,315	\$ 354,117
Notes Payable	-	2,989,439	2,989,439
Bond Payable	<u>688,333</u>	<u>1,059,000</u>	<u>1,747,333</u>
Total Debt Outstanding	<u>\$ 860,135</u>	<u>\$ 4,230,754</u>	<u>\$ 5,090,889</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2012 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.

rfh Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA
Mark R. Wadlington, CPA, CGMA
Gwendolyn B. Young, CPA, CVA

Mayor and Commissioners
City of Paris
Paris, Kentucky

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, 2012, and for the year then ended, which collectively comprise the City of Paris, Kentucky'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 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 and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2012, 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.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 22, 2013, on our consideration of the City of Paris, Kentucky's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 31 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paris, Kentucky's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

March 22, 2013

CITY OF PARIS, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government			2011 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 618,178	\$ 174,443	\$ 792,621	\$ 1,221,014
Receivables (net)	1,160,263	784,964	1,945,227	2,223,245
Internal balances	41,593	-	41,593	217,791
Total current assets	1,820,034	959,407	2,779,441	3,662,050
Noncurrent assets				
Restricted cash and cash equivalents	-	687,425	687,425	723,571
Capital assets (Note 3)				
Land and improvements	966,979	-	966,979	966,979
Depreciable infrastructure, net	1,619,507	-	1,619,507	1,562,045
Depreciable buildings, property and equipment, net	2,813,570	10,667,395	13,480,965	14,163,253
Other assets	21,856	528,212	550,068	559,807
Total noncurrent assets	5,421,912	11,883,032	17,304,944	17,975,655
Total assets	\$ 7,241,946	\$ 12,842,439	\$ 20,084,385	\$ 21,637,705
LIABILITIES				
Current liabilities				
Accounts payable	\$ 157,286	\$ 683,664	\$ 840,950	\$ 999,356
Accrued leave payable	339,990	156,737	496,727	754,389
Accrued liabilities	-	21,985	21,985	27,359
Other liabilities	-	251,578	251,578	240,853
Internal balances	-	41,593	41,593	217,791
Deferred revenue	50,000	-	50,000	50,000
Current portion of long-term obligations (Notes 4 & 5)	244,589	389,989	634,578	624,936
Total current liabilities	791,865	1,545,546	2,337,411	2,914,684
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	615,546	3,840,765	4,456,311	5,090,888
Total liabilities	1,407,411	5,386,311	6,793,722	8,005,572
NET ASSETS				
Invested in capital assets, net of related debt	4,539,921	6,436,641	10,976,562	10,976,453
Restricted for:				
Debt service	-	509,248	509,248	506,261
Other purposes	314,837	-	314,837	238,985
Unrestricted	979,777	510,239	1,490,016	1,910,434
Total net assets	5,834,535	7,456,128	13,290,663	13,632,133
Total liabilities and net assets	\$ 7,241,946	\$ 12,842,439	\$ 20,084,385	\$ 21,637,705

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

**CITY OF PARIS, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2011 Totals	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		Total
Primary government								
Governmental activities								
City commission	\$ 319,421	\$ -	\$ -	\$ -	\$ (319,421)	\$ -	\$ (319,421)	\$ (367,384)
General government	1,333,434	-	21,284	13,496	(1,298,654)	-	(1,298,654)	(1,255,542)
Public safety-Police	1,993,357	-	121,604	8,525	(1,863,228)	-	(1,863,228)	(1,697,735)
Public safety-Fire	1,692,255	-	92,115	-	(1,600,140)	-	(1,600,140)	(1,954,980)
Public works-Streets	528,909	-	208,992	-	(319,917)	-	(319,917)	(390,867)
Inspection, engineering, parks & rec	292,049	-	-	-	(292,049)	-	(292,049)	(300,147)
Interest on long-term debt	29,133	-	-	-	(29,133)	-	(29,133)	(17,143)
Total governmental activities	<u>6,188,558</u>	-	<u>443,995</u>	<u>22,021</u>	<u>(5,722,542)</u>	-	<u>(5,722,542)</u>	<u>(5,983,798)</u>
Business-type activities								
Electric	4,573,377	4,683,193	-	-	-	109,816	109,816	(312,701)
Sanitation	1,029,907	898,619	-	-	-	(131,288)	(131,288)	65,273
Water	1,593,813	1,234,120	-	220,000	-	(139,693)	(139,693)	(1,723)
Sewer	1,979,504	1,688,925	-	-	-	(290,579)	(290,579)	(20,717)
Total business-type activities	<u>9,176,599</u>	<u>8,504,856</u>	-	<u>220,000</u>	-	<u>(451,743)</u>	<u>(451,743)</u>	<u>(269,867)</u>
Total primary government	<u>\$ 15,365,157</u>	<u>\$ 8,504,856</u>	<u>\$ 443,995</u>	<u>\$ 242,021</u>	<u>(5,722,542)</u>	<u>(451,743)</u>	<u>(6,174,285)</u>	<u>(6,253,665)</u>
General revenues								
Taxes								
Property taxes, levied for general purposes					671,359	-	671,359	656,431
License fees:								
Franchise					157,048	-	157,048	160,887
Payroll					2,626,847	-	2,626,847	2,532,353
Insurance premiums					1,395,924	-	1,395,924	1,449,132
Net profit					277,928	-	277,928	361,848
Other licenses and permits					27,588	-	27,588	15,918
Fines and forfeits					360	-	360	-
Investment earnings					12,801	20,019	32,820	21,101
Rents					117,794	49,847	167,641	153,832
Payment in lieu of taxes					360,000	-	360,000	-
Miscellaneous					47,687	67,613	115,300	198,539
Total general revenues					<u>5,695,336</u>	<u>137,479</u>	<u>5,832,815</u>	<u>5,550,041</u>
Transfers								
					-	-	-	-
Change in net assets					(27,206)	(314,264)	(341,470)	(703,624)
Net assets-beginning					<u>5,861,741</u>	<u>7,770,392</u>	<u>13,632,133</u>	<u>14,335,757</u>
NET ASSETS-ENDING					<u>\$ 5,834,535</u>	<u>\$ 7,456,128</u>	<u>\$ 13,290,663</u>	<u>\$ 13,632,133</u>

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General	Other Governmental Funds	Total Governmental Funds	2011 Totals
ASSETS				
Cash and cash equivalents	\$ 303,341	\$ 314,837	\$ 618,178	\$ 746,547
Receivables (net)	1,160,263	-	1,160,263	1,122,927
Due from other funds	41,593	-	41,593	217,791
Other assets	<u>21,856</u>	<u>-</u>	<u>21,856</u>	<u>53,872</u>
 Total assets	 <u>\$ 1,527,053</u>	 <u>\$ 314,837</u>	 <u>\$ 1,841,890</u>	 <u>\$ 2,141,137</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 157,286	\$ -	\$ 157,286	\$ 131,824
Accrued leave payable	339,990	-	339,990	618,801
Deferred revenue	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
 Total liabilities	 <u>547,276</u>	 <u>-</u>	 <u>547,276</u>	 <u>800,625</u>
FUND BALANCES				
Restricted	-	314,837	314,837	238,985
Unassigned	<u>979,777</u>	<u>-</u>	<u>979,777</u>	<u>1,101,527</u>
 Total fund balances	 <u>979,777</u>	 <u>314,837</u>	 <u>1,294,614</u>	 <u>1,340,512</u>
 Total liabilities and fund balances	 <u>\$ 1,527,053</u>	 <u>\$ 314,837</u>	 <u>\$ 1,841,890</u>	 <u>\$ 2,141,137</u>

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

Fund balances per above		\$ 1,294,614		\$ 1,340,512
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,400,056		5,620,491
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are reported in the funds.		<u>(860,135)</u>		<u>(1,099,262)</u>
 Net assets of governmental activities		 <u>\$ 5,834,535</u>		 <u>\$ 5,861,741</u>

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, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2011 Totals</u>
REVENUES				
Taxes	\$ 671,359	\$ -	\$ 671,359	\$ 656,431
Licenses and permits	4,485,335	-	4,485,335	4,520,138
Fees and fines	360	-	360	-
Intergovernmental	257,024	208,992	466,016	686,513
Other revenues	<u>173,457</u>	<u>4,825</u>	<u>178,282</u>	<u>259,465</u>
Total revenues	<u>5,587,535</u>	<u>213,817</u>	<u>5,801,352</u>	<u>6,122,547</u>
EXPENDITURES				
Current				
City commission	319,421	-	319,421	367,384
General administration	1,185,866	-	1,185,866	1,442,209
Public safety-Police	1,924,814	-	1,924,814	1,732,669
Public safety-Fire	1,551,820	-	1,551,820	1,922,472
Public works	470,346	-	470,346	511,812
Inspection, engineering, parks & recreation	285,837	-	285,837	293,935
Capital outlay	200,885	-	200,885	1,402,352
Debt service	<u>-</u>	<u>268,261</u>	<u>268,261</u>	<u>416,143</u>
Total expenditures	<u>5,938,989</u>	<u>268,261</u>	<u>6,207,250</u>	<u>8,088,976</u>
Excess (deficiency) of revenues over expenditures	<u>(351,454)</u>	<u>(54,444)</u>	<u>(405,898)</u>	<u>(1,966,429)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	-	1,280,858
Payment in lieu of taxes	360,000	-	360,000	-
Transfers	<u>(130,296)</u>	<u>130,296</u>	<u>-</u>	<u>353,052</u>
Total other financing sources (uses)	<u>229,704</u>	<u>130,296</u>	<u>360,000</u>	<u>1,633,910</u>
Net change in fund balances	(121,750)	75,852	(45,898)	(332,519)
Fund balances-beginning	<u>1,101,527</u>	<u>238,985</u>	<u>1,340,512</u>	<u>1,673,031</u>
Fund balances-ending	\$ <u>979,777</u>	\$ <u>314,837</u>	\$ <u>1,294,614</u>	\$ <u>1,340,512</u>
Reconciliation to government-wide change in net assets				
Net change in fund balances			\$ (45,898)	\$ (332,519)
add: capital outlay expenditures			200,885	1,402,352
add: debt service expenditures			268,261	416,143
less: debt proceeds			-	(1,280,858)
less: depreciation on governmental activities assets			(421,321)	(382,687)
less: interest on long-term debt			<u>(29,133)</u>	<u>(17,143)</u>
Change in net assets Governmental Activities			<u>\$ (27,206)</u>	<u>\$ (194,712)</u>

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2012**

	Business-Type Activities Utility Fund	2011 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 174,443	\$ 474,467
Receivables (net)	784,964	1,100,318
Total current assets	959,407	1,574,785
Noncurrent assets		
Restricted cash and cash equivalents	687,425	723,571
Other assets	528,212	505,935
Capital assets		
Utility systems	34,388,119	33,680,176
Less accumulated depreciation	(23,720,724)	(22,608,390)
Total non current assets	11,883,032	12,301,292
Total assets	\$ 12,842,439	\$ 13,876,077
LIABILITIES		
Current liabilities		
Accounts payable	\$ 683,664	\$ 867,532
Meter deposits	251,578	240,853
Accrued leave payable	156,737	135,588
Accrued interest payable	21,985	27,359
Other payables	41,593	217,791
Current portion of long-term debt	389,989	385,809
Total current liabilities	1,545,546	1,874,932
Noncurrent liabilities		
Bonds, notes and loans payable	3,840,765	4,230,753
Total liabilities	5,386,311	6,105,685
NET ASSETS		
Invested in capital assets, net of related debt	6,436,641	6,455,224
Restricted for debt service	509,248	506,261
Unrestricted	510,239	808,907
Total net assets	7,456,128	7,770,392
Total liabilities and net assets	\$ 12,842,439	\$ 13,876,077

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, 2012

	Business-type Activities Utility Fund	2011 Totals
Operating revenues		
Charges for services	\$ 8,622,316	\$ 8,848,433
Total operating revenues	8,622,316	8,848,433
Operating expenses		
Utility administration	1,108,304	445,496
Electric department	4,014,766	4,592,158
Water distribution	1,096,829	1,020,259
Sewer treatment	1,009,787	982,118
Sanitation	725,581	743,233
Depreciation	1,112,334	1,122,825
Total operating expenses	9,067,601	8,906,089
Operating income (loss)	(445,285)	(57,656)
Nonoperating revenues (expenses)		
KIA grant	220,000	-
Interest and investment revenue	20,019	11,809
Interest expense	(108,998)	(110,013)
Total nonoperating revenue (expenses)	131,021	(98,204)
Transfers	-	(353,052)
Change in net assets	(314,264)	(508,912)
Total net assets-beginning	7,770,392	8,279,304
TOTAL NET ASSETS-ENDING	\$ 7,456,128	\$ 7,770,392

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, 2012**

	Business-Type Activities Utility Fund	2011 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 8,937,670	\$ 8,461,486
Payments to suppliers	(5,656,707)	(5,370,165)
Payments for employee services and benefits	(2,483,556)	(2,350,535)
Customer deposits	10,725	13,190
Net cash provided by operating activities	808,132	753,976
CASH FLOWS FROM NON- CAPITAL AND RELATED FINANCING ACTIVITIES		
Net (payments) receipts under interfund agreements	(176,198)	143,722
Net cash (used in) provided by non-capital and related financing activities	(176,198)	143,722
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(707,943)	(429,315)
Proceeds from bonds, notes, and loans payable	-	219,664
Principal payments on bonds, notes, and loans payable	(385,808)	(382,727)
Transfers to general fund	-	(353,052)
Interest paid on capital debt	(114,372)	(110,013)
KIA grant proceeds	220,000	-
Net cash (used in) capital and related financing activities	(988,123)	(1,055,443)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	20,019	11,809
Net cash provided by investing activities	20,019	11,809
Net (decrease) in cash and cash equivalents	(336,170)	(145,936)
Balances-beginning of the year	1,198,038	1,343,974
BALANCES-END OF THE YEAR	\$ 861,868	\$ 1,198,038
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (445,285)	\$ (57,656)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,112,334	1,122,825
Change in assets and liabilities:		
Receivables (net)	315,354	(386,947)
Inventory	(1,767)	(69,778)
Other assets	(20,510)	-
Customer deposits	10,725	13,190
Accounts and other payables	(183,868)	169,637
Accrued expenses	21,149	(37,295)
Net cash provided by operating activities	\$ 808,132	\$ 753,976

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paris, Kentucky (the City) 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 operations, 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, 2012

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:

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

General Obligation Bond and Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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.

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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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. Fund Equity

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable. The City has adopted GASB 54 which further breaks down both non-spendable and spendable components into the following components:

Nonspendable - amounts that must be maintained intact legally or contractually.

Restricted – amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed – amounts constrained for a specific purpose by the City using its highest level of decision making authority.

Assigned – for all governmental funds, other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the general fund, amounts constrained, by intent, to be used for a specific purpose by the City or the elected City official given authority to assign amounts.

Unassigned – for the general fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

For resources considered to be committed, the City issues an ordinance that can be changed with another corresponding ordinance.

For resources considered to be assigned, the City has designated the City Manager to carry the intent of the City commission.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second and unassigned funds last.

E. 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.

The City began estimating the expenses the General Fund paid or incurred on behalf of the Utilities Fund. These reimbursements are included in "Payment in lieu of taxes" in the financial statements. Total estimated expenses reimbursed to the General Fund from the Utilities Fund amounted to \$360,000 for the year ended June 30, 2012.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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 – Cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less. The City of Paris considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

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, 2012 were fully covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The book balances of the City's deposits were \$1,480,046 and the bank balances were \$1,479,653.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3. CAPITAL ASSETS

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Government Type Activities				
Capital assets not depreciated:				
Land and Improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Capital assets that are depreciated:				
Building and Improvements	3,298,373	32,497	-	3,330,870
Vehicles	2,816,201	-	-	2,816,201
Equipment	<u>731,573</u>	<u>29,535</u>	<u>-</u>	<u>761,108</u>
Totals	<u>6,846,147</u>	<u>62,032</u>	<u>-</u>	<u>6,908,179</u>
Total Non-Infrastructure Assets	<u>7,813,126</u>	<u>62,032</u>	<u>-</u>	<u>7,875,158</u>
Recording infrastructure Assets:				
Infrastructure Assets	<u>1,785,718</u>	<u>138,853</u>	<u>-</u>	<u>1,924,571</u>
Total Capital Assets	<u>9,598,844</u>	<u>200,885</u>	<u>-</u>	<u>9,799,729</u>
Less Accumulated Depreciation:				
Building and Improvements	1,639,430	80,707	-	1,720,137
Vehicles	1,694,847	193,445	-	1,888,292
Equipment	420,403	65,777	-	486,180
Infrastructure Assets	<u>223,672</u>	<u>81,392</u>	<u>-</u>	<u>305,064</u>
Totals	<u>3,978,352</u>	<u>421,321</u>	<u>-</u>	<u>4,399,673</u>
Depreciable capital assets, net	<u>\$ 5,620,492</u>	<u>\$(220,436)</u>	<u>\$ -</u>	<u>\$ 5,400,056</u>
Business-Type Activities				
Equipment & Vehicles	\$ 2,765,278	\$ 68,907	\$ -	\$ 2,834,185
Electric Lines, Poles, and Plant	7,446,797	567,623	-	8,014,420
Water Treatment Plant, Land and Water System Improvements	6,734,279	11,395	-	6,745,674
Sewer Treatment Plant, Land and Improvements	<u>16,733,822</u>	<u>60,018</u>	<u>-</u>	<u>16,793,840</u>
Totals	<u>33,680,176</u>	<u>707,943</u>	<u>-</u>	<u>34,388,119</u>
Less Accumulated Depreciation	<u>22,608,390</u>	<u>1,122,334</u>	<u>-</u>	<u>23,720,724</u>
Capital Assets, Net	<u>\$ 11,071,786</u>	<u>\$(595,609)</u>	<u>\$ -</u>	<u>\$ 10,667,395</u>

Depreciation expense was charged to the governmental functions as follows:

General government	\$ 147,568
Police	68,543
Fire	140,435
Parks & recreation	6,212
Public works	<u>58,563</u>
Total depreciation expense	<u>\$ 421,321</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3. CAPITAL ASSETS (continued)

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

4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT

A summary of changes in business-type long-term debt follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Kentucky Infrastructure Loan	\$ 3,312,133	\$ -	\$(322,694)	\$ 2,989,439
CNH Capital Lease	26,325	-	(14,710)	11,615
Leasing One Corporation Lease	18,000	-	(6,000)	12,000
PNC Bank Equipment Finance	187,104	-	(28,404)	158,700
2005 Rural Development Bond	<u>1,073,000</u>	<u>-</u>	<u>(14,000)</u>	<u>1,059,000</u>
	<u>\$ 4,616,562</u>	<u>\$ -</u>	<u>\$ (358,808)</u>	<u>\$ 4,230,754</u>

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 and matures December 2020.

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

	Principal	Interest	Service Fee	Total
2013	\$ 328,528	\$ 52,338	\$ 5,815	\$ 386,681
2014	334,469	46,398	5,155	386,022
2015	340,516	40,350	4,483	385,349
2016	346,673	34,193	3,799	384,665
2017	352,941	27,925	3,102	383,968
2018-2020	<u>1,286,312</u>	<u>46,723</u>	<u>5,191</u>	<u>1,338,226</u>
Total	<u>\$ 2,989,439</u>	<u>\$ 247,927</u>	<u>\$ 27,545</u>	<u>\$ 3,264,911</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

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 bears interest at a rate of approximately 3.5%.

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

	Principal	Interest	Total
2013	\$11,615	\$246	\$11,861

Lease Payable

The City of Paris entered into a long-term financing agreement with Leasing One Corporation for an F-150 truck during fiscal year ended June 30, 2010. The cost of the truck was approximately \$30,000 with 5 payments of \$7,328 beginning in December of 2009. The lease matures in December 2014 and bears interest at a rate of approximately 5%.

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

	Principal	Interest	Total
2013	\$ 6,000	\$ 1,328	\$ 7,328
2014	<u>6,000</u>	<u>1,328</u>	<u>7,328</u>
Total	<u>\$ 12,000</u>	<u>\$ 2,656</u>	<u>\$ 14,656</u>

Lease Payable

The City of Paris entered into a long-term financing agreement with PNC Equipment Finance for a Terex Telelect C5048 Digger Derrick during fiscal year ended June 30, 2011. The cost of the equipment was approximately \$220,000 with bi-annual payments of \$18,876 beginning in July 2010. The lease matures in January 2017 and bears interest at a rate of approximately 2%.

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

	Principal	Interest	Total
2013	\$ 29,846	\$ 7,905	\$ 37,751
2014	31,360	6,392	37,752
2015	32,951	4,801	37,752
2016	34,622	3,129	37,751
2017	<u>29,921</u>	<u>1,372</u>	<u>31,293</u>
Total	<u>\$ 158,700</u>	<u>\$ 23,599</u>	<u>\$ 182,299</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

Bonds Payable

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%, is amortized over forty years, and matures in 2046.

	Issued	Rate	Balance Outstanding 6/30/11	Issued (Retired) During Year	Balance Outstanding 6/30/12
2005 Series	\$1,111,000	4.125%	\$ 1,073,000	\$ (14,000)	\$ 1,059,000

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

	Principal	Interest	Total
2013	\$ 14,000	\$ 43,973	\$ 57,973
2014	15,000	42,797	57,797
2015	16,000	42,158	58,158
2016	16,000	41,498	57,498
2017	17,000	40,817	57,817
2018-2022	97,000	192,617	289,617
2023-2027	120,000	170,363	290,363
2028-2032	147,000	142,952	289,952
2033-2037	181,000	109,209	290,209
2038-2042	222,000	67,733	289,733
2043-2046	<u>214,000</u>	<u>18,150</u>	<u>232,150</u>
Total	<u>\$ 1,059,000</u>	<u>\$ 912,267</u>	<u>\$ 1,971,267</u>

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

Current portion	\$ 389,989
Long-term portion	<u>3,840,765</u>
Total	<u>\$ 4,230,754</u>

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Kentucky Bond Corporation	\$ 845,416	\$ 0	\$(157,083)	\$ 688,333
Fifth Third Lease-Purchase	<u>253,846</u>	<u>0</u>	<u>(82,044)</u>	<u>171,802</u>
	<u>\$ 1,099,262</u>	<u>\$ 0</u>	<u>\$ (239,127)</u>	<u>\$ 860,135</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

Fifth Third Bank Lease

In January 2011, the City of Paris entered into a long-term financing agreement with Fifth Third Bank covering nine vehicles, eight federal signal light packages, a backhoe, and a dump truck. The total cost was approximately \$340,000. The lease requires annual payments including principal and interest of \$89,920 beginning in April 2011. The lease matures in April 2014 and bears interest at a rate of approximately 3%.

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

	Principal	Interest	Total
2013	\$ 84,589	\$ 5,330	\$ 89,919
2014	<u>87,213</u>	<u>2,706</u>	<u>89,919</u>
Total	<u>\$ 171,802</u>	<u>\$ 8,036</u>	<u>\$ 179,838</u>

Kentucky Bond Corporation

In November 2010, the City entered into a long-term financing assistance agreement with the Kentucky Bond Corporation, Financing Program Revenue Bonds, 2010 First Series C to provide financing for resurfacing, regrinding, and repaving of neighborhood streets. The bond totaled \$940,000. The bond bears interest at a rate of approximately 1% and matures January 2018.

Following is a summary of principal, interest, and expense requirements for the Kentucky Bond Corporation general fund obligation:

	Principal	Interest	Expenses	Total
2013	\$ 160,000	\$ 18,167	\$ 2,171	\$ 180,338
2014	137,083	14,917	1,771	153,771
2015	105,000	11,738	1,428	118,166
2016	107,083	8,587	1,166	116,836
2017	112,083	5,950	898	118,931
2018	<u>67,084</u>	<u>1,437</u>	<u>430</u>	<u>68,951</u>
Total	<u>\$ 688,333</u>	<u>\$ 60,796</u>	<u>\$ 7,864</u>	<u>\$ 756,993</u>

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

Current portion	\$ 244,589
Long-term portion	<u>615,546</u>
Total	<u>\$ 860,135</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

6. 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.

7. 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, 2012, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for 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 requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2012, participating employers contributed 18.96% of each employee's wages for non-hazardous classifications and 35.76% for hazardous job classifications, 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
2012	\$ 1,327,601	100%
2011	\$ 1,238,966	100%
2010	\$ 1,228,757	100%

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

8. PROPERTY TAX CALENDER

Property taxes for fiscal year 2012 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2011 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.

9. 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. The City is also exposed to a certain amount of risk related to agencies jointly supported by the City and County. In the event of an economic crisis, jointly supported agencies could require additional contributions to continue operations.

10. FAILURE OF TRANSFORMER

In December 2010, a transformer at the Scott Avenue, Paris, Kentucky, substation failed. In July 2011 and July 2012, there were generator fires at this substation. This substation supplied a large portion of the total power purchased to residential and business customers in Paris. This transformer and its generators allowed the power plant to connect to Kentucky Utilities (KU) system and put load on KU's system during times of curtailment of the City's system by KU. These failures did not allow the City to fulfill its contractual obligations to KU during these interruptions. Such breach of contract caused the City to incur additional demand charges from KU of approximately \$730,000 during the fiscal year ended June 30, 2012. These charges were passed on to the consumer and recorded in operating revenues and expenses for the year ended June 30, 2012.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

11. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income. Fund balances remain the same; however, the breakdown between components of fund balance have been adjusted per GASB 54.

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2012, the City approved a \$1 million project that includes plans to rehabilitate an elevated storage tank, as well as the addition of a Supervisory Control and Data Acquisition (SCADA) system for more efficient water monitoring and other updates to the treatment system. The cost of the project will be funded by a low-interest loan in the amount of \$300,000 and \$200,000 in grant funds from Rural Development, as well as a \$500,000 grant from the Environmental Protections Agency.

Also, in June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined. Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective mounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later).

The City has evaluated and considered the need to recognize or disclose subsequent events through March 22, 2013, 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, 2012, have not been evaluated by the City.

SUPPLEMENTARY INFORMATION

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2012

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
Taxes				
Property taxes	\$ 650,000	\$ 650,000	\$ 551,990	\$ (98,010)
Vehicle ad valorem tax	75,000	75,000	76,437	1,437
Delinquent taxes	7,000	7,000	11,562	4,562
Bank shares	25,000	25,000	21,633	(3,367)
Penalties and interest	<u>7,000</u>	<u>7,000</u>	<u>9,737</u>	<u>2,737</u>
	<u>764,000</u>	<u>764,000</u>	<u>671,359</u>	<u>(92,641)</u>
Licenses and permits				
Occupational license	2,650,000	2,650,000	2,626,847	(23,153)
Insurance license	1,700,000	1,700,000	1,395,924	(304,076)
Net profits license fee	265,000	265,000	277,928	12,928
Franchise fees	110,000	110,000	157,048	47,048
Building inspection fees	10,000	10,000	7,071	(2,929)
Alcohol beverage fees	<u>10,000</u>	<u>10,000</u>	<u>20,517</u>	<u>10,517</u>
	<u>4,745,000</u>	<u>4,745,000</u>	<u>4,485,335</u>	<u>(259,665)</u>
Fines and forfeits				
Parking fines	<u>1,500</u>	<u>1,500</u>	<u>360</u>	<u>(1,140)</u>
Intergovernmental revenues				
Police incentive pay	80,000	80,000	97,400	17,400
Fire incentive pay	83,500	83,500	92,115	8,615
Highway safety and other grants	180,000	180,000	8,525	(171,475)
Department of Justice grant	-	21,284	21,284	-
FEMA grant	-	-	13,496	13,496
Other grants	19,000	188,800	-	(188,800)
District court	<u>15,000</u>	<u>15,000</u>	<u>24,204</u>	<u>9,204</u>
	<u>377,500</u>	<u>568,584</u>	<u>257,024</u>	<u>(311,560)</u>
Other revenues				
Rent	90,000	90,000	117,794	27,794
Payment in lieu of taxes	360,000	360,000	360,000	-
Interest income	7,000	7,000	7,978	978
Other	<u>55,000</u>	<u>55,000</u>	<u>47,685</u>	<u>(7,315)</u>
	<u>512,000</u>	<u>512,000</u>	<u>533,457</u>	<u>21,457</u>
Total	<u>\$ 6,400,000</u>	<u>\$ 6,591,084</u>	<u>\$ 5,947,535</u>	<u>\$ (643,549)</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2012

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
GENERAL GOVERNMENT & CAPITAL BUDGETING				
CITY COMMISSION				
Personnel services	\$ 94,400	\$ 94,400	\$ 71,714	\$ (22,686)
Contractual services	65,000	65,000	155,039	90,039
Material and supplies	-	-	255	255
Other expenses	<u>127,990</u>	<u>127,990</u>	<u>92,413</u>	<u>(35,577)</u>
 Total city commission	 <u>287,390</u>	 <u>287,390</u>	 <u>319,421</u>	 <u>32,031</u>
 GENERAL ADMINISTRATION				
Personnel services	267,063	267,063	204,827	(62,236)
Contractual services	334,000	334,000	284,480	(49,520)
Materials and supplies	24,600	24,600	17,600	(7,000)
Other expenses	500	500	387	(113)
E911 Dispatch	120,000	120,000	176,283	56,283
EMS	-	-	193,327	193,327
Insurance	480,000	480,000	244,460	(235,540)
Legal	<u>68,000</u>	<u>68,000</u>	<u>64,502</u>	<u>(3,498)</u>
 Total general administration	 <u>1,294,163</u>	 <u>1,294,163</u>	 <u>1,185,866</u>	 <u>(108,297)</u>
 INSPECTION AND ENGINEERING				
Personnel services	195,684	195,684	207,811	12,127
Contractual services	40,005	40,005	39,552	(453)
Materials and supplies	24,600	24,600	38,467	13,867
Other expenses	<u>-</u>	<u>-</u>	<u>7</u>	<u>7</u>
 Total inspection and engineering	 <u>260,289</u>	 <u>260,289</u>	 <u>285,837</u>	 <u>25,548</u>
 OTHER ADMINISTRATION				
Capital budgeting	<u>31,500</u>	<u>31,500</u>	<u>200,885</u>	<u>169,385</u>
 Total other administration	 <u>31,500</u>	 <u>31,500</u>	 <u>200,885</u>	 <u>169,385</u>
 Total general government and capital budgeting	 <u>1,873,342</u>	 <u>1,873,342</u>	 <u>1,992,009</u>	 <u>118,667</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2012

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
POLICE DEPARTMENT				
Personnel services	\$ 1,538,156	\$ 1,538,156	\$ 1,706,896	\$ 168,740
Contractual services	75,150	75,150	67,466	(7,684)
Materials and supplies	122,550	122,550	148,622	26,072
Other expenses	<u>2,300</u>	<u>2,300</u>	<u>1,830</u>	<u>(470)</u>
	<u>1,738,156</u>	<u>1,738,156</u>	<u>1,924,814</u>	<u>186,658</u>
FIRE DEPARTMENT				
Personnel services	1,439,553	1,439,553	1,387,379	(52,174)
Contractual services	110,750	110,750	72,608	(38,142)
Materials and supplies	74,500	74,500	85,342	10,842
Other expenses	<u>6,000</u>	<u>6,000</u>	<u>6,491</u>	<u>491</u>
	<u>1,630,803</u>	<u>1,630,803</u>	<u>1,551,820</u>	<u>(78,983)</u>
STREET DEPARTMENT				
Personnel services	406,349	406,349	373,331	(33,018)
Contractual services	69,000	69,000	43,567	(25,433)
Materials and supplies	51,150	51,150	52,944	1,794
Other expenses	<u>-</u>	<u>-</u>	<u>504</u>	<u>504</u>
	<u>526,499</u>	<u>526,499</u>	<u>470,346</u>	<u>(56,153)</u>
EXPENSES BEFORE TRANSFERS	<u>\$ 5,768,800</u>	<u>\$ 5,768,800</u>	<u>\$ 5,938,989</u>	<u>\$ 170,189</u>

CITY OF PARIS, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2012

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 314,837	\$ -	\$ 314,837
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>314,837</u>	<u>\$ -</u>	<u>\$ 314,837</u>
 LIABILITIES & FUND EQUITY			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund equity			
Restricted	<u>314,837</u>	<u>-</u>	<u>314,837</u>
Total fund equity	<u>\$ 314,837</u>	<u>\$ -</u>	<u>\$ 314,837</u>

CITY OF PARIS, KENTUCKY
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**
for the year ended June 30, 2012

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 208,992	\$ -	\$ 208,992
Other revenues	<u>4,825</u>	<u>-</u>	<u>4,825</u>
 Total revenues	 <u>213,817</u>	 <u>-</u>	 <u>213,817</u>
 EXPENDITURES			
Street department	-	-	-
Capital outlay	-	-	-
Debt service	<u>-</u>	<u>268,261</u>	<u>268,261</u>
 Total expenditures	 <u>-</u>	 <u>268,261</u>	 <u>268,261</u>
 Excess revenues over (under) expenditures before other financing sources (uses)	 213,817	 (268,261)	 (54,444)
 OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	-
Operating transfer, net	<u>(137,965)</u>	<u>268,261</u>	<u>130,296</u>
 Total other financing sources (uses)	 <u>(137,965)</u>	 <u>268,261</u>	 <u>130,296</u>
 Net change in fund balances	 <u>75,852</u>	 <u>-</u>	 <u>75,852</u>
 Fund balances - July 1, 2011	 <u>238,985</u>	 <u>-</u>	 <u>238,985</u>
 FUND BALANCES - JUNE 30, 2012	 <u>\$ 314,837</u>	 <u>\$ -</u>	 <u>\$ 314,837</u>

**CITY OF PARIS, KENTUCKY
COMBINED UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
for the year ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
UTILITY ADMINISTRATION & SPECIAL PROJECTS			
Personnel services	\$ 356,096	\$ 354,564	\$ (1,532)
Contractual services	165,350	191,724	26,374
Materials and supplies	15,100	15,857	757
Other expenses	7,350	80,318	72,968
Allocation from General Fund	95,000	105,841	10,841
Payment in lieu of taxes	<u>360,000</u>	<u>360,000</u>	<u>-</u>
 Total utility administration & special projects	 <u>998,896</u>	 <u>1,108,304</u>	 <u>109,408</u>
 ELECTRIC DEPARTMENT			
Personnel services	521,278	590,089	68,811
Electric purchases	2,200,000	2,748,160	548,160
Contractual services	153,780	129,998	(23,782)
Materials and supplies	<u>502,400</u>	<u>546,519</u>	<u>44,119</u>
 Total electric department	 <u>3,377,458</u>	 <u>4,014,766</u>	 <u>637,308</u>
 WATER DISTRIBUTION			
Personnel services	622,658	688,365	65,707
Contractual services	88,755	108,604	19,849
Materials and supplies	201,300	289,119	87,819
Other expenses	<u>58,000</u>	<u>10,741</u>	<u>(47,259)</u>
 Total water distribution	 <u>970,713</u>	 <u>1,096,829</u>	 <u>126,116</u>
 SEWER TREATMENT			
Personnel services	547,633	521,282	(26,351)
Contractual services	211,950	278,713	66,763
Materials and supplies	<u>260,000</u>	<u>209,792</u>	<u>(50,208)</u>
 Total sewer treatment	 <u>1,019,583</u>	 <u>1,009,787</u>	 <u>(9,796)</u>
 SANITATION			
Personnel services	360,600	350,405	(10,195)
Contractual services	310,650	302,891	(7,759)
Materials and supplies	64,850	57,451	(7,399)
Recycling center	<u>25,000</u>	<u>14,834</u>	<u>(10,166)</u>
 Total sanitation	 <u>761,100</u>	 <u>725,581</u>	 <u>(35,519)</u>
 DEPRECIATION			
	<u>-</u>	<u>1,112,334</u>	<u>1,112,334</u>
 Total operating expenses	 <u>\$ 7,127,750</u>	 <u>\$ 9,067,601</u>	 <u>\$ 1,939,851</u>

CITY OF PARIS, KENTUCKY
COMBINED UTILITY FUND
SCHEDULE OF REVENUE BOND REQUIREMENTS
June 30, 2012

FISCAL YEAR ENDING JUNE 30	2005 ISSUE		TOTAL DEBT SERVICE
	PRINCIPAL	INTEREST	
2013	\$ 14,000	\$ 43,973	\$ 57,973
2014	15,000	42,797	57,797
2015	16,000	42,158	58,158
2016	16,000	41,498	57,498
2017	17,000	40,817	57,817
2018-2022	97,000	192,617	289,617
2023-2027	120,000	170,363	290,363
2028-2032	147,000	142,952	289,952
2033-2037	181,000	109,209	290,209
2038-2042	222,000	67,733	289,733
2043-2046	214,000	18,150	232,150
TOTAL	\$ 1,059,000	\$ 912,267	\$ 1,971,267

**CITY OF PARIS, 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**

Mayor and Commissioners
City of Paris
Paris, Kentucky

We have audited the financial statements of the governmental activities, business-type activities and the aggregate remaining fund information of the City of Paris, Kentucky as of and for the year ended June 30, 2012, which collectively comprise the City of Paris, Kentucky's basic financial statements and have issued our report thereon dated March 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Paris is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Paris, Kentucky'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 of Paris, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Paris, Kentucky's internal control over financial reporting.

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

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

Compliance and Other Matters

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

**CITY OF PARIS, 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 (continued)**

The City of Paris, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Paris, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Mayor, the Commissioners, 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
March 22, 2013

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012**

Findings:

#2012-01

Condition:

The City 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.

Criteria:

Numerous material adjustments were necessary to prepare the financial statements in conformity with generally accepted accounting principles.

Cause:

The size of the City combined with the complexity of operations require consistent monitoring and supervision.

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:

The City should strive to strengthen the financial reporting system and more closely adhere to governmental accounting practices. Transactions should be recorded in the appropriate funds and closing entries should be posted to all funds prior to initiation of the audit.

Response:

Management understands the need to improve the financial reporting system and is in the process of evaluating transitioning responsibilities from key personnel as changes occur and training existing employees to take on more responsibility.

PRIOR FINDINGS:

As noted above.