

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2007

CONTENTS

Management's Discussion and Analysis	1-8
Independent Auditors' Report.....	9
Government Wide Financial Statements	10
Statement of Net Assets	11
Statement of Activities	
Fund Financial Statements	12
Balance Sheet-Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds.....	13
Balance Sheet - Proprietary Funds.....	14
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund.....	15
Statement of Cash Flows - Proprietary Funds.....	16
Notes to Financial Statements	17-28
Required Supplemental Information	29-31
Budget Information.....	32
Combining Balance Sheet - Nonmajor Governmental Funds	
Combining Statement of Revenues, Expenditures and Changes in Net Assets - Nonmajor Governmental Funds	33
Schedule of Operating Expenses - Combined Utility Fund.....	34
Schedule of Revenue Bond Requirements - Utility Fund.....	35
Reports in Accordance with Government Auditing Standards	36-37

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, 2007. Please read the following in conjunction with the auditors' report on page 9 and the City's financial statements, which begin to appear on page 10.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET ASSETS

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

Table A-1

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Current and Other Assets	\$ 2,245,913	\$ 1,876,539	\$ 4,122,452
Capital Assets	<u>4,558,196</u>	<u>14,795,482</u>	<u>19,353,678</u>
Total Assets	6,804,109	16,672,021	23,476,130
Long-Term Debt Outstanding	364,545	5,260,369	5,624,914
Current Liabilities	<u>808,666</u>	<u>2,387,528</u>	<u>3,196,194</u>
Total Liabilities	1,173,211	7,647,897	8,821,108
Net Assets			
Invested in Capital Assets			11,121,800
net of debt	3,899,549	7,222,251	839,275
Restricted	38,404	800,871	2,693,947
Unrestricted	<u>1,692,945</u>	<u>1,001,002</u>	<u>2,693,947</u>
Total Net Assets	<u>\$ 5,630,898</u>	<u>\$ 9,024,124</u>	<u>\$ 14,655,022</u>

The capital assets of the City's governmental activities increased from \$4,452,086 in 2006 to \$4,558,196 in 2007. This increase was due to additions to the City's storm water, road and street assets, as required by GASB Statement No. 34. 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 \$13,794,045 in 2006 to \$14,795,482 in 2007. Net assets from one activity generally cannot be used to make up for any deficits in the other activities.

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Revenues			
<u>Program Revenue</u>			
Charges for Service	\$ -0-	\$ 7,637,819	\$ 7,637,819
<u>General Revenue</u>			
Tax	583,522		583,522
Licenses	4,707,261		4,707,261
Intergovernmental	523,103	461,801	984,904
Fines & Forfeits	579		579
Other Revenue	251,190	39,291	290,481
Total Revenue	<u>6,065,655</u>	<u>8,138,911</u>	<u>14,204,566</u>
Program Expenses			
City Commission	505,555		505,555
General Government	1,447,543		1,447,543
Public safety-Police	1,490,338		1,490,338
Public safety-Fire	1,336,070		1,336,070
Public works-Streets	591,470		591,470
Public properties-building	235,652		235,652
Inspection and engineering	102,096		102,096
Parks and recreation	75,351		75,351
Interest on long-term debt	49,050		49,050
Electric		3,454,837	3,454,837
Water		1,085,401	1,085,401
Sanitation		1,346,734	1,346,734
Sewer	-0-	1,813,650	1,813,650
Total Program Expense	<u>5,833,125</u>	<u>7,700,622</u>	<u>13,533,747</u>
Net Change in Net Assets	<u>\$ 232,530</u>	<u>\$ 438,289</u>	<u>\$ 1,428,820</u>

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

GOVERNMENTAL ACTIVITIES

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

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

Taxes	\$ 583,522
Licenses and permits	4,707,261
Intergovernmental	386,348
Fines & Forfeits	579
Other Revenues	<u>224,920</u>
Total Revenues	<u>5,902,630</u>
City Commission	505,554
General administration	1,373,945
Public safety-Police	1,396,979
Public safety-Fire	1,283,939
Public works-Streets	487,591
Public properties building	235,652
Inspection and engineering	102,096
Parks and recreation	75,351
Capital outlay	<u>275,402</u>
Total Expenditures	<u>5,736,509</u>
Excess Expenditures over Revenues before other Financing sources	<u>\$ 166,121</u>

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

BUDGET HIGHLIGHTS

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

Table A-4

Condensed Governmental Activities- Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 640,500	\$ 583,522	\$ (56,978)
Licenses and permits	4,262,000	4,707,261	445,261
Intergovernmental	279,000	386,348	(72,380)
Fines & Forfeits	11,000	579	(10,421)
Other Revenues	188,000	224,920	36,920
Total Revenues	<u>\$5,380,500</u>	<u>\$ 5,902,630</u>	<u>\$ 342,402</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
City Commission	\$ 408,200	\$ 505,555	\$ 97,355
General Administration	1,141,000	1,373,945	232,945
Public Safety- Police	1,303,000	1,396,979	93,979
Public Safety- Fire	1,236,500	1,283,939	47,439
Public Works- Streets	666,700	487,591	(179,109)
Public properties buildings	166,000	235,653	69,653
Inspection and engineering	109,500	102,096	(7,404)
Parks and Recreation	58,500	75,351	16,851
Capital Outlay	586,600	275,402	(311,198)
Debt Service	175,500	325,541	150,041
Total Expenditures	<u>\$5,851,500</u>	<u>\$6,062,052</u>	<u>\$210,552</u>

The City budgeted for a total of \$5,380,500 in revenues for 2007, but ended up having revenues of more than \$5,902,630. In other words, the City received 6.3 percent more revenue than budgeted. A total of about \$5,851,500 was budgeted for expenses, but expenditures totaled \$6,062,052 at the end of 2007. The City was over budget on the expenses by 3.6 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

<u>Capital Assets at Year End Without Depreciation</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 966,979	\$ -	\$ 966,979
Infrastructure	615,525		615,525
Buildings	3,243,700		3,243,700
Vehicles	1,845,305		1,845,305
Equipment	505,166	2,537,753	3,042,919
Electric System		6,679,646	6,679,646
Water System		6,297,807	6,297,807
Sewer System		16,331,411	16,331,411
Total Capital Assets	<u>\$ 7,176,675</u>	<u>\$ 31,846,617</u>	<u>\$ 39,023,292</u>

DEBT

Table A-7 provides a summary of all of the City's outstanding indebtedness. During 2007 the City refinanced debt in the governmental and business type activities. The net result was use of previously restricted debt service funds to pay down debt and lower interest costs. The new costs are contained in this report.

Table A-7

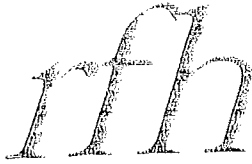
<u>Debt Outstanding at Year End</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Leases	\$ 107,974	\$ -0-	107,974
Notes Payable	380,673	4,546,608	4,927,281
Bond Payable	170,000	1,833,599	2,003,599
Total Debt Outstanding	<u>\$ 658,647</u>	<u>\$ 6,380,207</u>	<u>\$ 7,036,854</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2007 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 Robert Casher, at 525 High Street, Paris, Kentucky.



Ray, Foley, Hensley & Company, PLLC

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INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Paris
Paris, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2007, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paris, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with **Government Auditing Standards**, we have also issued a report dated January 29, 2008, on our consideration of the City of Paris' internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 29, 2008

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CITY OF PARIS, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			2006 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 535,299	\$ 624,634	\$ 1,159,933	\$ 1,072,114
Receivables (net)	1,523,049	906,488	2,429,537	2,264,493
Internal balances	134,011	-	134,011	40,317
Total current assets	2,192,359	1,531,122	3,723,481	3,376,924
Noncurrent assets				
Restricted cash and cash equivalents	-	1,083,665	1,083,665	721,198
Restricted investments	-	109,359	109,359	106,191
Capital assets (Note 3)				
Land and improvements	966,979	-	966,979	966,979
Depreciable infrastructure	553,517	-	553,517	462,372
Depreciable buildings, property, and equipment, net	3,037,700	13,602,458	16,640,158	16,786,187
Construction in progress	-	-	-	30,590
Other assets	53,554	345,417	398,971	423,322
Total noncurrent assets	4,611,750	15,140,899	19,752,649	19,496,839
Total assets	\$ 6,804,109	\$ 16,672,021	\$ 23,476,130	\$ 22,873,763
LIABILITIES				
Current liabilities				
Accounts payable	\$ 222,097	\$ 554,099	\$ 776,196	\$ 653,762
Construction payable	-	216,200	216,200	183,889
Accrued leave payable	237,193	100,694	337,887	296,970
Accrued liabilities	55,274	46,776	102,050	44,318
Other liabilities	-	191,959	191,959	175,318
Internal balances	-	134,011	134,011	40,317
Deferred revenue	-	23,951	23,951	23,951
Current portion of long-term obligations (Notes 4 & 5)	294,102	1,119,838	1,413,940	974,695
Total current liabilities	808,666	2,387,528	3,196,194	2,393,220
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	364,545	5,260,369	5,624,914	6,496,339
Total liabilities	1,173,211	7,647,897	8,821,108	8,889,559
NET ASSETS				
Invested in capital assets, net of related debt	3,899,549	7,222,251	11,121,800	10,775,094
Restricted for:				
Debt service	-	800,871	800,871	800,871
Other purposes	38,404	-	38,404	37,716
Unrestricted	1,692,945	1,001,002	2,693,947	2,370,523
Total net assets	5,630,898	9,024,124	14,655,022	13,984,204
Total liabilities and net assets	\$ 6,804,109	\$ 16,672,021	\$ 23,476,130	\$ 22,873,763

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

CITY OF PARIS, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2007

Activities/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government			2006 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
City commission	\$ 505,555	\$ -	\$ -	\$ -	\$ (505,555)	\$ -	\$ (505,555)	
General government	1,447,543	-	179,728	2,449	(1,265,366)	-	(1,262,664)	
Public safety-Police	1,490,338	-	87,239	-	(1,403,099)	-	(1,039,452)	
Public safety-Fire	1,336,070	-	94,139	-	(1,241,931)	-	(1,129,546)	
Public works-Streets	591,470	-	159,548	-	(431,922)	-	(283,338)	
Public properties bldg	235,652	-	-	-	(235,652)	-	(170,831)	
Inspection and engineer	102,096	-	-	-	(102,096)	-	(98,840)	
Parks & recreation	75,351	-	-	-	(75,351)	-	(61,802)	
Interest on long-term debt	49,050	-	-	-	(49,050)	-	(28,105)	
Total governmental activities	5,833,125	-	520,654	2,449	(5,310,022)	-	(4,458,838)	
Business-type activities								
Electric	3,454,837	3,754,568	-	-	-	299,731	299,731	
Sanitation	1,085,401	899,813	-	-	-	(185,588)	(185,588)	
Water	1,346,734	1,290,006	-	461,801	-	405,073	405,073	
Sewer	1,813,650	1,693,432	-	-	-	(120,218)	(120,218)	
Total business-type activities	7,700,622	7,637,819	-	461,801	-	398,998	398,998	
Total primary government	\$ 13,533,747	\$ 7,637,819	\$ 520,654	\$ 464,250	(5,310,022)	398,998	(4,911,024)	

General revenues			
Taxes			
Property taxes, levied for general purposes	583,522	-	583,522
License fees:			
Franchise	128,225	-	128,225
Payroll	2,487,332	-	2,487,332
Insurance premiums	1,709,070	-	1,709,070
Occupational	366,240	-	366,240
Other licenses and permits	16,394	-	16,394
Fines and forfeits	579	-	579
Grants and contributions not restricted to specific programs	3,976	-	3,976
Investment earnings	24,609	39,291	63,900
Rents	181,381	-	181,381
Miscellaneous	41,224	-	41,224
Total general revenues	5,542,552	39,291	5,581,843
Transfers			
Change in Net Assets	232,530	438,289	670,819
Net assets-beginning	5,398,368	8,585,835	13,984,203
NET ASSETS-ENDING	\$ 5,630,898	\$ 9,024,124	\$ 14,655,022

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

CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds	2006 Totals
ASSETS				
Cash and cash equivalents	\$ 505,555	\$ 29,744	\$ 535,299	\$ 551,962
Receivables, net	1,523,049	-	1,523,049	1,461,008
Due from other funds	134,011	-	134,011	40,317
Other assets	44,894	8,660	53,554	59,293
Total assets	\$ 2,207,509	\$ 38,404	\$ 2,245,913	\$ 2,112,580
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 222,097	\$ -	\$ 222,097	\$ 176,123
Accrued leave payable	237,193	-	237,193	206,936
Refundable deposit	55,274	-	55,274	-
Total liabilities	514,564	-	514,564	383,059
Fund balances				
Unreserved, reported in				
General fund	1,692,945	-	1,692,945	1,691,805
Special revenue funds	-	38,404	38,404	20,397
Debt service funds	-	-	-	17,319
Total fund balances	1,692,945	38,404	1,731,349	1,729,521
Total liabilities and fund balances	\$ 2,207,509	\$ 38,404	\$ 2,245,913	\$ 2,112,580

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

Fund balances per above	\$ 1,731,349	\$ 1,729,521
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,558,196	4,452,083
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are reported in the funds.	(658,647)	(783,236)
Net assets of governmental activities	\$ 5,630,898	\$ 5,398,368

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, 2007

	General	Other Governmental Funds	Total Governmental Funds	2006 Totals
REVENUES				
Taxes	\$ 583,522	\$ -	\$ 583,522	\$ 624,017
Licenses and permits	4,707,261	-	4,707,261	4,251,194
Fees and fines	579	-	579	4,818
Intergovernmental	386,348	159,548	545,896	1,169,608
Other revenues	224,920	1,948	226,868	269,083
Total revenues	<u>5,902,630</u>	<u>161,496</u>	<u>6,064,126</u>	<u>6,318,720</u>
EXPENDITURES				
Current				
City commission	505,554	-	505,554	384,260
General administration	1,373,945	-	1,373,945	1,579,550
Public safety-Police	1,396,979	-	1,396,979	1,293,646
Public safety-Fire	1,283,939	-	1,283,939	1,247,463
Public works	487,591	50,000	537,591	519,662
Public properties bldg	235,652	-	235,652	170,831
Inspection and engineer	102,096	-	102,096	98,840
Parks & recreation	75,351	-	75,351	61,802
Industrial development	-	102,149	377,551	945,590
Capital outlay	275,402	334,200	334,200	211,761
Debt service	-	-	-	-
Total expenditures	<u>5,736,509</u>	<u>486,349</u>	<u>6,222,858</u>	<u>6,513,405</u>
Excess (deficiency) of revenues over expenditures	<u>166,121</u>	<u>(324,853)</u>	<u>(158,732)</u>	<u>(194,685)</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	160,560	-	160,560	465,893
Transfers in (out)	(325,541)	325,541	-	(25,000)
Total other financing sources (uses)	<u>(164,981)</u>	<u>325,541</u>	<u>160,560</u>	<u>440,893</u>
Net change in fund balances	1,140	688	1,828	246,208
Fund balances-beginning	1,691,805	37,716	1,729,521	1,483,313
Fund balances-ending	<u>\$ 1,692,945</u>	<u>\$ 38,404</u>	<u>\$ 1,731,349</u>	<u>\$ 1,729,521</u>
Reconciliation to government-wide change in net assets				
Net change in fund balances			\$ 1,828	\$ 246,208
add: capital outlay expenditures			377,551	945,590
add: debt service expenditures			334,200	211,761
less: debt proceeds			(160,560)	(465,893)
less: depreciation on governmental activities assets			(271,439)	(226,337)
less: interest on long term debt			(49,050)	(28,105)
Change in net assets Governmental Activities			<u>\$ 232,530</u>	<u>\$ 683,224</u>

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

CITY OF PARIS, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2007

	Business-Type Activities Utility Fund	2006 Totals
ASSETS		
Current assets	\$ 624,634	\$ 520,152
Cash and cash equivalents	<u>906,488</u>	<u>803,485</u>
Receivables (net)		
Total current assets	<u>1,531,122</u>	<u>1,323,637</u>
Noncurrent assets		
Restricted cash and cash equivalents	1,083,665	721,198
Restricted investments	109,359	106,191
Other assets	345,417	364,029
Capital assets		30,590
Construction in progress	31,846,616	30,996,603
Utility systems	<u>(18,244,158)</u>	<u>(17,233,148)</u>
Less accumulated depreciation		
Total non current assets	<u>15,140,899</u>	<u>14,985,463</u>
Total assets	<u>\$ 16,672,021</u>	<u>\$ 16,309,100</u>
LIABILITIES		
Current liabilities	\$ 554,099	\$ 477,639
Accounts payable	216,200	183,889
Construction payable	191,959	175,318
Meter deposits	100,694	90,034
Accrued leave payable	46,776	44,318
Accrued interest payable	134,011	40,317
Other payables	23,951	23,951
Deferred revenues	<u>1,119,838</u>	<u>742,131</u>
Current portion of long-term debt		
Total current liabilities	<u>2,387,528</u>	<u>1,777,597</u>
Noncurrent liabilities		
Bonds, notes, and loans payable		
Total noncurrent liabilities	<u>5,260,369</u>	<u>5,945,667</u>
Total liabilities	<u>7,647,897</u>	<u>7,723,264</u>
NET ASSETS		
Invested in capital assets, net of related debt	7,222,251	7,106,247
Restricted for debt service	800,871	800,871
Unrestricted	<u>1,001,002</u>	<u>678,718</u>
Total net assets	<u>9,024,124</u>	<u>8,585,836</u>
Total liabilities and net assets	<u>\$ 16,672,021</u>	<u>\$ 16,309,100</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 ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2007

	Business-type Activities Utility Fund	2006 Totals
Operating revenues		
Charges for services	\$ 7,637,819	\$ 7,434,042
Total operating revenues	7,637,819	7,434,042
Operating expenses		
Utility administration	561,327	582,373
Electric department	3,112,973	2,955,220
Water distribution	983,122	883,353
Sewer treatment	922,496	847,136
Sanitation	896,334	865,630
Depreciation	1,011,010	1,026,874
Total operating expenses	7,487,262	7,160,586
Operating income (loss)	150,557	273,456
Nonoperating revenues (expenses)		
KIA Grant	217,261	672,789
Donated assets	244,540	-
Interest and investment revenue	39,291	19,817
Interest expense	(213,360)	(245,465)
Total nonoperating revenue (expenses)	287,732	447,141
Transfers	-	25,000
Change in net assets	438,289	745,597
Total net assets-beginning	8,585,835	7,840,239
TOTAL NET ASSETS-ENDING	\$ 9,024,124	\$ 8,585,836

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, 2007

	Business-Type Activities Utility Fund	2006 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 7,599,815	\$ 7,337,278
Payments to suppliers	(4,685,214)	(4,586,449)
Payments for employee services and benefits	(1,767,329)	(1,611,622)
Customer deposits	16,641	11,802
	1,163,913	1,151,009
Net cash provided by operating activities		
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment under interfund agreements	-	25,000
	-	25,000
Net cash provided by non-capital and related financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	-	1,111,000
Purchases of capital assets	(564,316)	(1,406,936)
Principal paid on capital debt	(307,591)	(2,694,912)
Advances to GF	93,694	-
Grant proceeds	217,261	672,789
Interest paid on capital debt	(172,134)	(26,630)
	(733,086)	(2,344,689)
Net cash (used) by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	39,291	19,890
	39,291	19,890
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	470,118	(1,148,790)
Balances-beginning of the year	1,347,541	2,496,331
BALANCES-END OF THE YEAR	\$ 1,817,659	\$ 1,347,541
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 150,557	\$ 273,456
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,011,010	1,026,874
Change in assets and liabilities:		
Receivables, net	(38,004)	(96,837)
Inventory	-	(88,362)
Other assets	(722)	(4,291)
Customer deposits	16,641	11,802
Accounts and other payables	13,771	70,809
Accrued expenses	10,660	(42,442)
Net cash provided by operating activities	\$ 1,163,913	\$ 1,151,009

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

Government-wide Financial Statements

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

B. Basis of Presentation (continued)

Fund Financial Statements

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

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

The following funds are used by the City of Paris:

Governmental Funds

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

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

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

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Proprietary Funds

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

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

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

C. Basis of Accounting

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

Government-wide Financial Statements

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

Fund Financial Statements

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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

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

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

D. Budgeting

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

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

E. Other Accounting Policies

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

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Other Accounting Policies (continued)

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

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

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

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

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

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

2. CASH AND INVESTMENTS

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

The City of Paris' deposits and investments at June 30, 2007 were not entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The book balance of the City's deposits was \$2,352,957 and the bank balances were \$2,410,034. The amount in excess of federal depository insurance or collateral held by the custodial banks in the City's name was \$136,575.

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

CITY OF PARIS, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

3. CAPITAL ASSETS

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

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Government Type Activities				
Capital assets not depreciated:				
Land and Improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Capital assets that are depreciated:				
Building and Improvements	3,226,250	17,450	-	3,243,700
Vehicles	1,653,245	192,060	-	1,845,305
Equipment	450,757	54,409	-	505,166
Totals	<u>5,330,252</u>	<u>263,919</u>	<u>-</u>	<u>5,594,171</u>
Total Non-Infrastructure Assets	<u>6,297,231</u>	<u>263,919</u>	<u>-</u>	<u>6,561,150</u>
Recording infrastructure Assets:				
Infrastructure Assets	501,893	113,632	-	615,525
Total Capital Assets	<u>6,799,124</u>	<u>377,551</u>	<u>-</u>	<u>7,176,675</u>
Less Accumulated Depreciation:				
Building and Improvements	1,245,462	81,919	-	1,325,853
Vehicles	911,861	115,038	-	1,026,898
Equipment	150,197	53,523	-	203,720
Infrastructure Assets	39,521	22,487	-	62,008
Totals	<u>2,347,041</u>	<u>272,967</u>	<u>-</u>	<u>2,618,479</u>
Depreciable capital assets, net	<u>\$ 4,452,083</u>	<u>\$ 9,048</u>	<u>\$ -</u>	<u>\$ 4,558,196</u>
Business-Type Activities				
Equipment & Vehicles	\$ 2,501,583	\$ 36,168	\$ -	\$ 2,537,751
Electric Lines, Poles, and Plant	6,369,946	309,700	-	6,679,646
Water Treatment Plant, Land and Water System Improvements	6,097,933	199,874	-	6,297,807
Sewer Treatment Plant, Land and Improvements	16,027,141	304,270	-	16,331,411
Total	<u>30,996,603</u>	<u>850,012</u>	<u>-</u>	<u>31,846,615</u>
Less Accumulated Depreciation	<u>17,233,147</u>	<u>1,011,010</u>	<u>-</u>	<u>18,244,157</u>
Capital Assets Net	<u>\$ 13,763,456</u>	<u>\$ (160,998)</u>	<u>\$ -</u>	<u>\$ 13,602,458</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 73,598
Police	93,359
Fire	52,131
Public works	53,879
Total Depreciation Expense	<u>\$ 272,967</u>

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

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

CITY OF PARIS, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT

Kentucky Infrastructure Loan

The City of Paris entered into a long term financing assistance agreement with the Kentucky Infrastructure Authority in December 1999 to provide financing for utility system improvements. The note totaled \$6,345,954. The note accrues interest at 1.8% and is amortized over twenty years. The annual debt service is approximately \$380,000. The following summarizes the changes in the note payable during the fiscal year:

Note balance at July 1, 2006	\$ 4,841,644
Note principal payments	<u>(295,036)</u>
Note balance at June 30, 2007	<u>\$4,546,608</u>

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

	Principal	Interest	Service Fee	Total
2008	\$ 294,838	\$ 75,675	\$ 8,404	\$ 378,917
2009	300,169	70,344	7,816	378,329
2010	305,596	64,917	7,213	377,726
2011	321,120	59,391	6,599	287,110
2012	316,747	53,766	5,974	376,487
Thereafter	<u>3,008,138</u>	<u>215,014</u>	<u>23,890</u>	<u>3,247,042</u>
Total	<u>\$ 4,546,608</u>	<u>\$ 539,107</u>	<u>\$ 59,896</u>	<u>\$ 5,145,611</u>

Kentucky Utilities Agreement

The City of Paris executed purchase and lease agreements with Kentucky Utilities Company during the fiscal year to acquire and lease electric distribution property and facilities located in downtown Paris in order to eliminate duplicate poles, lines and wires. The City also acquired approximately 580 customers from Kentucky Utilities Company. The total value of the transactions for purchased property and equipment is \$318,765, which is to be paid over a period of five years at \$63,753 per year.

Note balance at July 1, 2006	\$ 63,753
Note principal payments	<u>(63,753)</u>
Note balance at June 30, 2007	<u>\$ -</u>

CITY OF PARIS, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT, Continued

PROPRIETARY FUND CHANGES IN BONDS PAYABLE

	Issued	Rate	Balance Outstanding 6/30/06	Issued (Retired) During Year	Balance Outstanding 6/30/07
2003A Series	\$1,480,000	2.00-2.10%	825,000	-	\$ 825,000
2005 Series	1,111,000	4.125%	1,111,000		<u>1,111,000</u>
					<u>(102,401)</u>
Less: Deferred amount on refunding					<u>\$ 1,833,599</u>

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

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

	Principal	Interest	Total
2008	\$ 0	\$ 45,828	\$ 45,828
2009	12,000	45,581	57,581
2010	13,000	45,066	58,066
2011	13,000	44,530	57,530
2012	14,000	43,395	57,395
Thereafter	<u>1,059,000</u>	<u>912,266</u>	<u>1,971,266</u>
Total	<u>\$ 1,111,000</u>	<u>\$ 1,136,666</u>	<u>\$ 2,247,666</u>

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

Year ending June 30	Bond Principal	Bond Interest	Total	Deferred Amount on Refunding
2008	\$ 825,000	\$ 17,063	\$ 842,063	\$102,401

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

Current portion	\$ 1,119,838
Long-term portion	5,260,369
Total	<u>\$ 6,380,207</u>

CITY OF PARIS, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT

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

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Phones	\$ 562	\$ -0-	\$ 562	\$ -0-
Lease One Corp.	-	160,560	52,586	107,974
Traditional Bank Loan	123,563	-	43,073	80,490
Farmers Bank Loan	324,112	-	23,929	300,183
General Obligation Refunding Bonds Series, 2003 B	335,000	-0-	165,000	170,000
	<u>\$ 783,237</u>	<u>\$ -160,560</u>	<u>\$ 285,150</u>	<u>\$ 658,647</u>

LEASE OBLIGATIONS

In fiscal year 2001, the City acquired a phone system under a long-term lease. The lease agreement provides for monthly payments beginning April 2001. The City made its final payment in the amount of \$562 in fiscal year ended June 30, 2007.

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

The future debt service requirements are as follows:

	Principal	Interest	Total
2008	\$ 53,195	\$ 3,615	\$ 56,810
2009	<u>54,779</u>	<u>2,031</u>	<u>56,810</u>
	<u>\$ 107,974</u>	<u>\$ 5,646</u>	<u>\$ 113,620</u>

TRADITIONAL BANK LOAN

During the fiscal year, the City obtained a loan in the amount of \$134,260 for capital improvements. The loan matures on March 20, 2009 and carries an interest rate of 5%. \$43,073 was paid in principal during 2007.

The future debt service requirements are as follows:

	Principal	Interest	Total
2008	\$ 45,278	\$ 3,010	\$ 48,288
2009	<u>35,212</u>	<u>742</u>	<u>35,954</u>
	<u>\$ 80,490</u>	<u>\$ 3,752</u>	<u>\$ 84,242</u>

CITY OF PARIS, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT, Continued

FARMERS BANK LOAN

During the fiscal year, the City obtained a loan in the amount of \$330,106 for capital improvements. The loan matures on March 15, 2016 and carries an interest rate of 7%. \$23,929 was paid in principal during 2007.

The future debt service requirements are as follows:

	Principal	Interest	Total
2008	\$ 25,629	\$ 20,538	\$ 46,167
2009	27,563	18,604	46,167
2010	29,585	15,582	46,167
2011	31,754	14,413	46,167
2012	64,050	12,117	46,167
Thereafter	<u>151,601</u>	<u>21,521</u>	<u>173,122</u>
	<u>\$ 300,182</u>	<u>\$ 103,773</u>	<u>\$ 403,955</u>

GENERAL OBLIGATIONS BONDS

The City of Paris issued \$680,000 of General Obligation Bonds, Series 2003B to refinance the City's debt in the public properties corporation issued for the purchase and refurbishing of administrative offices with First Mortgage Revenue Bonds Series 1993. The 2003 G.O. Bonds are dated March 1, 2004 and will mature serially each March 1 through March 1, 2008 and bear interest from 2%-2.75%. The average fiscal year debt service is \$174,196. The debt will be serviced by the GO Bond Debt Service Fund.

The future debt service requirements are as follows:

	Principal	Interest	Total
2008	\$ 170,000	\$ 4,675	\$ 174,675

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

Current portion of GO bonds June 30, 2007	\$ 170,000
Current portion of Farmers note	25,629
Current portion of Lease One Corp	53,195
Current portion of Traditional note	<u>45,278</u>
	294,102
Long-term portion	<u>364,545</u>
Total	<u>\$ 658,647</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

6. PARIS, KENTUCKY PUBLIC PROPERTIES CORPORATION

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

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

7. INDUSTRIAL REVENUE BONDS

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

8. RETIREMENT PLAN

The City of Paris is a participating employer of the County Employees' Retirement System (CERS) which is a multi-employer defined benefit plan that covers substantially all regular full-time employees of each county, school board, municipal and other local agencies electing to participate. Upon election to participate in the CERS, each employee has the option to participate, however, all subsequent employees must participate and the employer is required to continue participation.

The City of Paris has a total of 124 employees covered by the CERS. There are 56 employees under the hazardous duty section who contributed 8.00% of wages and the employer contributes 28.21%. There are also 68 non-hazardous duty employees who contribute 5.00% and the employer contributes 13.19%. The City's contribution for the year ended June 30, 2007 was \$935,439 and the employees contributed \$293,947.

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the System.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

8. RETIREMENT PLAN, Continued

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981, 6% thereafter through June 30, 1986 and 4% thereafter.

The City's total payroll during the current year was \$4,392,535. The current year contribution was calculated based on covered payroll of \$4,392,535. All required contributions were paid at year-end or within thirty (30) days thereafter. The percentage of the City's contribution to total employers' contributions in the CERS for the year is not known.

The CERS total actuarial accrued liability was \$8,868,182,305 and the net assets available for the benefits was \$7,107,113,404 of June 30, 2007. Ten-year historical trend information showing assets available to pay benefits when due is presented in the System's June 30, 2007, comprehensive annual report.

9. PROPERTY TAX CALENDER

Property taxes for fiscal year 2007 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2006 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

10. RISK MANAGEMENT

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

11. RECLASSIFICATION

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

SUPPLEMENTAL INFORMATION

CITY OF PARIS, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 GENERAL FUND
 for the year ended June 30, 2007

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
Taxes				
Property taxes	\$ 575,000	\$ 575,000	\$ 573,282	\$ (1,718)
Delinquent taxes	7,500	7,500	5,014	(2,486)
Payment in lieu of taxes	50,000	50,000	-	(50,000)
Penalties and interest	<u>8,000</u>	<u>8,000</u>	<u>5,226</u>	<u>(2,774)</u>
	<u>640,500</u>	<u>640,500</u>	<u>583,522</u>	<u>(56,978)</u>
Licenses and permits				
Occupational license	2,350,000	2,350,000	2,487,332	137,332
Insurance license	1,500,000	1,500,000	1,709,070	209,070
Net profits license fee	275,000	275,000	366,240	91,240
Franchise fees	110,000	110,000	128,225	18,225
Building inspection fees	12,000	12,000	7,700	(4,300)
Alcohol beverage fees	<u>15,000</u>	<u>15,000</u>	<u>8,694</u>	<u>(6,306)</u>
	<u>4,262,000</u>	<u>4,262,000</u>	<u>4,707,261</u>	<u>445,261</u>
Fines and forfeits				
Parking fines	<u>11,000</u>	<u>11,000</u>	<u>579</u>	<u>(10,421)</u>
	<u>11,000</u>	<u>11,000</u>	<u>579</u>	<u>(10,421)</u>
Intergovernmental revenues				
Police incentive pay	82,000	82,000	87,239	5,239
Fire incentive pay	100,000	100,000	94,139	(5,861)
Highway safety and other grants	-	-	2,449	2,449
Fiscal court	72,000	72,000	-	(72,000)
E911			179,728	
District court	<u>25,000</u>	<u>25,000</u>	<u>22,793</u>	<u>(2,207)</u>
	<u>279,000</u>	<u>279,000</u>	<u>386,348</u>	<u>(72,380)</u>
Other revenues				
Rent	175,000	175,000	171,845	(3,155)
Interest income	3,000	3,000	22,661	19,661
Other	<u>10,000</u>	<u>10,000</u>	<u>30,414</u>	<u>20,414</u>
	<u>188,000</u>	<u>188,000</u>	<u>224,920</u>	<u>36,920</u>
	<u>\$ 5,380,500</u>	<u>\$ 5,380,500</u>	<u>\$ 5,902,630</u>	<u>\$ 342,402</u>

CITY OF PARIS, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 for the year ended June 30, 2007

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
CITY COMMISSION				
Personnel services	\$ 62,200	\$ 62,200	\$ 62,302	\$ 102
Contractual services	32,000	32,000	33,695	1,695
Material and supplies	2,000	2,000	938	(1,062)
Other expenses	<u>312,000</u>	<u>312,000</u>	<u>408,620</u>	<u>96,620</u>
	<u>408,200</u>	<u>408,200</u>	<u>505,554</u>	<u>97,355</u>
GENERAL ADMINISTRATION				
Personnel services	976,000	976,000	1,113,616	137,616
Contractual services	146,500	146,500	151,011	4,511
Materials and supplies	10,500	10,500	97,192	86,692
Other expenses	<u>8,000</u>	<u>8,000</u>	<u>12,126</u>	<u>4,126</u>
	<u>1,141,000</u>	<u>1,141,000</u>	<u>1,373,945</u>	<u>232,945</u>
POLICE DEPARTMENT				
Personnel services	1,037,500	1,037,500	1,012,437	(25,063)
Contractual services	169,500	169,500	202,754	33,254
Materials and supplies	95,000	95,000	179,878	84,878
Other expenses	<u>1,000</u>	<u>1,000</u>	<u>1,910</u>	<u>910</u>
	<u>1,303,000</u>	<u>1,303,000</u>	<u>1,396,979</u>	<u>93,979</u>
FIRE DEPARTMENT				
Personnel services	950,000	950,000	950,569	569
Contractual services	168,500	168,500	138,580	(29,920)
Materials and supplies	78,000	78,000	154,213	76,213
Other expenses	<u>40,000</u>	<u>40,000</u>	<u>40,577</u>	<u>577</u>
	<u>1,236,500</u>	<u>1,236,500</u>	<u>1,283,939</u>	<u>47,439</u>

CITY OF PARIS, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 GENERAL FUND
 for the year ended June 30, 2007

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
STREET DEPARTMENT				
Personnel services	\$ 284,200	\$ 284,200	\$ 231,957	\$ (52,243)
Contractual services	313,000	313,000	182,775	(130,225)
Materials and supplies	<u>69,500</u>	<u>69,500</u>	<u>72,859</u>	<u>3,359</u>
	<u>666,700</u>	<u>666,700</u>	<u>487,591</u>	<u>(179,109)</u>
PUBLIC PROPERTIES BUILDING				
Personnel services	38,500	38,500	37,066	(1,434)
Contractual services	117,500	117,500	140,196	22,696
Material and supplies	<u>10,000</u>	<u>10,000</u>	<u>58,391</u>	<u>48,391</u>
	<u>166,000</u>	<u>166,000</u>	<u>235,652</u>	<u>69,653</u>
INSPECTION AND ENGINEERING				
Personnel services	97,000	97,000	97,049	49
Contractual services	11,500	11,500	4,404	(7,096)
Materials and supplies	<u>1,000</u>	<u>1,000</u>	<u>643</u>	<u>(357)</u>
	<u>109,500</u>	<u>109,500</u>	<u>102,096</u>	<u>(7,404)</u>
PARKS & RECREATION				
Contractual services	54,500	54,500	65,257	10,757
Materials and supplies	<u>4,000</u>	<u>4,000</u>	<u>10,094</u>	<u>6,094</u>
	<u>58,500</u>	<u>58,500</u>	<u>75,351</u>	<u>16,851</u>
CAPITAL OUTLAY				
	<u>586,600</u>	<u>586,600</u>	<u>275,402</u>	<u>(311,198)</u>
EXPENSES BEFORE TRANSFERS				
	5,676,000	5,676,000	5,736,509	60,511
DEBT SERVICES TRANSFERS				
	<u>175,500</u>	<u>175,500</u>	<u>325,541</u>	<u>150,041</u>
Total	<u>\$ 5,851,500</u>	<u>\$ 5,851,500</u>	<u>\$ 6,062,050</u>	<u>\$ 210,552</u>

CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 ALL NONMAJOR FUNDS
 June 30, 2007

	Municipal Road Aid Fund	Industrial Development Fund	Debt Service	Total
ASSETS				
Cash	\$ 16,632	\$ 13,112	\$ -	\$ 29,744
Bond discount			8,660	8,660
	<u>\$ 16,632</u>	<u>\$ 13,112</u>	<u>\$ 8,660</u>	<u>\$ 38,404</u>
Total assets				
 LIABILITIES & FUND EQUITY				
Fund equity				
Fund balance	<u>\$ 16,632</u>	<u>\$ 13,112</u>	<u>\$ 8,660</u>	<u>\$ 38,404</u>
Total fund equity	<u>\$ 16,632</u>	<u>\$ 13,112</u>	<u>\$ 8,660</u>	<u>\$ 38,404</u>

CITY OF PARIS, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL NONMAJOR FUNDS
 for the year ended June 30, 2007

	Municipal Road Aid Fund	Industrial Development Fund	Debt Service	Total
REVENUES				
Intergovernmental revenue	\$ 159,548	\$ -	\$ -	\$ 159,548
Other revenues	<u>1,553</u>	<u>395</u>	<u>-</u>	<u>1,948</u>
Total revenues	<u>161,101</u>	<u>395</u>	<u>-</u>	<u>161,496</u>
EXPENDITURES				
Street department	50,000	-	-	50,000
Capital outlay	102,149	-	-	102,149
Debt service	<u>-</u>	<u>-</u>	<u>334,200</u>	<u>334,200</u>
Total expenditures	<u>152,149</u>	<u>-</u>	<u>334,200</u>	<u>486,349</u>
Excess revenues over (under) expenditures before other financing sources (uses)	8,952	395	(334,200)	(324,853)
Other financing sources (uses) Operating transfer, net	-	-	325,541	325,541
Fund balances - July 1, 2006	<u>7,680</u>	<u>12,717</u>	<u>17,319</u>	<u>37,716</u>
FUND BALANCES - JUNE 30, 2007	<u>\$ 16,632</u>	<u>\$ 13,112</u>	<u>\$ 8,660</u>	<u>\$ 38,404</u>

CITY OF PARIS UTILITY FUND
 SCHEDULE OF OPERATING EXPENSES
 COMBINED UTILITY FUND
 for the year ended June 30, 2007

UTILITY ADMINISTRATION		\$ 388,424
Personnel services		113,868
Contractual services		25,561
Materials and supplies		33,474
Other expenses		<u>33,474</u>
		<u>561,327</u>
 ELECTRIC		
Personnel services		334,720
Electric purchases		2,270,067
Contractual services		126,772
Materials and supplies		381,414
		<u>381,414</u>
		<u>3,112,973</u>
 WATER SYSTEM		
Personnel services		587,323
Contractual services		157,035
Materials and supplies		232,914
Other expenses		5,850
		<u>5,850</u>
		<u>983,122</u>
 SEWER SYSTEM		
Personnel services		467,522
Contractual services		264,286
Materials and supplies		190,688
		<u>190,688</u>
		<u>922,496</u>
 TRASH PICK-UP		
Personnel services		315,066
Contractual services		506,150
Materials and supplies		75,118
		<u>75,118</u>
		<u>896,334</u>
 DEPRECIATION		<u>1,011,010</u>
 Total Operating Expenses		<u>\$ 7,487,262</u>

CITY OF PARIS, KENTUCKY
 COMBINED UTILITY FUND
 SCHEDULE OF REVENUE BOND REQUIREMENTS
 June 30, 2007

FISCAL YEAR ENDING JUNE 30	2003 ISSUE		2005 ISSUE		TOTAL DEBT SERVICE
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2008	\$ 825,000	\$ 17,063	\$ -	\$ 45,828	\$ 887,891
2009	-	-	12,000	45,581	57,581
2010	-	-	13,000	45,066	58,066
2011	-	-	13,000	44,530	57,530
2012	-	-	14,000	43,395	57,395
Therafter	-	-	1,059,000	912,266	1,971,266
TOTAL	<u>\$ 825,000</u>	<u>\$ 17,063</u>	<u>\$ 1,111,000</u>	<u>\$ 1,136,666</u>	<u>\$ 3,089,729</u>

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

Members of the Commission
City of Paris, Kentucky

We have audited the financial statements of the City of Paris as of and for the year ended June 30, 2007 and have issued our report thereon dated January 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe the following deficiency is a significant deficiency.

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

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

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

Compliance and Other Matters

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

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 29, 2008