

**CITY OF PARIS**  
**Paris, Kentucky**

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**FINANCIAL STATEMENTS**  
**June 30, 2015**

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## INDEPENDENT AUDITORS' REPORT

Mayor and the Commissioners  
City of Paris  
Paris, Kentucky

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City Paris, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 3-10 and 35-41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016, on our consideration of the City of Paris, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Paris, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
March 28, 2016

# ***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, 2015. Please read the following in conjunction with the auditors' report on pages 1 and 2, and the City's financial statements, which begin to appear on page 11.

### **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 Position** 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 position** of the City **and changes** in them. One can think of the City's net position—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 position 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 Position** 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 POSITION**

Our analysis begins with a summary of the **City’s Statement of Net Position**, which is presented on Table A-1 followed by an explanation of the results.

Changes in net position are presented in Table A-2, which is also followed by an explanation of the results.

**Table A-1**

|                            | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total Primary<br/>Government</u> |
|----------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Current and Other Assets   | \$ 3,686,750                       | \$ 2,588,370                        | \$ 6,275,120                        |
| Capital Assets             | <u>5,571,552</u>                   | <u>10,590,332</u>                   | <u>16,161,884</u>                   |
| Total Assets               | 9,258,302                          | 13,178,702                          | 22,437,004                          |
| <br>                       |                                    |                                     |                                     |
| Long-Term Debt Outstanding | 5,777,673                          | 7,278,907                           | 13,056,580                          |
| Current Liabilities        | <u>1,052,515</u>                   | <u>2,134,834</u>                    | <u>3,187,349</u>                    |
| Total Liabilities          | 6,830,188                          | 9,413,741                           | 16,243,929                          |
| <br>                       |                                    |                                     |                                     |
| Net Position               |                                    |                                     |                                     |
| Net Invested in            |                                    |                                     |                                     |
| Capital Assets             | 5,083,832                          | 6,016,778                           | 11,100,610                          |
| Restricted                 | 353,437                            | 534,429                             | 887,866                             |
| Unrestricted               | <u>(2,971,000)</u>                 | <u>(2,775,364)</u>                  | <u>(5,746,364)</u>                  |
| Total Net Position         | <u>\$ 2,466,269</u>                | <u>\$ 3,775,843</u>                 | <u>\$ 6,242,112</u>                 |

The capital assets of the City’s **governmental activities** decreased from \$5,643,121 in 2014 to \$5,571,552 in 2015. This **decreased was due to 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** increased from \$10,248,961 in 2014 to \$10,590,332 in 2015. This **increase was due to capital additions** for the year.

Net position 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<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total Primary<br/>Government</u> |
|--------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| <b>Revenues</b>                |                                    |                                     |                                     |
| <u>Program Revenue</u>         |                                    |                                     |                                     |
| Charges for Service            | \$ -                               | \$ 10,131,282                       | \$ 10,131,282                       |
| <u>General Revenue</u>         |                                    |                                     |                                     |
| Tax                            | 1,170,471                          |                                     | 1,170,471                           |
| Licenses                       | 5,508,803                          |                                     | 5,508,803                           |
| Intergovernmental              | 484,746                            | 719,721                             | 1,204,017                           |
| Fines & Forfeits               | 830                                |                                     | 830                                 |
| Other Revenue                  | <u>166,185</u>                     | <u>280,007</u>                      | <u>446,192</u>                      |
| Total Revenue                  | <u>7,331,035</u>                   | <u>11,130,560</u>                   | <u>18,461,595</u>                   |
| <b><u>Program Expenses</u></b> |                                    |                                     |                                     |
| City Commission                | 389,827                            |                                     | 389,827                             |
| General Government             | 1,559,752                          |                                     | 1,559,752                           |
| Public safety-Police           | 2,103,424                          |                                     | 2,103,424                           |
| Public safety-Fire             | 1,649,465                          |                                     | 1,649,465                           |
| Public works-Streets           | 637,006                            |                                     | 637,006                             |
| Inspection, engineering, parks | 225,976                            |                                     | 225,976                             |
| Interest on long-term debt     | 17,301                             |                                     | 17,301                              |
| Electric                       |                                    | 5,895,032                           | 5,895,032                           |
| Sanitation                     |                                    | 1,350,111                           | 1,350,111                           |
| Water                          |                                    | 1,848,779                           | 1,848,779                           |
| Sewer                          |                                    | <u>1,966,451</u>                    | <u>1,966,451</u>                    |
| Total Program Expense          | <u>6,582,751</u>                   | <u>11,060,373</u>                   | <u>17,643,124</u>                   |
| Transfers                      | <u>-</u>                           | <u>-</u>                            | <u>-</u>                            |
| Net Change in Net Position     | <u>\$ 748,284</u>                  | <u>\$ 70,187</u>                    | <u>\$ 818,471</u>                   |

The City's **change in Net Position 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.

These "paper" bookkeeping entries are now 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  | \$1,170,471       |
| Licenses and permits   | 5,508,803         |
| Intergovernmental  | 484,746           |
| Fines & forfeits   | 830               |
| Other revenues   | <u>169,985</u>    |
| Total Revenues   | 7,334,835         |
| City Commission  | 389,427           |
| General administration   | 1,425,662         |
| Public safety-Police   | 2,042,550         |
| Public safety-Fire   | 1,545,815         |
| Public works-Streets   | 584,763           |
| Inspection, engineering, & parks                                       | 217,823           |
| Capital outlay   | 463,467           |
| Debt service   | <u>208,232</u>    |
| Total Expenditures   | <u>6,877,739</u>  |
| Excess Revenues over<br>Expenditures before other<br>Financing sources | <u>\$ 457,096</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**

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**

|                      | <b><u>Budget</u></b>      | <b><u>Actual</u></b>       | <b><u>Change</u></b>     |
|----------------------|---------------------------|----------------------------|--------------------------|
| Taxes                | \$1,198,500               | \$ 1,170,471               | \$ (28,029)              |
| Licenses and permits | 4,971,500                 | 5,508,803                  | 537,303                  |
| Intergovernmental    | 232,000                   | 304,144                    | 72,144                   |
| Fines & Forfeit      | 1,500                     | 830                        | (670)                    |
| Other Revenues       | <u>173,000</u>            | <u>167,940</u>             | <u>(5,070)</u>           |
| Total Revenues       | <u><b>\$6,576,500</b></u> | <u><b>\$ 7,152,188</b></u> | <u><b>\$ 575,688</b></u> |

**Table A-5**

### **Condensed Governmental Activities- Expenditures**

|                              | <b><u>Budget</u></b>      | <b><u>Actual</u></b>      | <b><u>Change</u></b>     |
|------------------------------|---------------------------|---------------------------|--------------------------|
| General Government & Capital |                           |                           |                          |
| Budgeting                    | \$1,985,725               | \$2,258,882               | \$ 273,157               |
| Public Safety- Police        | 1,946,000                 | 2,042,550                 | 96,550                   |
| Public Safety- Fire          | 1,528,500                 | 1,545,815                 | 17,315                   |
| Public Works- Streets        | <u>527,500</u>            | <u>584,763</u>            | <u>57,263</u>            |
| Total Expenditures           | <u><b>\$5,987,725</b></u> | <u><b>\$6,432,010</b></u> | <u><b>\$ 444,285</b></u> |

The City budgeted for a total of **\$6,576,500** in revenues for 2015, but ended up having revenues of **\$7,152,188**. In other words, the City received **8.8 percent more** revenue than budgeted.

A total of **\$5,987,725** was budgeted for expenditures, but expenditures totaled **\$6,432,010** at the end of 2015. The City was **over budget** on the expenditures by **7.4 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<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total Primary<br/>Government</u> |
|----------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Land                 | \$ 966,979                         | \$ -                                | \$ 966,979                          |
| Infrastructure       | 2,880,702                          | -                                   | 2,880,702                           |
| Buildings            | 3,367,947                          | -                                   | 3,367,947                           |
| Vehicles             | 3,199,044                          | -                                   | 3,199,044                           |
| Equipment            | 877,599                            | 3,161,331                           | 4,038,930                           |
| Electric System      | -                                  | 9,037,520                           | 9,037,520                           |
| Water System         | -                                  | 7,871,248                           | 7,871,248                           |
| Sewer System         | -                                  | 17,067,928                          | 17,067,928                          |
| Total Capital Assets | <u>\$11,292,271</u>                | <u>\$ 37,138,027</u>                | <u>\$ 48,430,298</u>                |

## **DEBT**

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

**Table A-7**

| <b><u>Debt Outstanding at Year End</u></b> | <b><u>Governmental Activities</u></b> | <b><u>Business-type Activities</u></b> | <b><u>Total Primary Government</u></b> |
|--|---------------------------------------|--|--|
| Leases                                     | \$ 126,470                            | \$ 156,379                             | \$ 282,849                             |
| Notes Payable                              | -                                     | 1,985,925                              | 1,985,925                              |
| Bond Payable                               | <u>286,250</u>                        | <u>2,431,250</u>                       | <u>2,717,500</u>                       |
| Total Debt Outstanding                     | <u>\$ 412,720</u>                     | <u>\$ 4,573,554</u>                    | <u>\$ 4,986,274</u>                    |

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected officials consider many factors when setting the fiscal year 2016 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 POSITION**  
**June 30, 2015**

|   | <b>Primary Government</b>          |                                     |                      |
|---|------------------------------------|-------------------------------------|----------------------|
|   | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>         |
| <b>ASSETS</b>   |                                    |                                     |                      |
| Current assets  |                                    |                                     |                      |
| Cash and cash equivalents                                 | \$ 2,263,351                       | \$ 217,785                          | \$ 2,481,136         |
| Receivables, net  | 1,374,731                          | 1,169,480                           | 2,544,211            |
| Internal balances   | 48,101                             | (48,101)                            | -                    |
| Total current assets                                      | <u>3,686,183</u>                   | <u>1,339,164</u>                    | <u>5,025,347</u>     |
| Noncurrent assets   |                                    |                                     |                      |
| Restricted cash and cash equivalents                      | -                                  | 646,614                             | 646,614              |
| Capital assets (Note 3)                                   |                                    |                                     |                      |
| Land and improvements                                     | 966,979                            | 64,802                              | 1,031,781            |
| Depreciable infrastructure, net                           | 2,243,893                          | -                                   | 2,243,893            |
| Depreciable buildings, property, and equipment, net       | 2,285,680                          | 10,525,530                          | 12,811,210           |
| Construction in progress                                  | 75,000                             | -                                   | 75,000               |
| Other assets  | 567                                | 554,491                             | 555,058              |
| Total noncurrent assets                                   | <u>5,572,119</u>                   | <u>11,791,437</u>                   | <u>17,363,556</u>    |
| Total assets  | <u>9,258,302</u>                   | <u>13,130,601</u>                   | <u>22,388,903</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                     |                                    |                                     |                      |
| Deferred outflows - pension                               | <u>492,726</u>                     | <u>300,312</u>                      | <u>793,038</u>       |
| Total assets and deferred outflows of resources           | <u>\$ 9,751,028</u>                | <u>\$ 13,430,913</u>                | <u>\$ 23,181,941</u> |
| <b>LIABILITIES</b>  |                                    |                                     |                      |
| Current liabilities                                       |                                    |                                     |                      |
| Accounts payable  | \$ 396,521                         | \$ 1,019,115                        | \$ 1,415,636         |
| Accrued leave payable                                     | 472,242                            | 198,946                             | 671,188              |
| Accrued liabilities                                       | -                                  | 10,441                              | 10,441               |
| Other liabilities   | -                                  | 283,344                             | 283,344              |
| Current portion of long term obligations (Notes 4 & 5)    | <u>183,752</u>                     | <u>534,927</u>                      | <u>718,679</u>       |
| Total current liabilities                                 | <u>1,052,515</u>                   | <u>2,046,773</u>                    | <u>3,099,288</u>     |
| Noncurrent liabilities                                    |                                    |                                     |                      |
| Noncurrent portion of long term obligations (Notes 4 & 5) | 228,968                            | 4,038,627                           | 4,267,595            |
| Net pension liability                                     | <u>5,548,705</u>                   | <u>3,240,240</u>                    | <u>8,788,945</u>     |
| Total non-current liabilities                             | <u>5,777,673</u>                   | <u>7,278,867</u>                    | <u>13,056,540</u>    |
| Total liabilities   | <u>6,830,188</u>                   | <u>9,325,640</u>                    | <u>16,155,828</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                      |                                    |                                     |                      |
| Deferred inflows - pension                                | <u>454,571</u>                     | <u>289,430</u>                      | <u>744,001</u>       |
| <b>NET POSITION</b>                                       |                                    |                                     |                      |
| Net investment in capital assets                          | 5,083,832                          | 6,016,778                           | 11,100,610           |
| Restricted for:   |                                    |                                     |                      |
| Debt service  | -                                  | 534,429                             | 534,429              |
| Other purposes  | 353,437                            | -                                   | 353,437              |
| Unrestricted  | <u>(2,971,000)</u>                 | <u>(2,775,364)</u>                  | <u>(5,746,364)</u>   |
| Total net position  | <u>2,466,269</u>                   | <u>3,775,843</u>                    | <u>6,242,112</u>     |
| Total liabilities, deferred inflows, and net position     | <u>\$ 9,751,028</u>                | <u>\$ 13,390,913</u>                | <u>\$ 23,141,941</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, 2015**

| Functions/Programs                   | Expenses             | Program Revenues        |  |  | Net (Expense) Revenue and<br>Changes in Net Position |                             |                    |
|--------------------------------------|----------------------|-------------------------|--|--|--|-----------------------------|--------------------|
|                                      |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                           | Business-type<br>Activities | Total              |
| <b>Primary government</b>            |                      |                         |  |  |  |                             |                    |
| <b>Governmental activities</b>       |                      |                         |  |  |  |                             |                    |
| City commission                      | \$ 389,827           | \$ -                    | \$ -                                     | \$ -                                   | \$ (389,827)   | \$ -                        | \$ (389,827)       |
| General government                   | 1,559,752            | -                       | 28,523                                   | -                                      | (1,531,229)  | -                           | (1,531,229)        |
| Public safety-Police                 | 2,103,424            | -                       | 171,733                                  | 12,288                                 | (1,919,403)  | -                           | (1,919,403)        |
| Public safety-Fire                   | 1,649,465            | -                       | 91,600                                   | -                                      | (1,557,865)  | -                           | (1,557,865)        |
| Public works-Streets                 | 637,006              | -                       | 180,602                                  | -                                      | (456,404)  | -                           | (456,404)          |
| Inspection, engineering, parks & rec | 225,976              | -                       | -  | -                                      | (225,976)  | -                           | (225,976)          |
| Interest on long-term debt           | 17,301               | -                       | -  | -                                      | (17,301)   | -                           | (17,301)           |
| Total governmental activities        | 6,582,751            | -                       | 472,458                                  | 12,288                                 | (6,098,005)  | -                           | (6,098,005)        |
| <b>Business-type activities</b>      |                      |                         |  |  |  |                             |                    |
| Electric                             | 5,895,032            | 5,928,495               | -  | -                                      | -  | 33,463                      | 33,463             |
| Sanitation                           | 1,350,111            | 956,541                 | -  | -                                      | -  | (393,570)                   | (393,570)          |
| Water                                | 1,848,779            | 1,555,774               | -  | 719,271                                | -  | 426,266                     | 426,266            |
| Sewer                                | 1,966,451            | 1,690,472               | -  | -                                      | -  | (275,979)                   | (275,979)          |
| Total business-type activities       | 11,060,373           | 10,131,282              | -  | 719,271                                | -  | (209,820)                   | (209,820)          |
| <b>Total primary government</b>      | <b>\$ 17,643,124</b> | <b>\$ 10,131,282</b>    | <b>\$ 472,458</b>                        | <b>\$ 731,559</b>                      | <b>(6,098,005)</b>                                   | <b>(209,820)</b>            | <b>(6,307,825)</b> |

**General revenues**

|   |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
| Taxes                                       |                     |                     |                     |
| Property taxes, levied for general purposes | 1,170,471           | -                   | 1,170,471           |
| License fees:                               |                     |                     |                     |
| Franchise                                   | 177,122             | -                   | 177,122             |
| Payroll                                     | 3,076,235           | -                   | 3,076,235           |
| Insurance premiums                          | 1,623,383           | -                   | 1,623,383           |
| Net profit                                  | 607,826             | -                   | 607,826             |
| Other licenses and permits                  | 24,237              | -                   | 24,237              |
| Fines and forfeits                          | 830                 | -                   | 830                 |
| Investment earnings                         | 12,610              | 8,820               | 21,430              |
| Rents                                       | 135,056             | 54,954              | 190,010             |
| Reimbursement from state for road project   | -                   | 54,174              | 54,174              |
| Miscellaneous                               | 22,319              | 162,059             | 184,378             |
| Total general revenues                      | 6,850,089           | 280,007             | 7,130,096           |
| (Loss) on disposal of assets                | (3,800)             | -                   | (3,800)             |
| <b>Change in net position</b>               | 748,284             | 70,187              | 818,471             |
| Net position-beginning, restated            | 1,717,985           | 3,705,656           | 5,423,641           |
| <b>NET POSITION-ENDING</b>                  | <b>\$ 2,466,269</b> | <b>\$ 3,775,843</b> | <b>\$ 6,242,112</b> |

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

**CITY OF PARIS, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2015**

|   | <u>General</u>          | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|---|---|
| <b>ASSETS</b>                           |                         |   |   |
| Cash and cash equivalents               | \$ 1,909,914            | \$ 353,437                              | \$ 2,263,351                            |
| Receivables (net)                       | 1,374,731               | -                                       | 1,374,731                               |
| Due from other funds                    | 48,101                  | -                                       | 48,101                                  |
| Other assets                            | <u>567</u>              | <u>-</u>                                | <u>567</u>                              |
| <br>Total assets                        | <br><u>\$ 3,333,313</u> | <br><u>\$ 353,437</u>                   | <br><u>\$ 3,686,750</u>                 |
| <b>LIABILITIES AND FUND BALANCES</b>    |                         |   |   |
| Liabilities                             |                         |   |   |
| Accounts payable                        | \$ 396,521              | \$ -                                    | \$ 396,521                              |
| Accrued leave payable                   | <u>472,242</u>          | <u>-</u>                                | <u>472,242</u>                          |
| <br>Total liabilities                   | <br><u>868,763</u>      | <br><u>-</u>                            | <br><u>868,763</u>                      |
| Fund Balances                           |                         |   |   |
| Restricted                              | -                       | 353,437                                 | 353,437                                 |
| Unassigned                              | <u>2,464,550</u>        | <u>-</u>                                | <u>2,464,550</u>                        |
| <br>Total fund balances                 | <br><u>2,464,550</u>    | <br><u>353,437</u>                      | <br><u>2,817,987</u>                    |
| <br>Total liabilities and fund balances | <br><u>\$ 3,333,313</u> | <br><u>\$ 353,437</u>                   | <br><u>\$ 3,686,750</u>                 |

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

|  |                         |
|--|-------------------------|
| Fund balances per above  | \$ 2,817,987            |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.  | 5,571,552               |
| Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.  | 38,155                  |
| Long-term liabilities, including bonds payable and net pension liability that are not due and payable in the current period and therefore are not reported in the funds. | <u>(5,961,425)</u>      |
| <br>Net position of governmental activities  | <br><u>\$ 2,466,269</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, 2015**

|   | <b>General</b>      | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|---------------------|---|---|
| <b>REVENUES</b>   |                     |   |   |
| Taxes   | \$ 1,170,471        | \$ -                                    | \$ 1,170,471                            |
| Licenses and permits                                      | 5,508,803           | -                                       | 5,508,803                               |
| Fees and fines  | 830                 | -                                       | 830                                     |
| Intergovernmental   | 304,144             | 180,602                                 | 484,746                                 |
| Other revenues  | 167,940             | 2,045                                   | 169,985                                 |
| Total revenues  | 7,152,188           | 182,647                                 | 7,334,835                               |
| <b>EXPENDITURES</b>                                       |                     |   |   |
| Current   |                     |   |   |
| City commission   | 389,427             | -                                       | 389,427                                 |
| General administration                                    | 1,425,662           | -                                       | 1,425,662                               |
| Public safety-Police                                      | 2,042,550           | -                                       | 2,042,550                               |
| Public safety-Fire  | 1,545,815           | -                                       | 1,545,815                               |
| Public works  | 584,763             | -                                       | 584,763                                 |
| Inspection, engineering, parks & recreation               | 217,823             | -                                       | 217,823                                 |
| Capital outlay  | 225,970             | 237,497                                 | 463,467                                 |
| Debt service  | -                   | 208,232                                 | 208,232                                 |
| Total expenditures:                                       | 6,432,010           | 445,729                                 | 6,877,739                               |
| Excess (deficiency) of revenue:<br>over expenditures      | 720,178             | (263,082)                               | 457,096                                 |
| <b>OTHER FINANCING SOURCES (USES)</b>                     |                     |   |   |
| Transfers in (out)  | (208,232)           | 208,232                                 | -                                       |
| Total other financing sources (uses)                      | (208,232)           | 208,232                                 | -                                       |
| <b>Net change in fund balances</b>                        | 511,946             | (54,850)                                | 457,096                                 |
| Fund balances-beginning                                   | 1,952,604           | 408,287                                 | 2,360,891                               |
| <b>Fund balances-ending</b>                               | <b>\$ 2,464,550</b> | <b>\$ 353,437</b>                       | <b>\$ 2,817,987</b>                     |
| Reconciliation to government-wide change in net position: |                     |   |   |
| Net change in fund balances                               |                     |   | \$ 457,096                              |
| add: capital outlay expenditures                          |                     |   | 463,467                                 |
| add: debt service expenditures                            |                     |   | 208,232                                 |
| less: loan proceeds                                       |                     |   | -                                       |
| less: loss on disposal of assets                          |                     |   | (3,800)                                 |
| less: depreciation on governmental activities assets      |                     |   | (531,237)                               |
| change in net pension liability                           |                     |   | 171,827                                 |
| less: interest on long-term deb                           |                     |   | (17,301)                                |
| Change in net position Governmental Activities            |                     |   | <b>\$ 748,284</b>                       |

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

**CITY OF PARIS, KENTUCKY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2015**

|  | <b>Business-Type<br/>Activities<br/>Utility Fund</b> |
|--|--|
| <b>ASSETS</b>  |  |
| Current assets   |  |
| Cash and cash equivalents  | \$ 217,785   |
| Receivables (net)  | <u>1,169,480</u>                                     |
| Total current assets   | <u>1,387,265</u>                                     |
| Noncurrent assets  |  |
| Restricted cash and cash equivalents                               | 646,614  |
| Other assets   | 554,491  |
| Capital assets   |  |
| Utility systems  | 37,138,027   |
| Less accumulated depreciation                                      | <u>(26,547,695)</u>                                  |
| Total non current assets   | <u>11,791,437</u>                                    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                              |  |
| Deferred outflows - pension  | <u>300,312</u>                                       |
| Total assets and deferred outflows of resources                    | <u>\$ 13,479,014</u>                                 |
| <b>LIABILITIES</b>   |  |
| Current liabilities  |  |
| Accounts payable   | \$ 1,059,115   |
| Meter deposits   | 283,344  |
| Accrued leave payable  | 198,946  |
| Accrued interest payable   | 10,441   |
| Due to other funds   | 48,101   |
| Current portion of long-term debt                                  | <u>534,927</u>                                       |
| Total current liabilities  | <u>2,134,874</u>                                     |
| Noncurrent liabilities   |  |
| Bonds, notes and loans payable                                     | 4,038,627  |
| Net pension liability  | <u>3,240,240</u>                                     |
| Total liabilities  | <u>9,413,741</u>                                     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                               |  |
| Deferred inflows - pension   | <u>289,430</u>                                       |
| <b>NET POSITION</b>  |  |
| Invested in capital assets   | 6,016,778  |
| Restricted for debt service  | 534,429  |
| Unrestricted   | <u>(2,775,364)</u>                                   |
| Total net position   | <u>3,775,843</u>                                     |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 13,479,014</u>                                 |

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

**CITY OF PARIS, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2015**

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|   | <b>Business-type<br/>Activities<br/>Utility Fund</b> |
|---|--|
| <b>Operating revenues</b>                   |  |
| Charges for services                        | \$ <u>10,348,295</u>                                 |
| <br>Total operating revenues                | <br><u>10,348,295</u>                                |
| <br><b>Operating expenses</b>               |  |
| Utility administration                      | 1,404,668  |
| Electric department                         | 5,240,053  |
| Water distribution                          | 1,258,922  |
| Sewer treatment                             | 1,179,682  |
| Sanitation                                  | 912,026  |
| Depreciation                                | <u>953,486</u>                                       |
| <br>Total operating expenses                | <br><u>10,948,837</u>                                |
| <br>Operating income (loss)                 | <br><u>(600,542)</u>                                 |
| <br><b>Nonoperating revenues (expenses)</b> |  |
| Grant revenue                               | 719,271  |
| Miscellaneous revenue                       | 54,174   |
| Interest and investment revenue             | 8,820  |
| Interest expense                            | <u>(111,536)</u>                                     |
| <br>Total nonoperating revenue (expenses)   | <br><u>670,729</u>                                   |
| <br><b>Change in net position</b>           | <br>70,187   |
| Total net position-beginning, as restated   | <u>3,705,656</u>                                     |
| <br><b>TOTAL NET POSITION-ENDING</b>        | <br><u>\$ <u>3,775,843</u></u>                       |

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, 2015**

|   | <u>Business-Type<br/>Activities<br/>Utility Fund</u> |
|---|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |
| Receipts from customers   | \$ 9,997,473   |
| Payments to suppliers   | (7,629,320)  |
| Payments for employee services and benefits   | (2,280,699)  |
| Customer deposits   | <u>14,411</u>  |
| Net cash provided by operating activities   | <u>101,865</u>                                       |
| <b>CASH FLOWS FROM NON- CAPITAL AND RELATED FINANCING<br/>ACTIVITIES</b>                                  |  |
| Net (payments) receipts under interfund agreements  | <u>20,686</u>  |
| Net cash provided by (used in) non-capital and related financing activities                               | <u>20,686</u>  |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING<br/>ACTIVITIES</b>                                       |  |
| Purchases of capital assets   | (1,294,857)  |
| Principal payments on bonds, notes, and loans payable   | (550,008)  |
| Proceeds from note payable  | 37,982   |
| Proceeds from issuance of bond  | 300,000  |
| Interest paid on capital debt   | (113,298)  |
| Miscellaneous revenue   | 54,174   |
| KIA grant proceeds  | <u>719,271</u>                                       |
| Net cash (used in) capital and related financing activities   | <u>(846,736)</u>                                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |
| Interest and dividends  | <u>8,820</u>   |
| Net cash provided by investing activities   | <u>8,820</u>   |
| Net decrease in cash and cash equivalents   | (715,365)  |
| Balances-beginning of the year  | <u>1,579,764</u>                                     |
| <b>BALANCES-END OF THE YEAR</b>   | <u>\$ 864,399</u>                                    |
| <b>Reconciliation of operating income (loss) to net cash<br/>provided (used) by operating activities:</b> |  |
| Operating (loss)  | \$ (600,542)   |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities:                |  |
| Depreciation expense  | 953,486  |
| Change in assets and liabilities:   |  |
| Receivables (net)   | (350,822)  |
| Inventory   | 79,054   |
| Customer deposits   | 14,411   |
| Accounts and other payables   | 90,905   |
| Net pension liability   | (113,213)  |
| Accrued expenses  | <u>28,586</u>  |
| Net cash provided by operating activities   | <u>\$ 101,865</u>                                    |

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

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**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 position 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, 2015**

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**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.

**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, 2015**

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**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.

**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 Position 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 financial 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. Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**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 Balance**

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 nonspendable 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 governmental 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 exceeded budgeted expenditures in the General Fund by \$444,285 for the year ended June 30, 2015.

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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

**E. Budgeting (Continued)**

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 \$480,000 for the year ended June 30, 2015.

**F. Pensions**

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

**G. Other Accounting Policies**

Accounts receivable from customers are stated less an allowance for doubtful accounts of \$29,000 in the proprietary fund.

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 are amortized over the life of the bonds using the straight-line method.

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.

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

The City has evaluated and considered the need to recognize or disclose subsequent events through March 28, 2016, 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, 2015, have not been evaluated by the City.

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**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, 2015 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 \$3,127,750 and the bank balances were \$3,251,174.

**3. CAPITAL ASSETS**

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

|   | <b>Balance</b>       |                    |                  | <b>Balance</b>       |
|---|----------------------|--------------------|------------------|----------------------|
|   | <b>June 30, 2014</b> | <b>Additions</b>   | <b>Deletions</b> | <b>June 30, 2015</b> |
| <u>Governmental Activities</u>                            |                      |                    |                  |                      |
| Capital assets not depreciated:                           |                      |                    |                  |                      |
| Land and Improvements                                     | \$ 966,979           | \$ -               | \$ -             | \$ 966,979           |
| Construction in progress                                  | <u>3,800</u>         | <u>75,000</u>      | <u>3,800</u>     | <u>75,000</u>        |
| Capital assets that are depreciated:                      |                      |                    |                  |                      |
| Building and Improvements                                 | 3,336,222            | 31,725             | -                | 3,367,947            |
| Vehicles  | 3,079,798            | 119,245            | -                | 3,199,043            |
| Equipment   | <u>877,599</u>       | <u>-</u>           | <u>-</u>         | <u>877,599</u>       |
| Total Building, Vehicle, & Equipment                      | <u>7,293,619</u>     | <u>150,970</u>     | <u>-</u>         | <u>7,444,590</u>     |
| Total Non-Infrastructure Assets                           | <u>8,260,598</u>     | <u>225,970</u>     | <u>-</u>         | <u>8,486,568</u>     |
| Recording infrastructure Assets:                          |                      |                    |                  |                      |
| Infrastructure Assets                                     | <u>2,643,205</u>     | <u>237,497</u>     | <u>-</u>         | <u>2,880,702</u>     |
| Total Capital Assets                                      | <u>10,907,603</u>    | <u>463,467</u>     | <u>3,800</u>     | <u>11,367,270</u>    |
| Less Accumulated Depreciation:                            |                      |                    |                  |                      |
| Building and Improvements                                 | 1,883,498            | 82,535             | -                | 1,966,034            |
| Vehicles  | 2,250,387            | 242,087            | -                | 2,492,474            |
| Equipment   | 625,757              | 74,645             | -                | 700,402              |
| Infrastructure Assets                                     | <u>504,839</u>       | <u>131,970</u>     | <u>-</u>         | <u>636,809</u>       |
| Totals  | <u>5,264,481</u>     | <u>531,237</u>     | <u>-</u>         | <u>5,795,719</u>     |
| Capital Assets, net                                       | <u>\$ 5,643,122</u>  | <u>\$ (67,770)</u> | <u>\$ 3,800</u>  | <u>\$ 5,571,552</u>  |
| <u>Business-Type Activities</u>                           |                      |                    |                  |                      |
| Equipment and Vehicles                                    | \$ 3,093,433         | \$ 67,898          | \$ -             | \$ 3,161,331         |
| Electric Lines, Poles, and Plant                          | 9,037,520            |                    | -                | 9,037,520            |
| Water Treatment Plant, Land and Water System Improvements | 6,804,289            | 1,066,959          | -                | 7,871,248            |
| Sewer Treatment Plant, Land and Improvements              | <u>16,907,928</u>    | <u>160,000</u>     | <u>-</u>         | <u>17,067,928</u>    |
| Totals  | <u>35,843,170</u>    | <u>1,322,452</u>   | <u>-</u>         | <u>37,138,027</u>    |
| Less Accumulated Depreciation                             | <u>25,594,209</u>    | <u>953,486</u>     | <u>-</u>         | <u>26,547,695</u>    |
| Capital Assets, net                                       | <u>\$ 10,248,961</u> | <u>\$ 365,024</u>  | <u>\$ -</u>      | <u>\$ 10,590,332</u> |

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**3. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to the following functions or departments as follows:

| <u>Governmental</u>        |                   | <u>Business-Type</u>       |                   |
|----------------------------|-------------------|----------------------------|-------------------|
| General government         | \$ 191,728        | Electric department        | \$ 275,928        |
| Police                     | 113,760           | Water department           | 210,806           |
| Fire                       | 145,075           | Sewer department           | 407,718           |
| Parks and recreation       | 8,153             | Sanitation                 | <u>59,034</u>     |
| Public works               | <u>72,521</u>     | Total depreciation expense | <u>\$ 953,486</u> |
| Total depreciation expense | <u>\$ 531,237</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  |

**4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT**

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

|                              | <b>Balance</b>       |                   |                     | <b>Balance</b>       |
|------------------------------|----------------------|-------------------|---------------------|----------------------|
|                              | <b>June 30, 2014</b> | <b>Additions</b>  | <b>Deletions</b>    | <b>June 30, 2015</b> |
| Kentucky Infrastructure Loan | \$ 2,326,411         | \$ -              | \$ (340,516)        | \$ 1,985,925         |
| PNC Bank Equipment Finance   | 99,879               | -                 | (32,950)            | 66,929               |
| BB&T Equipment Finance       | 85,033               | -                 | (33,565)            | 51,468               |
| Traditional Bank Lease       | 29,227               | -                 | (29,227)            | -                    |
| 2014 KY Bank Corp Bond       | 2,245,000            | -                 | (113,750)           | 2,131,250            |
| 2014 Water Revenue Bonds     | -                    | 300,000           | -                   | 300,000              |
| Bobcat Loan                  | <u>-</u>             | <u>37,982</u>     | <u>-</u>            | <u>37,982</u>        |
|                              | <u>\$ 4,785,580</u>  | <u>\$ 337,982</u> | <u>\$ (550,008)</u> | <u>\$ 4,573,554</u>  |

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT (CONTINUED)**

**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:

|       | <b>Principal</b>    | <b>Interest</b>   | <b>Service Fee</b> | <b>Total</b>        |
|-------|---------------------|-------------------|--------------------|---------------------|
| 2016  | \$ 346,673          | \$ 37,286         | \$ 3,799           | \$ 387,758          |
| 2017  | 352,941             | 31,073            | 3,102              | 387,116             |
| 2018  | 359,323             | 24,749            | 2,393              | 386,465             |
| 2019  | 365,819             | 18,310            | 1,672              | 385,801             |
| 2020  | 372,434             | 11,755            | 937                | 385,126             |
| 2021  | <u>181,735</u>      | <u>3,382</u>      | <u>189</u>         | <u>192,306</u>      |
| Total | <u>\$ 1,985,925</u> | <u>\$ 149,191</u> | <u>\$ 12,092</u>   | <u>\$ 2,124,572</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:

|       | <b>Principal</b> | <b>Interest</b> | <b>Total</b>     |
|-------|------------------|-----------------|------------------|
| 2016  | \$ 34,662        | \$ 3,129        | \$ 37,751        |
| 2017  | <u>32,307</u>    | <u>1,372</u>    | <u>33,678</u>    |
| Total | <u>\$ 66,929</u> | <u>\$ 4,501</u> | <u>\$ 71,430</u> |

**Lease Payable**

The City of Paris entered into a long-term financing agreement with Bluegrass Bank & Trust for an International Garbage Truck during fiscal year ended June 30, 2013. The cost of the truck was approximately \$134,287 with 48 payments of \$2,899 beginning in January of 2013. The lease matures in December 2016 and bears interest at a rate of approximately 1.76%.

|       | <b>Principal</b> | <b>Interest</b> | <b>Total</b>     |
|-------|------------------|-----------------|------------------|
| 2016  | \$ 34,161        | \$ 631          | \$ 34,792        |
| 2017  | <u>17,307</u>    | <u>89</u>       | <u>17,396</u>    |
| Total | <u>\$ 51,468</u> | <u>\$ 720</u>   | <u>\$ 52,188</u> |

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT (CONTINUED)**

**Loan Payable**

The City of Paris entered into a long term financing agreement with Kentucky Bank for an S650 T4 Bobcat during the fiscal year ended June 30, 2015. The cost of the truck was approximately \$37,982 with monthly payments of \$1,097 beginning in July of 2015. The loan matures in June of 2018 and bears interest at an annual rate of 2.5%.

|       | <b>Principal</b> | <b>Interest</b> | <b>Total</b>     |
|-------|------------------|-----------------|------------------|
| 2016  | \$ 12,982        | \$ 809          | \$ 34,792        |
| 2017  | 12,658           | 497             | 17,396           |
| 2018  | <u>12,978</u>    | <u>176</u>      | <u>13,155</u>    |
| Total | <u>\$ 37,982</u> | <u>\$ 1,482</u> | <u>\$ 39,464</u> |

**Bonds Payable**

The City of Paris entered into a \$2,275,000 lease agreement with the Kentucky Bond Corporation in February 2014 to refinance the City's 2006 bond with the Rural Development Authority, make modifications to diesel generators at the City's power plan, and to make repairs to the Lexington Road lift station. The note accrues interest at 3.29%, requires varying monthly payments ranging from \$14,197 to \$17,606, and is to mature in 2032. Also, \$91,000 of the proceeds were required to be set aside in a debt service reserve fund for payments due in February 2029 through January 2030.

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

|           | <b>Principal</b>    | <b>Interest</b>   | <b>Service Fee</b> | <b>Total</b>        |
|-----------|---------------------|-------------------|--------------------|---------------------|
| 2016      | \$ 107,085          | \$ 63,337         | \$ 5,782           | \$ 176,204          |
| 2017      | 110,004             | 61,197            | 5,513              | 176,714             |
| 2018      | 112,084             | 59,001            | 5,237              | 176,322             |
| 2019      | 114,996             | 56,760            | 4,956              | 176,712             |
| 2020      | 117,083             | 54,457            | 4,668              | 176,208             |
| 2021-2025 | 638,333             | 227,125           | 18,795             | 884,253             |
| 2026-2030 | 750,415             | 121,356           | 10,292             | 222,373             |
| 2031-2032 | <u>181,250</u>      | <u>357,714</u>    | <u>30,365</u>      | <u>1,958,077</u>    |
| Total     | <u>\$ 2,131,250</u> | <u>\$ 683,066</u> | <u>\$ 56,533</u>   | <u>\$2,8470,849</u> |

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT (CONTINUED)**

**Bonds Payable**

The City of Paris entered into a \$300,000 lease agreement with the Kentucky Infrastructure Authority to help finance a construction project consisting of extensions, additions, and improvements to the existing water system of the City. Interest on the bond is payable semiannually with principal installments being payable in January 2017 through January 2054. The bond accrues interest at a rate of 2.75%.

|           | <b>Principal</b>  | <b>Interest</b>   | <b>Total</b>      |
|-----------|-------------------|-------------------|-------------------|
| 2016      | \$ -              | \$ 8,250          | \$ 8,250          |
| 2017      | 4,500             | 8,250             | 12,750            |
| 2018      | 4,500             | 8,119             | 12,619            |
| 2019      | 5,000             | 7,984             | 12,984            |
| 2020      | 5,000             | 7,845             | 12,845            |
| 2021-2025 | 26,500            | 36,238            | 62,738            |
| 2026-2030 | 31,000            | 32,043            | 63,043            |
| 2031-2035 | 35,000            | 27,239            | 62,239            |
| 2036-2040 | 40,500            | 21,736            | 62,236            |
| 2041-2045 | 45,000            | 15,435            | 60,435            |
| 2046-2050 | 53,000            | 8,218             | 61,218            |
| 2051-2054 | <u>50,000</u>     | <u>5,045</u>      | <u>55,045</u>     |
|           | <u>\$ 300,000</u> | <u>\$ 186,402</u> | <u>\$ 486,402</u> |

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

|                   |                     |
|-------------------|---------------------|
| Current portion   | \$ 534,927          |
| Long-term portion | <u>4,038,627</u>    |
| Total             | <u>\$ 4,573,554</u> |

**5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT**

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

|                           | <b>Balance<br/>June 30, 2014</b> | <b>Additions</b> | <b>Deletions</b>   | <b>Balance<br/>June 30, 2015</b> |
|---------------------------|----------------------------------|------------------|--------------------|----------------------------------|
| Kentucky Bond Corporation | \$ 391,250                       | \$ -             | \$(105,000)        | \$ 286,250                       |
| Traditional Bank Lease    | 7,596                            | -                | (7,596)            | -                                |
| BB&T Lease                | <u>204,805</u>                   | <u>-</u>         | <u>(78,335)</u>    | <u>126,470</u>                   |
|                           | <u>\$ 603,651</u>                | <u>\$ -</u>      | <u>\$(190,931)</u> | <u>\$ 412,720</u>                |

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**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 matured in April 2014 and bore interest at a rate of approximately 3%.

**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, regrounding, 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:

|       | <b>Principal</b>  | <b>Interest</b>  | <b>Fees</b>     | <b>Total</b>      |
|-------|-------------------|------------------|-----------------|-------------------|
| 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>\$ 286,250</u> | <u>\$ 15,974</u> | <u>\$ 2,494</u> | <u>\$ 304,718</u> |

**Branch Bank & Trust (BB&T) Lease**

In December 2013, the City entered into a lease agreement with BB&T to provide financing for nine police cruisers and equipment. The lease totaled \$237,019. The bond bears interest at a rate of approximately 1.69% and matures December 2016.

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

|       | <b>Principal</b>  | <b>Interest</b> | <b>Total</b>      |
|-------|-------------------|-----------------|-------------------|
| 2016  | \$ 76,669         | \$ 1,412        | \$ 78,081         |
| 2017  | <u>49,801</u>     | <u>199</u>      | <u>50,000</u>     |
| Total | <u>\$ 126,470</u> | <u>\$ 1,611</u> | <u>\$ 128,081</u> |

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

|                   |                   |
|-------------------|-------------------|
| Current portion   | \$ 183,752        |
| Long-term portion | <u>228,968</u>    |
| Total             | <u>\$ 412,720</u> |

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**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**

**CERS**

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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

*Contributions* – For the year ended June 30, 2015, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2015, participating employers contributed 17.67% of each employee's wages for non-hazardous job classifications and 34.31% of each employee's wages for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution

For the year ended June 30, 2015, the City contributed \$630,417, or 100% of the required contribution for non-hazardous job classifications, and \$559,675, for the year ended June 30, 2015, or 100% of the required contribution for hazardous job classifications.

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**7. RETIREMENT PLAN (CONTINUED)**

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources –*  
 At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability as follows:

| <b>Total Net<br/>Pension Liability</b> | <b>Non-hazardous</b> | <b>Hazardous</b>    |
|--|----------------------|---------------------|
| \$ <u>8,788,945</u>                    | \$ <u>4,908,008</u>  | \$ <u>3,880,937</u> |

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2014 was as follows:

| <b>Non-hazardous</b> | <b>Hazardous</b> |
|----------------------|------------------|
| .15%                 | .32%             |

The proportionate share at June 30, 2014 was equal to the proportionate share as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$508,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|---|---|--|
| Differences between expected and actual results   | \$ -  | \$ -   |
| Changes of assumptions  | -   | -  |
| Net difference between projected and actual earnings on Plan investments                                  | -   | 744,001                                      |
| Changes in proportion and differences between City contributions and proportionate share of contributions | -   | -  |
| City contributions subsequent to the measurement date   | <u>793,038</u>                                | <u>-</u>                                     |
| <b>Total</b>  | <b>\$ <u>793,038</u></b>                      | <b>\$ <u>744,001</u></b>                     |

The \$798,039 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| <b>Year ending June 30,</b> |              |
|-----------------------------|--------------|
| 2016                        | \$ (186,000) |
| 2017                        | (186,000)    |
| 2018                        | (186,000)    |
| 2019                        | (186,001)    |

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**7. RETIREMENT PLAN (CONTINUED)**

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

**Non-hazardous**

|                           |  |
|---------------------------|--|
| Inflation                 | 3.50%  |
| Salary increases          | 4.50%, average, including inflation                        |
| Investment rate of return | 7.75%, net of Plan investment expense, including inflation |

**Hazardous**

|                           |  |
|---------------------------|--|
| Inflation                 | 3.50%  |
| Salary increases          | 4.50%, average, including inflation                        |
| Investment rate of return | 7.75%, net of Plan investment expense, including inflation |

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005-June 30, 2008.

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

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**7. RETIREMENT PLAN (CONTINUED)**

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

| <b>Asset Class</b>         | <b>Target Allocation</b> | <b>Long-term Nominal Real Rate of Return</b> |
|----------------------------|--------------------------|--|
| Domestic Equity            | 30%                      | 8.45%  |
| International Equity       | 22%                      | 8.85%  |
| Emerging Market Equity     | 5%                       | 10.50%                                       |
| Private Equity             | 7%                       | 11.25%                                       |
| Real Estate                | 5%                       | 7.00%  |
| Core US Fixed Income       | 10%                      | 5.25%  |
| High Yield US Fixed Income | 5%                       | 7.25%  |
| Non US Fixed Income        | 5%                       | 5.50%  |
| Commodities                | 5%                       | 7.75%  |
| TIPS                       | 5%                       | 5.00%  |
| Cash                       | 1%                       | 3.25%  |
| Total                      | 100%                     |  |

*Discount Rate* – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

|                       | Non-hazardous |   |               | Hazardous   |               |   |
|-----------------------|---------------|---|---------------|---|---------------|---|
|                       | Discount rate | City's proportionate share of net pension liability | Discount rate | City's proportionate share of net pension liability | Discount rate | City's proportionate share of net pension liability |
| 1% decrease           | 6.75%         | \$ 6,458,060  | 6.75%         | \$ 5,076,887  |               |   |
| Current discount rate | 7.75%         | \$ 4,908,008  | 7.75%         | \$ 3,880,937  |               |   |
| 1% increase           | 8.75%         | \$ 3,537,713  | 8.75%         | \$ 2,865,485  |               |   |

*Payable to the Pension Plan* – At June 30, 2015, the City reported a payable of \$119,575 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. The payable includes both the pension and insurance contribution allocation.

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**8. PROPERTY TAX CALENDER**

Property taxes for fiscal year 2015 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2014 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

| <b>Description</b>                            | <b>Per K.R.S. 134.020</b> |
|---|---------------------------|
| 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. RECLASSIFICATIONS**

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net position.

**11. RESTATEMENT OF NET POSITION**

Implementation of new accounting standard GASB Statement No. 68

During 2015 the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans.

The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires 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 amounts for all the governments in the plan. In addition, GASB requires Statement 68 to be applied retroactively, which has resulted in a restatement of beginning net position.

Other restatements

In January 2016 the City reimbursed the Paris-Bourbon county EMS for accrued payroll expenses dating back to 2010. As of June 30, 2014 the city had not yet accrued for these expenses. A restatement to accrue for these expenses was necessary.

**CITY OF PARIS, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

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**11. RESTATEMENT OF NET POSITION (CONTINUED)**

A former city employee took leave to go into active military service in 2010. The city was required to continue to make retirement contributions for the employee while he was on leave. In fiscal year 2015 the city made multiple scheduled payments to pay the required amount due. A restatement is necessary to accrue for the past year's retirement expenses.

Accounts payable at June 30, 2014 incorrectly omitted two invoices. A restatement has been made to place these expenses in the correct period.

Reconciliations of the restatements is as follows:

|   | <b>2015</b>             |
|---|-------------------------|
| <u>Governmental Activities</u>                      |                         |
| Net position, at beginning of year                  | \$ 7,668,895            |
| Beginning net pension liability                     | (5,682,374)             |
| EMS Reimbursement paid in FY 2016                   | (121,333)               |
| Military serviceman retirement payable              | (93,597)                |
| Correction of accounts payable balance              | <u>(53,606)</u>         |
| <br>Net position, at beginning of year, as restated | <br>\$ <u>1,717,985</u> |

|   | <b>2015</b>             |
|---|-------------------------|
| <u>Business-type Activities</u>                     |                         |
| Net position, at beginning of year                  | \$ 7,048,227            |
| Beginning net pension liability                     | <u>(3,342,571)</u>      |
| <br>Net position, at beginning of year, as restated | <br>\$ <u>3,705,656</u> |

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PARIS, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS  
 Last Two Fiscal Years**

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|   | <b>2014</b>  | <b>2015</b>  |
|---|--------------|--------------|
| City's proportion of the net pension liability  | 0.15%        | 0.15%        |
| City's proportionate share of the net pension liability (asset)                                   | \$ 5,540,969 | \$ 4,908,008 |
| City's covered employee payroll   | \$ 3,464,140 | \$ 2,105,561 |
| City's share of the net pension liability (asset) as a percentage of its covered employee payroll | 159.95%      | 233.10%      |
| Plan fiduciary net position as a percentage of the total pension liability                        | 61.22%       | 66.80%       |

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

**CITY OF PARIS, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - HAZARDOUS  
 Last Two Fiscal Years**

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|   | <b>2014</b>  | <b>2015</b>  |
|---|--------------|--------------|
| City's proportion of the net pension liability  | 0.32%        | 0.32%        |
| City's proportionate share of the net pension liability (asset)                                   | \$ 4,318,002 | \$ 3,880,937 |
| City's covered employee payroll   | \$ 1,634,497 | \$ 1,631,230 |
| City's share of the net pension liability (asset) as a percentage of its covered employee payroll | 264.18%      | 237.91%      |
| Plan fiduciary net position as a percentage of the total pension liability                        | 61.22%       | 66.80%       |

**Notes:**

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

**CITY OF PARIS, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS  
 Last Three Fiscal Years**

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|  | <b>2013</b>       | <b>2014</b>       | <b>2015</b>       |
|--|-------------------|-------------------|-------------------|
| Contractually required employer contribution                           | \$ 635,221        | \$ 654,376        | \$ 630,417        |
| Contributions relative to contractually required employer contribution | <u>\$ 635,221</u> | <u>\$ 654,376</u> | <u>\$ 630,417</u> |
| Contribution deficiency (excess)                                       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| <br>City's covered employee payroll                                    | <br>\$3,249,210   | <br>\$3,464,140   | <br>\$2,105,561   |
| Employer contributions as a percentage of covered-employee payroll     | 19.55%            | 18.89%            | 29.94%            |

**Notes:**

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**CITY OF PARIS, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - HAZARDOUS  
 Last Three Fiscal Years**

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|  | <b>2013</b>       | <b>2014</b>       | <b>2015</b>       |
|--|-------------------|-------------------|-------------------|
| Contractually required employer contribution                           | \$ 663,971        | \$ 614,571        | \$ 559,675        |
| Contributions relative to contractually required employer contribution | <u>\$ 663,971</u> | <u>\$ 614,571</u> | <u>\$ 559,675</u> |
| Contribution deficiency (excess)                                       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       |
| City's covered employee payroll  | \$ 1,765,881      | \$ 1,634,497      | \$ 4,631,230      |
| Employer contributions as a percentage of covered-employee payroll     | 37.60%            | 37.60%            | 12.08%            |

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

**CITY OF PARIS, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION**  
**GENERAL FUND**  
**for the year ended June 30, 2015**

|                             | <u>Enacted<br/>Budget</u>  | <u>Amended<br/>Budget</u>  | <u>Actual</u>              | <u>Over<br/>(Under)<br/>Budget</u> |
|-----------------------------|----------------------------|----------------------------|----------------------------|------------------------------------|
| <b>Taxes</b>                |                            |                            |                            |                                    |
| Property taxes              | \$ 600,000                 | \$ 600,000                 | \$ 569,755                 | \$ (30,245)                        |
| Vehicle ad valorem tax      | 75,000                     | 75,000                     | 85,504                     | 10,504                             |
| Delinquent taxes            | 8,500                      | 8,500                      | 4,915                      | (3,585)                            |
| Bank shares                 | 25,000                     | 25,000                     | 23,783                     | (1,217)                            |
| Payment in lieu of taxes    | 480,000                    | 480,000                    | 480,000                    | -                                  |
| Penalties and interest      | <u>10,000</u>              | <u>10,000</u>              | <u>6,514</u>               | <u>(3,486)</u>                     |
|                             | <u>1,198,500</u>           | <u>1,198,500</u>           | <u>1,170,471</u>           | <u>(28,029)</u>                    |
| <b>Licenses and permits</b> |                            |                            |                            |                                    |
| Occupational license        | 2,750,000                  | 2,750,000                  | 3,076,235                  | 326,235                            |
| Insurance license           | 1,500,000                  | 1,500,000                  | 1,623,383                  | 123,383                            |
| Net profits license fee     | 550,000                    | 550,000                    | 607,826                    | 57,826                             |
| Franchise fees              | 150,000                    | 150,000                    | 177,122                    | 27,122                             |
| Building inspection fees    | 6,500                      | 6,500                      | 5,862                      | (638)                              |
| Alcohol beverage fees       | <u>15,000</u>              | <u>15,000</u>              | <u>18,375</u>              | <u>3,375</u>                       |
|                             | <u>4,971,500</u>           | <u>4,971,500</u>           | <u>5,508,803</u>           | <u>537,303</u>                     |
| <b>Fines and forfeits</b>   |                            |                            |                            |                                    |
| Parking fines               | <u>1,500</u>               | <u>1,500</u>               | <u>830</u>                 | <u>(670)</u>                       |
| <b>Intergovernmental</b>    |                            |                            |                            |                                    |
| Police incentive pay        | 90,000                     | 90,000                     | 106,794                    | 16,794                             |
| Fire incentive pay          | 90,000                     | 90,000                     | 91,600                     | 1,600                              |
| Highway safety grant        | 7,500                      | 7,500                      | 12,288                     | 4,788                              |
| Cops grants                 | 15,000                     | 15,000                     | 45,478                     | 30,478                             |
| Other grants                | 9,500                      | 9,500                      | 28,523                     | 19,023                             |
| District court              | <u>20,000</u>              | <u>20,000</u>              | <u>19,461</u>              | <u>(539)</u>                       |
|                             | <u>232,000</u>             | <u>232,000</u>             | <u>304,144</u>             | <u>72,144</u>                      |
| <b>Other revenues</b>       |                            |                            |                            |                                    |
| Rent                        | 135,000                    | 135,000                    | 135,056                    | 56                                 |
| Interest income             | 7,000                      | 7,000                      | 10,565                     | 3,565                              |
| Other                       | <u>31,000</u>              | <u>31,000</u>              | <u>22,319</u>              | <u>(8,681)</u>                     |
|                             | <u>173,000</u>             | <u>173,000</u>             | <u>167,940</u>             | <u>(5,060)</u>                     |
| <b>Total</b>                | <b><u>\$ 6,576,500</u></b> | <b><u>\$ 6,576,500</u></b> | <b><u>\$ 7,152,188</u></b> | <b><u>\$ 575,688</u></b>           |

**CITY OF PARIS, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION**  
**GENERAL FUND**  
for the year ended June 30, 2015

|   | <u>Enacted<br/>Budget</u>      | <u>Amended<br/>Budget</u>      | <u>Actual</u>                  | <u>Over<br/>(Under)<br/>Budget</u> |
|---|--------------------------------|--------------------------------|--------------------------------|------------------------------------|
| <b>GENERAL GOVERNMENT &amp; CAPITAL BUDGETING</b>         |                                |                                |                                |                                    |
| <b>CITY COMMISSION</b>                                    |                                |                                |                                |                                    |
| Personnel services  | \$ 91,975                      | \$ 91,975                      | \$ 89,189                      | \$ (2,786)                         |
| Contractual services                                      | 136,050                        | 136,050                        | 226,679                        | 90,629                             |
| Other expenses  | <u>79,500</u>                  | <u>79,500</u>                  | <u>73,559</u>                  | <u>(5,941)</u>                     |
| <br>Total city commission                                 | <br><u>307,525</u>             | <br><u>307,525</u>             | <br><u>389,427</u>             | <br><u>81,902</u>                  |
| <br><b>GENERAL ADMINISTRATION</b>                         |                                |                                |                                |                                    |
| Personnel services  | 345,350                        | 345,350                        | 355,098                        | 9,748                              |
| Contractual services                                      | 258,700                        | 258,700                        | 354,923                        | 96,223                             |
| Materials and supplies                                    | 10,750                         | 10,750                         | 17,398                         | 6,648                              |
| Other expenses  | 5,500                          | 5,500                          | 16,070                         | 10,570                             |
| E911 Dispatch   | 179,000                        | 179,000                        | 175,660                        | (3,340)                            |
| EMS   | 266,400                        | 266,400                        | 244,687                        | (21,713)                           |
| Insurance   | 220,000                        | 220,000                        | 203,745                        | (16,255)                           |
| Legal   | <u>45,000</u>                  | <u>45,000</u>                  | <u>58,081</u>                  | <u>13,081</u>                      |
| <br>Total general administration                          | <br><u>1,330,700</u>           | <br><u>1,330,700</u>           | <br><u>1,425,662</u>           | <br><u>94,962</u>                  |
| <br><b>INSPECTION AND ENGINEERING</b>                     |                                |                                |                                |                                    |
| Personnel services  | 162,000                        | 162,000                        | 136,673                        | (25,327)                           |
| Contractual services                                      | 32,500                         | 32,500                         | 24,305                         | (8,195)                            |
| Materials and supplies                                    | 29,000                         | 29,000                         | 12,111                         | (16,889)                           |
| Other expenses  | <u>52,000</u>                  | <u>52,000</u>                  | <u>44,734</u>                  | <u>(7,266)</u>                     |
| <br>Total inspection and engineering                      | <br><u>275,500</u>             | <br><u>275,500</u>             | <br><u>217,823</u>             | <br><u>(57,677)</u>                |
| <br><b>OTHER ADMINISTRATION</b>                           |                                |                                |                                |                                    |
| Capital budgeting   | <u>72,000</u>                  | <u>72,000</u>                  | <u>225,970</u>                 | <u>153,970</u>                     |
| <br>Total other administration                            | <br><u>72,000</u>              | <br><u>72,000</u>              | <br><u>225,970</u>             | <br><u>153,970</u>                 |
| <br><b>Total general government and capital budgeting</b> | <br><b><u>\$ 1,985,725</u></b> | <br><b><u>\$ 1,985,725</u></b> | <br><b><u>\$ 2,258,882</u></b> | <br><b><u>\$ 273,157</u></b>       |

## **SUPPLEMENTAL INFORMATION**

**CITY OF PARIS, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION**  
**GENERAL FUND**  
for the year ended June 30, 2015

|                                  | <u>Enacted<br/>Budget</u> | <u>Amended<br/>Budget</u> | <u>Actual</u>       | <u>Over<br/>(Under)<br/>Budget</u> |
|----------------------------------|---------------------------|---------------------------|---------------------|------------------------------------|
| <b>POLICE DEPARTMENT</b>         |                           |                           |                     |                                    |
| Personnel services               | \$ 1,739,550              | \$ 1,739,550              | \$ 1,864,415        | \$ 124,865                         |
| Contractual services             | 73,250                    | 73,250                    | 76,737              | 3,487                              |
| Materials and supplies           | 131,400                   | 131,400                   | 99,786              | (31,614)                           |
| Other expenses                   | 1,800                     | 1,800                     | 1,612               | (188)                              |
|                                  | <u>1,946,000</u>          | <u>1,946,000</u>          | <u>2,042,550</u>    | <u>96,550</u>                      |
| <b>FIRE DEPARTMENT</b>           |                           |                           |                     |                                    |
| Personnel services               | 1,366,300                 | 1,366,300                 | 1,343,247           | (23,053)                           |
| Contractual services             | 106,700                   | 106,700                   | 134,924             | 28,224                             |
| Materials and supplies           | 51,500                    | 51,500                    | 63,420              | 11,920                             |
| Other expenses                   | 4,000                     | 4,000                     | 4,224               | 224                                |
|                                  | <u>1,528,500</u>          | <u>1,528,500</u>          | <u>1,545,815</u>    | <u>17,315</u>                      |
| <b>STREET DEPARTMENT</b>         |                           |                           |                     |                                    |
| Personnel services               | 396,350                   | 396,350                   | 442,552             | 46,202                             |
| Contractual services             | 71,300                    | 71,300                    | 104,649             | 33,349                             |
| Materials and supplies           | 56,850                    | 56,850                    | 35,968              | (20,882)                           |
| Other expenses                   | 3,000                     | 3,000                     | 1,594               | (1,406)                            |
|                                  | <u>527,500</u>            | <u>527,500</u>            | <u>584,763</u>      | <u>57,263</u>                      |
| <b>EXPENSES BEFORE TRANSFERS</b> | <u>\$ 5,987,725</u>       | <u>\$ 5,987,725</u>       | <u>\$ 6,432,010</u> | <u>\$ 444,285</u>                  |

**CITY OF PARIS, KENTUCKY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2015**

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|   | <b>Municipal<br/>Road Aid<br/>Fund</b> | <b>Debt<br/>Service</b> | <b>Total</b> |
|---|--|-------------------------|--------------|
| <b>ASSETS</b>                             |  |                         |              |
| Cash                                      | \$ 353,437                             | \$ -                    | \$ 353,437   |
| Accounts receivable                       | -                                      | -                       | -            |
| Due from other funds                      | -                                      | -                       | -            |
| Total assets                              | \$ 353,437                             | \$ -                    | \$ 353,437   |
| <br><b>LIABILITIES &amp; FUND BALANCE</b> |  |                         |              |
| Liabilities                               |  |                         |              |
| Accounts payable                          | \$ -                                   | \$ -                    | \$ -         |
| Fund balance                              |  |                         |              |
| Restricted                                | 353,437                                | -                       | 353,437      |
| Total fund balance                        | \$ 353,437                             | \$ -                    | \$ 353,437   |

**CITY OF PARIS, KENTUCKY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2015**

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|  | <b>Municipal<br/>Road Aid<br/>Fund</b> | <b>Debt<br/>Service</b> | <b>Total</b>      |
|--|--|-------------------------|-------------------|
| <b>REVENUES</b>  |  |                         |                   |
| Intergovernmental revenue  | \$ 180,602                             | \$ -                    | \$ 180,602        |
| Other revenues   | <u>2,045</u>                           | <u>-</u>                | <u>2,045</u>      |
| Total revenues   | <u>182,647</u>                         | <u>-</u>                | <u>182,647</u>    |
| <b>EXPENDITURES</b>  |  |                         |                   |
| Capital outlay   | 237,497                                | -                       | 237,497           |
| Debt service   | <u>-</u>                               | <u>208,232</u>          | <u>208,232</u>    |
| Total expenditures   | <u>237,497</u>                         | <u>208,232</u>          | <u>445,729</u>    |
| Excess revenues over (under) expenditures before<br>other financing sources (uses) | (54,850)                               | (208,232)               | (263,082)         |
| <b>OTHER FINANCING SOURCES (USES)</b>  |  |                         |                   |
| Operating transfer, net  | <u>-</u>                               | <u>208,232</u>          | <u>208,232</u>    |
| Total other financing sources (uses)   | <u>-</u>                               | <u>208,232</u>          | <u>208,232</u>    |
| <b>Net change in fund balances</b>   | <u>(54,850)</u>                        | <u>-</u>                | <u>(54,850)</u>   |
| Fund balances - July 1, 2014   | <u>408,287</u>                         | <u>-</u>                | <u>408,287</u>    |
| <b>FUND BALANCES - JUNE 30, 2015</b>   | <u>\$ 353,437</u>                      | <u>\$ -</u>             | <u>\$ 353,437</u> |

**CITY OF PARIS, KENTUCKY  
SCHEDULE OF OPERATING EXPENSES  
COMBINED UTILTY FUND  
for the year ended June 30, 2015**

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|  | <b>2015</b>   |
|--|---------------|
| <b>UTILITY ADMINISTRATION &amp; SPECIAL PROJECTS</b> |               |
| Personnel services                                   | \$ 397,226    |
| Contractual services                                 | 264,708       |
| Materials and supplies                               | 32,325        |
| Other expenses                                       | 74,754        |
| Insurance  | 155,655       |
| Payment in lieu of taxes                             | 480,000       |
| Total utility administration & special projects      | 1,404,668     |
| <b>ELECTRIC DEPARTMENT</b>                           |               |
| Personnel services                                   | 494,998       |
| Electric purchases                                   | 4,209,903     |
| Contractual services                                 | 248,471       |
| Materials and supplies                               | 286,681       |
| Total electric department                            | 5,240,053     |
| <b>WATER DISTRIBUTION</b>                            |               |
| Personnel services                                   | 722,465       |
| Contractual services                                 | 201,117       |
| Materials and supplies                               | 318,952       |
| Other expenses                                       | 16,388        |
| Total water distribution                             | 1,258,922     |
| <b>SEWER TREATMENT</b>                               |               |
| Personnel services                                   | 517,747       |
| Contractual services                                 | 324,393       |
| Materials and supplies                               | 337,542       |
| Total sewer treatment                                | 1,179,682     |
| <b>SANITATION</b>                                    |               |
| Personnel services                                   | 280,313       |
| Contractual services                                 | 494,954       |
| Materials and supplies                               | 72,798        |
| Recycling center                                     | 63,961        |
| Total sanitation                                     | 912,026       |
| <b>DEPRECIATION</b>                                  |               |
|  | 953,486       |
| Total operating expenses                             | \$ 10,948,837 |



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

Mayor and Commissioners  
City of Paris  
Paris, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Paris, Kentucky's basic financial statements and have issued our report thereon dated March 28, 2016.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (2015-001, 2015-002, 2015-003, 2015-004).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Paris, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items. (2015-005, 2015-006).

### **City of Paris, Kentucky's Response to Findings**

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

### **Purpose of this Report**

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

**RFH**

RFH, PLLC  
March 28, 2016

**CITY OF PARIS, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2015**

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| Federal Grantor Program Title  | Federal<br>CFDA<br>Number | Pass Through<br>Contract<br>Number | Federal<br>Expenditures |
|--|---------------------------|------------------------------------|-------------------------|
| United States Department of Agriculture<br>Water and Waste Disposal Systems for Rural Communities            | 10.760                    | -                                  | \$ 500,000              |
| United States Environmental Protection Agency<br>Congressionally Mandated Projects                           | 66.202                    |                                    | 485,000                 |
| United States Department of Homeland Security<br>Disaster Grants - Presidentially Declared Disaster (Note 1) | 97.036                    |                                    | 55,104                  |
| United States Department of Transportation<br>State and Community Highway Safety (Note 2)                    | 20.600                    |                                    | <u>9,991</u>            |
| <br>Total Federal Financial Assistance   |                           |                                    | <br><u>\$ 1,050,095</u> |

Notes:

- (1) Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet,  
Office of Highway Safety
- (2) Pass Through Grantor - Commonwealth of Kentucky, Kentucky Emergency Management
- (3) Reconciliation to financial statements:

|  |                         |
|--|-------------------------|
| Proceeds from issuance of bonds and notes payable, page 17 | \$ 300,000              |
| Operating grants and contribution, page 12                 | 472,458                 |
| Capital grants and contributions, page 12                  | 719,271                 |
| Less non-federal funding received                          | <u>(441,634)</u>        |
|  | <br><u>\$ 1,050,095</u> |

Basis of Presentation

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



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the City Commissioners  
City of Paris, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited City of Paris, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Paris, Kentucky's major federal programs for the year ended June 30, 2015. City of Paris, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Paris, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Paris, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Paris, Kentucky's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Paris, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control over Compliance**

Management of the City of Paris, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Paris, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Paris, Kentucky's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**RFH**

RFH, PLLC  
March 28, 2016

**CITY OF PARIS, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
for the year ended June 30, 2015**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified   X   Yes    No

Significant deficiencies identified that are not  
considered to be material weaknesses    Yes   X   No

Non-compliance material to financial statements noted   X   Yes    No

Federal Awards:

Internal control over major programs:

Material weaknesses identified    Yes   X   No

Significant deficiencies identified that are not  
considered to be material weaknesses    Yes   X   None Reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

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

Major Programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u>              |
|--------------------|--|
| 10.760             | Water and Waste Disposal Systems for Rural Communities |
| 66.202             | Congressionally Mandated Projects                      |

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

Auditee qualified as a low-risk auditee?    Yes   X   No

CITY OF PARIS, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015

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**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

**#2015-001**

***Cause:***

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. The City lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

***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.

**#2015-002**

***Cause:***

The City did not have adequate internal controls in place over the monthly bank reconciliation process. Individuals were assigned the responsibility to reconcile the bank accounts each month, with no additional oversight to ensure they were performed timely and accurately.

***Effect:***

Bank statements were not reconciled timely by the responsible personnel. Transactions were identified that were not recorded.

***Recommendation:***

We recommend that an individual other than the preparer of the bank reconciliations, review all reconciliations to ensure these are completed within 10-15 days after month end. The reviewer should examine the bank statement, reconciliation, and month-end account balance. Upon completion, the reviewer should initial and date the bank reconciliation.

***Response:***

Management understands the need to improve the financial reporting system of the City. The City is in the process of assigning the reconciliation duties to the appropriate City personnel. The person previously assigned these duties is no longer employed by the City.

**CITY OF PARIS, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015**

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**#2015-003**

***Cause:***

The City maintains its financial information on the accrual basis of accounting. Accounts receivable should be accounted for and reviewed on a frequent basis. Accounts payable to vendors should also be reviewed on a frequent basis so that invoices are paid within proper terms.

***Effect:***

Management did not track accounts receivable adequately throughout the year. Accounts receivable from customers was not reconciled. Accounts payable was not reconciled throughout the year.

***Recommendation:***

We recommend that accounts receivable and payable be reconciled each month to the financial database. An individual other than the preparer of these reconciliations should review all reconciliations to ensure these are completed within 10-15 days after month end. Upon completion, the reviewer should initial and date the reconciliation.

***Response:***

Management understands the need to improve the financial reporting systems of the City. The City is in the process of hiring an independent CPA to help with the reconciliation of both accounts receivable and accounts payable. The person previously assigned these duties is no longer employed by the City.

**#2015-004**

***Cause:***

The City has adopted a capitalization policy that determines if expenditures should be capitalized. Governmental funds are reported using the current financial resources measurement focus, resulting in all capitalizable expenditures accounted for as capital outlay. Proprietary funds are reported on the full accrual basis, with asset purchases being booked as assets.

***Effect:***

Management did not attempt to identify assets throughout the year that met the capitalization policy. This resulted in asset purchases not properly being recorded as capital outlay or as asset additions.

***Recommendation:***

Management should be familiar with the City's capitalization policy. They should be familiar with the basis of accounting for each fund, and actively capitalize purchases throughout the year.

***Response:***

Management understands the need to improve the financial reporting systems of the City. The City is in the process of hiring an independent CPA to help in identifying and recording capital assets properly. The person previously assigned these duties is no longer employed by the City.

**CITY OF PARIS, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015**

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**#2015-005**

***Cause:***

The City is a participant in the Kentucky Bond Corporation, and is required to provide the City's completed audited financial statements no later than March 1 following the fiscal year ending on the preceding June 30.

***Effect:***

The City did not have their audit completed by March 1, 2016, and therefore did not submit it on time to meet their debt covenants.

***Recommendation:***

The City should improve previously mentioned internal control findings, to make financial statements available to audit closer to year end in order to meet debt requirements.

***Response:***

Management understands the need to improve the financial reporting systems of the City. The City is in the process of hiring an independent CPA to help correct the financial reporting and have financial information available for audit sooner. The person previously assigned these duties is no longer employed by the City.

**#2015-006**

***Cause:***

The City did not properly monitor vendors to ensure compliance with state bid laws. KRS 424.260 states that expenditures of more than \$20,000 require advertisement for bids for materials, supplies, or for contractual services other than professional.

***Effect:***

During our audit of the City's expenditures, we identified two vendors that were not properly bid and exceeded the \$20,000 threshold.

***Recommendation:***

We recommend that City Management monitor expenditures throughout the year to ensure compliance with KRS requirements.

***Response:***

Management understands the need to properly monitor vendors to ensure compliance with state bid laws. The City will hold an annual training session, with all appropriate personnel to ensure compliance with KRS 424.260.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE