

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2013

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City of Paris, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Paris's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read the following.....in conjunction with the auditors' report on pages 9 and 10.....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 assets** 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 Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Current and Other Assets	\$ 2,514,022	\$ 2,461,255	\$ 4,975,277
Capital Assets	<u>5,213,046</u>	<u>10,009,065</u>	<u>15,222,111</u>
Total Assets	7,727,068	12,470,320	20,197,388
Long-Term Debt Outstanding	398,846	3,555,253	3,954,099
Current Liabilities	<u>711,560</u>	<u>1,380,353</u>	<u>2,091,913</u>
Total Liabilities	1,110,406	4,935,606	6,046,012
Net Position			
Net Invested in			
Capital Assets	4,577,238	6,010,824	10,588,062
Restricted	409,544	525,262	934,806
Unrestricted	<u>1,629,880</u>	<u>998,628</u>	<u>2,628,508</u>
Total Net Position	<u>\$ 6,616,662</u>	<u>\$ 7,534,714</u>	<u>\$ 14,151,376</u>

The capital assets of the City's **governmental activities** decreased from \$5,400,056 in 2012 to \$5,213,046 in 2013. This **decrease was due to depreciation outpacing capital additions** for the year.

The City elected to record infrastructure assets going forward from July 1, 2003 as allowed by GASB 34.

The capital assets of the **business-type activities** decreased from \$10,667,395 in 2012 to \$10,009,065 in 2013. This **decrease was due to depreciation outpacing 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 Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Revenues			
<u>Program Revenue</u>			
Charges for Service	\$ -	\$ 9,009,922	\$ 9,009,922
<u>General Revenue</u>			
Tax	696,563		696,563
Licenses	4,964,690		4,964,690
Intergovernmental	562,435	2,901	565,336
Fines & Forfeits	2,485		2,485
Other Revenue	<u>662,078</u>	<u>453,987</u>	<u>1,116,065</u>
Total Revenue	<u>6,888,251</u>	<u>9,466,810</u>	<u>16,355,061</u>
Program Expenses			
City Commission	285,595		285,595
General Government	1,412,793		1,412,793
Public safety-Police	2,014,020		2,014,020
Public safety-Fire	1,526,166		1,526,166
Public works-Streets	580,334		580,334
Inspection, engineering, parks	260,461		260,461
Interest on long-term debt	26,755		26,755
Electric		4,460,626	4,460,626
Sanitation		1,130,636	1,130,636
Water		1,965,022	1,965,022
Sewer		<u>1,831,942</u>	<u>1,831,942</u>
Total Program Expense	<u>6,106,124</u>	<u>9,388,224</u>	<u>15,494,348</u>
Transfers	-	-	-
Net Change in Net Assets	<u>\$ 782,127</u>	<u>\$ 78,586</u>	<u>\$ 860,713</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.

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	\$ 696,563
Licenses and permits	4,964,690
Intergovernmental	562,435
Fines & forfeits	2,485
Other revenues	<u>182,078</u>
Total Revenues	6,408,251
City Commission	285,595
General administration	1,258,745
Public safety-Police	1,959,498
Public safety-Fire	1,387,688
Public works-Streets	513,504
Inspection, engineering, & parks	255,941
Capital outlay	231,388
Debt service	<u>276,494</u>
Total Expenditures	<u>6,168,853</u>
Excess Revenues over Expenditures before other Financing sources	<u>\$ 239,398</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	\$ 662,500	\$ 696,563	\$ 34,063
Licenses and permits	4,492,500	4,964,690	472,190
Intergovernmental	773,500	253,418	(520,082)
Fines & Forfeit	1,500	2,485	985
Other Revenues	<u>628,000</u>	<u>682,490</u>	<u>54,490</u>
Total Revenues	<u>\$6,558,000</u>	<u>\$ 6,599,646</u>	<u>\$ 41,646</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government & Capital			
Budgeting	\$1,899,035	\$1,853,279	\$ (45,756)
Public Safety- Police	1,932,440	1,959,498	27,058
Public Safety- Fire	1,358,500	1,387,688	29,188
Public Works- Streets	<u>585,525</u>	<u>513,504</u>	<u>(72,021)</u>
Total Expenditures	<u>\$5,775,500</u>	<u>\$5,713,969</u>	<u>\$ (61,531)</u>

The City budgeted for a total of \$6,558,000 in revenues for 2013, but ended up having revenues of \$6,559,646. In other words, the City received 0.6 percent more revenue than budgeted.

A total of \$5,775,500 was budgeted for expenses, but expenditures totaled \$5,713,969 at the end of 2013. The City was under budget on the expenses by 1.0 percent.

CAPITAL ASSETS

Table A-1 showed summary totals for a broad range of capital assets, including police and fire **equipment and vehicles**, buildings, **land, roads, bridges, storm sewers**, and all of the **equipment and materials** involved in the operation of an electric, water and sanitary sewer utility.

Table A-5 shows the breakdown of non-depreciated capital assets for both governmental and business-type activities.

Table A-6

Capital Assets at Year End Without Depreciation

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 966,979	\$ -	\$ 966,979
Infrastructure	2,102,961	-	2,102,961
Buildings	3,336,222	-	3,336,222
Vehicles	2,821,435	-	2,821,435
Equipment	786,520	3,042,029	3,828,549
Electric System	-	8,037,957	8,037,957
Water System	-	6,752,094	6,752,094
Sewer System	-	16,804,258	16,804,258
Total Capital Assets	<u>\$10,014,117</u>	<u>\$ 34,636,338</u>	<u>\$ 44,650,455</u>

DEBT

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

Table A-7

<u>Debt Outstanding at Year End</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Leases	\$ 107,475	\$ 292,331	\$ 399,806
Notes Payable	-	2,660,910	2,660,910
Bond Payable	<u>528,333</u>	<u>1,045,000</u>	<u>1,574,333</u>
Total Debt Outstanding	<u>\$ 635,808</u>	<u>\$ 3,998,241</u>	<u>\$ 4,634,049</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2014 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.



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Mayor and Commissioners
City of Paris
Paris, Kentucky

Stephen R. Allen, CPA/PFS
Michael D. Foley, CPA/CGMA
Lyman Hager, Jr., CPA/PFS
Bradley J. Hayes, CPA/CGFM
Jerry W. Hensley, CPA/CGMA
T. Cory Reitz, CPA/ABV, CVA

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 of Paris, Kentucky, as of and for the year ended June 30, 2013, 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. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2013, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1–8 and 32–34 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

March 4, 2014

CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government			2012 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,281,854	\$ 369,372	\$ 1,651,226	\$ 792,621
Receivables (net)	1,184,218	765,349	1,949,567	1,945,227
Internal balances	26,346	-	26,346	41,593
Total current assets	2,492,418	1,134,721	3,627,139	2,779,441
Noncurrent assets				
Restricted cash and cash equivalents	-	768,707	768,707	687,425
Capital assets (Note 3)				
Land and improvements	966,979	-	966,979	966,979
Depreciable infrastructure, net	1,704,650	-	1,704,650	1,619,507
Depreciable buildings, property and equipment, net	2,541,417	10,009,065	12,550,482	13,480,965
Other assets	21,604	557,827	579,431	550,068
Total noncurrent assets	5,234,650	11,335,599	16,570,249	17,304,944
Total assets	\$ 7,727,068	\$ 12,470,320	\$ 20,197,388	\$ 20,084,385
LIABILITIES				
Current liabilities				
Accounts payable	\$ 73,809	\$ 485,584	\$ 559,393	\$ 840,950
Accrued leave payable	350,789	152,436	503,225	496,727
Accrued liabilities	-	10,965	10,965	21,985
Other liabilities	-	256,413	256,413	251,578
Internal balances	-	31,967	31,967	41,593
Deferred revenue	50,000	-	50,000	50,000
Current portion of long-term obligations (Notes 4 & 5)	236,962	442,988	679,950	634,578
Total current liabilities	711,560	1,380,353	2,091,913	2,337,411
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	398,846	3,555,253	3,954,099	4,456,311
Total liabilities	1,110,406	4,935,606	6,046,012	6,793,722
NET POSITION				
Net investment in capital assets	4,577,238	6,010,824	10,588,062	10,976,562
Restricted for:				
Debt service	-	525,262	525,262	509,248
Other purposes	409,544	-	409,544	314,837
Unrestricted	1,629,880	998,628	2,628,508	1,490,016
Total net position	6,616,662	7,534,714	14,151,376	13,290,663
Total liabilities and net position	\$ 7,727,068	\$ 12,470,320	\$ 20,197,388	\$ 20,084,385

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

**CITY OF PARIS, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2012 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
City commission	\$ 285,595	\$ -	\$ -	\$ -	\$ (285,595)	\$ -	\$ (285,595)	\$ (319,421)
General government	1,412,793	-	4,130	-	(1,408,663)	-	(1,408,663)	(1,298,654)
Public safety-Police	2,014,020	-	148,177	11,639	(1,854,204)	-	(1,854,204)	(1,863,228)
Public safety-Fire	1,526,166	-	89,472	-	(1,436,694)	-	(1,436,694)	(1,600,140)
Public works-Streets	580,334	-	309,017	-	(271,317)	-	(271,317)	(319,917)
Inspection, engineering, parks & rec	260,461	-	-	-	(260,461)	-	(260,461)	(292,049)
Interest on long-term debt	26,755	-	-	-	(26,755)	-	(26,755)	(29,133)
Total governmental activities	6,106,124	-	550,796	11,639	(5,543,689)	-	(5,543,689)	(5,722,542)
Business-type activities								
Electric	4,460,626	4,905,298	-	-	-	444,672	444,672	109,816
Sanitation	1,130,636	916,431	-	-	-	(214,205)	(214,205)	(131,288)
Water	1,965,022	1,397,457	-	2,901	-	(564,664)	(564,664)	(139,693)
Sewer	1,831,942	1,790,738	-	-	-	(41,204)	(41,204)	(290,579)
Total business-type activities	9,388,224	9,009,922	-	2,901	-	(375,401)	(375,401)	(451,743)
Total primary government	\$ 15,494,348	\$ 9,009,922	\$ 550,796	\$ 14,540	(5,543,689)	(375,401)	(5,919,090)	(6,174,285)
General revenues								
Taxes								
Property taxes, levied for general purposes					696,563	-	696,563	671,359
License fees:								
Franchise					159,093	-	159,093	157,048
Payroll					2,775,778	-	2,775,778	2,626,847
Insurance premiums					1,452,684	-	1,452,684	1,395,924
Net profit					546,868	-	546,868	277,928
Other licenses and permits					30,267	-	30,267	27,588
Fines and forfeits					2,485	-	2,485	360
Investment earnings					13,750	17,666	31,416	32,820
Rents					118,763	50,102	168,865	167,641
Payment in lieu of taxes					480,000	-	480,000	360,000
Reimbursement from state for road project					-	284,407	284,407	-
Miscellaneous					49,565	101,812	151,377	115,300
Total general revenues					6,325,816	453,987	6,779,803	5,832,815
Transfers								
					-	-	-	-
Change in net position					782,127	78,586	860,713	(341,470)
Net position-beginning					5,834,535	7,456,128	13,290,663	13,632,133
NET POSITION-ENDING					\$ 6,616,662	\$ 7,534,714	\$ 14,151,376	\$ 13,290,663

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	General	Other Governmental Funds	Total Governmental Funds	2012 Totals
ASSETS				
Cash and cash equivalents	\$ 872,310	\$ 409,544	\$ 1,281,854	\$ 618,178
Receivables (net)	1,184,218	-	1,184,218	1,160,263
Due from other funds	26,346	-	26,346	41,593
Other assets	21,604	-	21,604	21,856
Total assets	\$ 2,104,478	\$ 409,544	\$ 2,514,022	\$ 1,841,890
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 73,809	\$ -	\$ 73,809	\$ 157,286
Accrued leave payable	350,789	-	350,789	339,990
Deferred revenue	50,000	-	50,000	50,000
Total liabilities	474,598	-	474,598	547,276
FUND BALANCES				
Restricted	-	409,544	409,544	314,837
Unassigned	1,629,880	-	1,629,880	979,777
Total fund balances	1,629,880	409,544	2,039,424	1,294,614
Total liabilities and fund balances	\$ 2,104,478	\$ 409,544	\$ 2,514,022	\$ 1,841,890

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

Fund balances per above		\$ 2,039,424	\$ 1,294,614
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,213,046	5,400,056
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are reported in the funds.		(635,808)	(860,135)
Net position of governmental activities		\$ 6,616,662	\$ 5,834,535

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, 2013

	General	Other Governmental Funds	Total Governmental Funds	2012 Totals
REVENUES				
Taxes	\$ 696,563	\$ -	\$ 696,563	\$ 671,359
Licenses and permits	4,964,690	-	4,964,690	4,485,335
Fees and fines	2,485	-	2,485	360
Intergovernmental	253,418	309,017	562,435	466,016
Other revenues	177,078	5,000	182,078	178,282
Total revenues	6,094,234	314,017	6,408,251	5,801,352
EXPENDITURES				
Current				
City commission	285,595	-	285,595	319,421
General administration	1,258,745	-	1,258,745	1,185,866
Public safety-Police	1,959,498	-	1,959,498	1,924,814
Public safety-Fire	1,387,688	-	1,387,688	1,551,820
Public works	513,504	-	513,504	470,346
Inspection, engineering, parks & recreation	255,941	-	255,941	285,837
Capital outlay	52,998	178,390	231,388	200,885
Debt service	-	276,494	276,494	268,261
Total expenditures	5,713,969	454,884	6,168,853	6,207,250
Excess (deficiency) of revenues over expenditures	380,265	(140,867)	239,398	(405,898)
OTHER FINANCING SOURCES (USES)				
Payment in lieu of taxes	480,000	-	480,000	360,000
Loan proceeds	25,412	-	25,412	-
Transfers	(235,574)	235,574	-	-
Total other financing sources (uses)	269,838	235,574	505,412	360,000
Net change in fund balances	650,103	94,707	744,810	(45,898)
Fund balances-beginning	979,777	314,837	1,294,614	1,340,512
Fund balances-ending	\$ 1,629,880	\$ 409,544	\$ 2,039,424	\$ 1,294,614
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 744,810	\$ (45,898)
add: capital outlay expenditures			231,388	200,885
add: debt service expenditures			276,494	268,261
less: loan proceeds			(25,412)	-
less: depreciation on governmental activities assets			(418,398)	(421,321)
less: interest on long-term debt			(26,755)	(29,133)
Change in net position Governmental Activities			\$ 782,127	\$ (27,206)

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2013**

	Business-Type Activities Utility Fund	2012 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 369,372	\$ 174,443
Receivables (net)	<u>765,349</u>	<u>784,964</u>
Total current assets	<u>1,134,721</u>	<u>959,407</u>
Noncurrent assets		
Restricted cash and cash equivalents	768,707	687,425
Other assets	557,827	528,212
Capital assets		
Utility systems	34,636,338	34,388,119
Less accumulated depreciation	<u>(24,627,273)</u>	<u>(23,720,724)</u>
Total non current assets	<u>11,335,599</u>	<u>11,883,032</u>
Total assets	<u>\$ 12,470,320</u>	<u>\$ 12,842,439</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 485,584	\$ 683,664
Meter deposits	256,413	251,578
Accrued leave payable	152,436	156,737
Accrued interest payable	10,965	21,985
Other payables	31,967	41,593
Current portion of long-term debt	<u>442,988</u>	<u>389,989</u>
Total current liabilities	<u>1,380,353</u>	<u>1,545,546</u>
Noncurrent liabilities		
Bonds, notes and loans payable	<u>3,555,253</u>	<u>3,840,765</u>
Total liabilities	<u>4,935,606</u>	<u>5,386,311</u>
NET POSITION		
Invested in capital assets	6,010,824	6,436,641
Restricted for debt service	525,262	509,248
Unrestricted	<u>998,628</u>	<u>510,239</u>
Total net position	<u>7,534,714</u>	<u>7,456,128</u>
Total liabilities and net position	<u>\$ 12,470,320</u>	<u>\$ 12,842,439</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, 2013

	Business-type Activities Utility Fund	2012 Totals
Operating revenues		
Charges for services	\$ 9,161,836	\$ 8,622,316
 Total operating revenues	<u>9,161,836</u>	<u>8,622,316</u>
 Operating expenses		
Utility administration	1,271,736	1,108,304
Electric department	3,859,055	4,014,766
Water distribution	1,429,168	1,096,829
Sewer treatment	1,022,976	1,009,787
Sanitation	784,022	725,581
Depreciation	906,549	1,112,334
 Total operating expenses	<u>9,273,506</u>	<u>9,067,601</u>
 Operating income (loss)	<u>(111,670)</u>	<u>(445,285)</u>
 Nonoperating revenues (expenses)		
Grant revenue	2,901	220,000
Reimbursement from state for road project	284,407	-
Interest and investment revenue	17,666	20,019
Interest expense	(114,718)	(108,998)
 Total nonoperating revenue (expenses)	<u>190,256</u>	<u>131,021</u>
 Change in net position	78,586	(314,264)
Total net position-beginning	<u>7,456,128</u>	<u>7,770,392</u>
 TOTAL NET POSITION-ENDING	<u>\$ 7,534,714</u>	<u>\$ 7,456,128</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, 2013**

	Business-Type Activities Utility Fund	2012 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 9,181,451	\$ 8,937,670
Payments to suppliers	(6,164,630)	(5,656,707)
Payments for employee services and benefits	(2,434,323)	(2,483,556)
Customer deposits	4,835	10,725
Net cash provided by operating activities	587,333	808,132
CASH FLOWS FROM NON- CAPITAL AND RELATED FINANCING ACTIVITIES		
Net (payments) receipts under interfund agreements	(9,626)	(176,198)
Net cash provided by (used in) non-capital and related financing activities	(9,626)	(176,198)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(248,219)	(707,943)
Principal payments on bonds, notes, and loans payable	(413,300)	(385,808)
Proceeds from issuance of note payable	180,787	-
Interest paid on capital debt	(125,738)	(114,372)
Reimbursement from state for road project	284,407	-
KIA grant proceeds	2,901	220,000
Net cash (used in) capital and related financing activities	(319,162)	(988,123)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	17,666	20,019
Net cash provided by investing activities	17,666	20,019
Net (decrease) in cash and cash equivalents	276,211	(336,170)
Balances-beginning of the year	861,868	1,198,038
BALANCES-END OF THE YEAR	\$ 1,138,079	\$ 861,868
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (111,670)	\$ (445,285)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	906,549	1,112,334
Change in assets and liabilities:		
Receivables (net)	19,615	315,354
Inventory	(26,403)	(1,767)
Other assets	(3,212)	(20,510)
Customer deposits	4,835	10,725
Accounts and other payables	(198,080)	(183,868)
Accrued expenses	(4,301)	21,149
Net cash provided by operating activities	\$ 587,333	\$ 808,132

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

Fund Financial Statements

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

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

The following funds are used by the City of Paris:

Governmental Funds

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

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

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

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

Proprietary Funds

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

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

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

C. Basis of Accounting

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

Government-wide Financial Statements

The Statement of Net 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 financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

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

D. Fund Equity

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable. The City has adopted GASB 54 which further breaks down both 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 government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

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

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

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

E. Budgeting

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

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

The City began estimating the expenses the General Fund paid or incurred on behalf of the Utilities Fund. These reimbursements are included in "Payment in lieu of taxes" in the financial statements. Total estimated expenses reimbursed to the General Fund from the Utilities Fund amounted to \$480,000 for the year ended June 30, 2013.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Other Accounting Policies

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

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

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

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

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

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

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

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

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

G. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through March 4, 2014, 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, 2013, have not been evaluated by the City.

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, 2013 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 \$2,419,933 and the bank balances were \$2,542,027.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3. CAPITAL ASSETS

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

	<u>Balance</u> June 30, 2012	Additions	Deletions	<u>Balance</u> June 30, 2013
<u>Government Type Activities</u>				
Capital assets not depreciated:				
Land and Improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Capital assets that are depreciated:				
Building and Improvements	3,330,870	5,352	-	3,336,222
Vehicles	2,816,201	22,234	(17,000)	2,821,435
Equipment	<u>761,108</u>	<u>25,412</u>	<u>-</u>	<u>786,520</u>
Totals	<u>6,908,179</u>	<u>52,998</u>	<u>(17,000)</u>	<u>6,944,177</u>
Total Non-Infrastructure Assets	<u>7,875,158</u>	<u>52,998</u>	<u>(17,000)</u>	<u>7,911,156</u>
Recording infrastructure Assets:				
Infrastructure Assets	<u>1,924,571</u>	<u>178,390</u>	<u>-</u>	<u>2,102,961</u>
Total Capital Assets	<u>9,799,729</u>	<u>231,388</u>	<u>(17,000)</u>	<u>10,014,117</u>
Less Accumulated Depreciation:				
Building and Improvements	1,720,137	81,666	-	1,801,803
Vehicles	1,888,292	175,462	(17,000)	2,046,754
Equipment	486,180	68,023	-	554,203
Infrastructure Assets	<u>305,064</u>	<u>93,247</u>	<u>-</u>	<u>398,311</u>
Totals	<u>4,399,673</u>	<u>418,398</u>	<u>(17,000)</u>	<u>4,801,071</u>
Depreciable capital assets, net	<u>\$ 5,400,056</u>	<u>\$ (187,010)</u>	<u>\$ -</u>	<u>\$ 5,213,046</u>
<u>Business-Type Activities</u>				
Equipment and Vehicles	\$ 2,834,185	\$ 207,844	\$ -	\$ 3,042,029
Electric Lines, Poles, and Plant	8,014,420	23,537	-	8,037,957
Water Treatment Plant, Land and Water System Improvements	6,745,674	6,420	-	6,752,094
Sewer Treatment Plant, Land and Improvements	<u>16,793,840</u>	<u>10,418</u>	<u>-</u>	<u>16,804,258</u>
Totals	<u>34,388,119</u>	<u>248,219</u>	<u>-</u>	<u>34,636,338</u>
Less Accumulated Depreciation	<u>23,720,724</u>	<u>906,549</u>	<u>-</u>	<u>24,627,273</u>
Capital Assets, Net	<u>\$ 10,667,395</u>	<u>\$ (658,330)</u>	<u>\$ -</u>	<u>\$ 10,009,065</u>

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

<u>Government-Type</u>		<u>Business-Type</u>	
General government	\$ 154,048	Electric department	\$ 254,957
Police	54,522	Water department	189,240
Fire	138,478	Sewer department	412,073
Parks and recreation	4,520	Sanitation	<u>50,279</u>
Public works	<u>66,830</u>	Total depreciation expense	<u>\$ 906,549</u>
Total depreciation expense	<u>\$ 418,398</u>		

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3. CAPITAL ASSETS (CONTINUED)

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

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

4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT

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

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Kentucky Infrastructure Loan	\$ 2,989,439	\$ -	\$(328,529)	\$ 2,660,910
CNH Capital Lease	11,615	-	(11,615)	-
Leasing One Corporation Lease	12,000	-	(6,000)	6,000
PNC Bank Equipment Finance	158,700	-	(27,461)	131,239
BB&T Equipment Finance	-	134,287	(16,274)	118,013
Traditional Bank Lease	-	46,500	(9,421)	37,079
2005 Rural Development Bond	<u>1,059,000</u>	<u>-</u>	<u>(14,000)</u>	<u>1,045,000</u>
	<u>\$ 4,230,754</u>	<u>\$ 180,787</u>	<u>\$ (413,300)</u>	<u>\$ 3,998,241</u>

Kentucky Infrastructure Loan

The City of Paris entered into a long-term financing assistance agreement with the Kentucky Infrastructure Authority in December 1999 to provide financing for utility system improvements. The note totaled \$6,345,954. The note accrues interest at 1.8% and is amortized over twenty years. The annual debt service is approximately \$390,000 and matures December 2020.

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

	Principal	Interest	Service Fee	Total
2014	\$ 334,469	\$ 46,398	\$ 5,155	\$ 386,022
2015	340,516	40,350	4,483	385,349
2016	346,673	34,193	3,799	384,665
2017	352,941	27,925	3,102	383,968
2018	359,323	21,544	2,394	383,261
2019-2020	<u>926,988</u>	<u>25,179</u>	<u>2,797</u>	<u>954,965</u>
Total	<u>\$ 2,660,910</u>	<u>\$ 195,589</u>	<u>\$ 21,730</u>	<u>\$ 2,878,230</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

Lease Payable

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

Lease Payable

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

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

	Principal	Interest	Total
2014	<u>\$ 6,000</u>	<u>\$ 1,328</u>	<u>\$ 7,328</u>
Total	<u>\$ 6,000</u>	<u>\$ 1,328</u>	<u>\$ 7,328</u>

Lease Payable

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

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

	Principal	Interest	Total
2014	\$ 31,360	\$ 6,392	\$ 37,752
2015	32,951	4,801	37,752
2016	34,622	3,129	37,751
2017	<u>32,306</u>	<u>1,372</u>	<u>33,678</u>
Total	<u>\$ 131,239</u>	<u>\$ 15,694</u>	<u>\$ 146,933</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

Bonds Payable

The City of Paris entered into a long-term financing assistance agreement with the Rural Development Authority in 2006 to provide financing for utility system improvements. The note totaled \$1,111,000. The note accrues interest at 4.125%, is amortized over forty years, and matures in 2046.

	Issued	Rate	Balance Outstanding June 30, 2012	Issued (Retired) During Year	Balance Outstanding June 30, 2013
2005 Series	\$1,111,000	4.125%	\$ 1,059,000	\$ (14,000)	\$ 1,045,000

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

	Principal	Interest	Total
2014	\$ 15,000	\$ 42,797	\$ 57,797
2015	16,000	42,158	58,158
2016	16,000	41,498	57,498
2017	17,000	40,817	57,817
2018	18,000	40,095	58,095
2019-2023	101,000	188,533	289,533
2024-2028	125,000	165,309	290,309
2029-2033	153,000	136,764	289,764
2034-2038	189,000	101,578	290,578
2039-2043	231,000	58,389	289,389
2044-2046	<u>164,000</u>	<u>10,354</u>	<u>174,354</u>
Total	<u>\$ 1,045,000</u>	<u>\$ 868,292</u>	<u>\$ 1,913,292</u>

Traditional Bank Loan

The City of Paris entered into a long-term financing assistance agreement with Traditional Bank in January 2013 to provide financing for laptop computers, a 2007 International 4300 Dump Truck, and a snow plow. The note totaled \$71,912. The note balance is split between governmental and business - type activities based on the values of the underlying assets. The International 4300 dump truck was valued at \$46,500 and this amount is included in business - type activities. The note accrues interest at 3.5%, is amortized over two years and matures in January 2015.

	Principal	Interest	Total
2014	\$ 23,179	\$ 928	\$ 24,107
2015	<u>13,900</u>	<u>163</u>	<u>14,063</u>
Total	<u>\$ 37,079</u>	<u>\$ 1,091</u>	<u>\$ 38,170</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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%.

	Principal	Interest	Total
2014	\$ 32,980	\$ 1,812	\$ 34,792
2015	33,565	1,227	34,792
2016	34,161	631	34,792
2017	<u>17,307</u>	<u>89</u>	<u>17,396</u>
Total	<u>\$ 118,013</u>	<u>\$ 3,759</u>	<u>\$ 121,772</u>

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

Current portion	\$ 442,988
Long-term portion	<u>3,555,253</u>
Total	<u>\$ 3,998,241</u>

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT

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

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Kentucky Bond Corporation	\$ 688,333	\$ -	\$(160,000)	\$ 528,333
Traditional Bank Lease	-	25,412	(5,149)	20,263
Fifth Third Lease-Purchase	<u>171,802</u>	<u>-</u>	<u>(84,590)</u>	<u>87,212</u>
	<u>\$ 860,135</u>	<u>\$ 25,412</u>	<u>\$(249,739)</u>	<u>\$ 635,808</u>

Fifth Third Bank Lease

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

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

	Principal	Interest	Total
2014	<u>\$ 87,212</u>	<u>\$ 2,706</u>	<u>\$ 89,918</u>
Total	<u>\$ 87,212</u>	<u>\$ 2,706</u>	<u>\$ 89,918</u>

CITY OF PARIS, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

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

Kentucky Bond Corporation

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

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

	Principal	Interest	Expenses	Total
2014	\$ 137,083	\$ 14,917	\$ 1,771	\$ 153,771
2015	105,000	11,738	1,428	118,166
2016	107,083	8,587	1,166	116,836
2017	112,083	5,950	898	118,931
2018	<u>67,084</u>	<u>1,437</u>	<u>430</u>	<u>68,951</u>
Total	<u>\$ 528,333</u>	<u>\$ 42,629</u>	<u>\$ 5,693</u>	<u>\$ 576,655</u>

Traditional Bank Loan

The City of Paris entered into a long-term financing assistance agreement with Traditional Bank in January 2013 to provide financing for laptop computers, a 2007 International 4300 Dump Truck and a snow plow. The note totaled \$71,912. The note balance is split between governmental and business - type activities based on the values of the underlying assets. The laptop computers and snow plow were valued at \$25,412 and this amount is included in government activities. The note accrues interest at 3.5%, is amortized over two years and matures in January 2015.

	Principal	Interest	Total
2014	\$ 12,667	\$ 507	\$ 13,174
2015	<u>7,596</u>	<u>89</u>	<u>7,685</u>
Total	<u>\$ 20,263</u>	<u>\$ 596</u>	<u>\$ 20,859</u>

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

Current portion	\$ 236,962
Long-term portion	<u>398,846</u>
Total	<u>\$ 635,808</u>

**CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

6. INDUSTRIAL REVENUE BONDS

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

7. RETIREMENT PLAN

The City of Paris is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

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

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

Contributions – For the year ended June 30, 2013, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% of each employee's wages for non-hazardous job classifications and 37.60% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 1,325,411	100%
2012	\$ 1,327,601	100%
2011	\$ 1,238,966	100%

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

8. PROPERTY TAX CALENDER

Property taxes for fiscal year 2013 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2012 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

9. RISK MANAGEMENT

The City of Paris is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. The City is also exposed to a certain amount of risk related to agencies jointly supported by the City and County. In the event of an economic crisis, jointly supported agencies could require additional contributions to continue operations.

10. FAILURE OF TRANSFORMER

In July 2012, the City had a generator fire at one of its substations. This substation supplied a large portion of the total power purchased to residential and business customers in Paris. This substation's transformer and its generators allowed the power plant to connect to Kentucky Utilities (KU) system and put load on KU's system during times of curtailment of the City's system by KU. This failure did not allow the City to fulfill its contractual obligations to KU during these interruptions. Such breach of contract caused the City to incur additional demand charges from KU of approximately \$611,000 during the fiscal year ended June 30, 2013. These charges were passed on to the consumer and recorded in operating revenues and expenses for the year ended June 30, 2013.

11. RECLASSIFICATIONS

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

12. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

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

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

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Paris' unfunded liability would be approximately \$14,600,000 based on the 2011 actuarial analysis. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Taxes				
Property taxes	\$ 550,000	\$ 550,000	\$ 568,342	\$ 18,342
Vehicle ad valorem tax	70,000	70,000	82,501	12,501
Delinquent taxes	7,500	7,500	12,610	5,110
Bank shares	25,000	25,000	23,111	(1,889)
Penalties and interest	10,000	10,000	9,999	(1)
	<u>662,500</u>	<u>662,500</u>	<u>696,563</u>	<u>34,063</u>
Licenses and permits				
Occupational license	2,500,000	2,500,000	2,775,778	275,778
Insurance license	1,600,000	1,600,000	1,452,684	(147,316)
Net profits license fee	250,000	250,000	546,868	296,868
Franchise fees	125,000	125,000	159,093	34,093
Building inspection fees	7,500	7,500	6,750	(750)
Alcohol beverage fees	10,000	10,000	23,517	13,517
	<u>4,492,500</u>	<u>4,492,500</u>	<u>4,964,690</u>	<u>472,190</u>
Fines and forfeits				
Parking fines	1,500	1,500	2,485	985
Intergovernmental revenues				
Police incentive pay	90,000	90,000	103,521	13,521
Fire incentive pay	90,000	90,000	89,472	(528)
Highway safety grant	7,500	22,500	11,639	(10,861)
CDBG YMCA grant	132,000	132,000	-	(132,000)
Stoner Creek Trails grant	415,000	415,000	-	(415,000)
Cops grants	-	-	14,132	14,132
Other grants	4,000	4,000	4,130	130
District court	20,000	20,000	30,524	10,524
	<u>758,500</u>	<u>773,500</u>	<u>253,418</u>	<u>(520,082)</u>
Other revenues				
Rent	125,000	125,000	118,763	(6,237)
Payment in lieu of taxes	360,000	480,000	480,000	-
Interest income	7,000	7,000	8,750	1,750
Loan proceeds	-	-	25,412	25,412
Other	16,000	16,000	49,565	33,565
	<u>508,000</u>	<u>628,000</u>	<u>682,490</u>	<u>54,490</u>
Total	<u>\$ 6,423,000</u>	<u>\$ 6,558,000</u>	<u>\$ 6,599,646</u>	<u>\$ 41,646</u>

CITY OF PARIS, KENTUCKY
 REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
 GENERAL FUND
 for the year ended June 30, 2013

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
GENERAL GOVERNMENT & CAPITAL BUDGETING				
CITY COMMISSION				
Personnel services	\$ 91,918	\$ 91,918	\$ 78,727	\$ (13,191)
Contractual services	90,950	90,950	127,308	36,358
Material and supplies	-	-	638	638
Other expenses	80,500	80,500	78,922	(1,578)
Total city commission	<u>263,368</u>	<u>263,368</u>	<u>285,595</u>	<u>22,227</u>
GENERAL ADMINISTRATION				
Personnel services	306,388	306,388	338,792	32,404
Contractual services	217,650	217,650	240,155	22,505
Materials and supplies	57,700	57,700	14,808	(42,892)
Other expenses	500	500	23,315	22,815
E911 Dispatch	120,000	180,000	116,280	(63,720)
EMS	-	266,400	231,502	(34,898)
Insurance	480,000	250,000	240,567	(9,433)
Legal	68,000	50,000	53,326	3,326
Total general administration	<u>1,250,238</u>	<u>1,328,638</u>	<u>1,258,745</u>	<u>(69,893)</u>
INSPECTION AND ENGINEERING				
Personnel services	180,350	180,350	160,331	(20,019)
Contractual services	35,825	35,825	31,891	(3,934)
Materials and supplies	42,500	42,500	21,752	(20,748)
Other expenses	-	-	41,967	41,967
Total inspection and engineering	<u>258,675</u>	<u>258,675</u>	<u>255,941</u>	<u>(2,734)</u>
OTHER ADMINISTRATION				
Main street program	48,354	48,354	-	(48,354)
Capital budgeting	-	-	52,998	52,998
Total other administration	<u>48,354</u>	<u>48,354</u>	<u>52,998</u>	<u>4,644</u>
Total general government and capital budgeting	<u>1,820,635</u>	<u>1,899,035</u>	<u>1,853,279</u>	<u>(45,756)</u>

CITY OF PARIS, KENTUCKY
 REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
 GENERAL FUND
 for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
POLICE DEPARTMENT				
Personnel services	\$ 1,693,240	\$ 1,693,240	\$ 1,759,483	\$ 66,243
Contractual services	69,650	69,650	78,700	9,050
Materials and supplies	117,550	117,550	121,336	3,786
Other expenses	<u>52,000</u>	<u>52,000</u>	<u>(21)</u>	<u>(52,021)</u>
	<u>1,932,440</u>	<u>1,932,440</u>	<u>1,959,498</u>	<u>27,058</u>
FIRE DEPARTMENT				
Personnel services	1,214,900	1,214,900	1,265,132	50,232
Contractual services	78,100	78,100	75,252	(2,848)
Materials and supplies	57,500	57,500	45,782	(11,718)
Other expenses	<u>8,000</u>	<u>8,000</u>	<u>1,522</u>	<u>(6,478)</u>
	<u>1,358,500</u>	<u>1,358,500</u>	<u>1,387,688</u>	<u>29,188</u>
STREET DEPARTMENT				
Personnel services	402,725	402,725	410,388	7,663
Contractual services	68,000	68,000	51,595	(16,405)
Materials and supplies	64,800	64,800	51,376	(13,424)
Other expenses	<u>-</u>	<u>50,000</u>	<u>145</u>	<u>(49,855)</u>
	<u>535,525</u>	<u>585,525</u>	<u>513,504</u>	<u>(72,021)</u>
EXPENSES BEFORE TRANSFERS	<u>\$ 5,647,100</u>	<u>\$ 5,775,500</u>	<u>\$ 5,713,969</u>	<u>\$ (61,531)</u>

CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2013

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 409,544	\$ -	\$ 409,544
Due from other funds	-	-	-
Total assets	409,544	\$ -	\$ 409,544
 LIABILITIES & FUND EQUITY			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund equity			
Restricted	409,544	-	409,544
Total fund equity	\$ 409,544	\$ -	\$ 409,544

CITY OF PARIS, KENTUCKY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 for the year ended June 30, 2013

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 309,017	\$ -	\$ 309,017
Other revenues	5,000	-	5,000
	314,017	-	314,017
EXPENDITURES			
Street department	-	-	-
Capital outlay	178,390	-	178,390
Debt service	-	276,494	276,494
	178,390	276,494	454,884
Excess revenues over (under) expenditures before other financing sources (uses)	135,627	(276,494)	(140,867)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	-
Operating transfer, net	(40,920)	276,494	235,574
	(40,920)	276,494	235,574
Net change in fund balances	94,707	-	94,707
Fund balances - July 1, 2011	314,837	-	314,837
FUND BALANCES - JUNE 30, 2012	\$ 409,544	\$ -	\$ 409,544

CITY OF PARIS, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
COMBINED UTILITY FUND
for the year ended June 30, 2013

	Budget	Actual	Over (Under) Budget
UTILITY ADMINISTRATION & SPECIAL PROJECTS			
Personnel services	\$ 354,015	\$ 380,181	\$ 26,166
Contractual services	179,670	170,123	(9,547)
Materials and supplies	16,650	23,638	6,988
Other expenses	15,700	101,025	85,325
Allocation from General Fund	100,000	116,769	16,769
Payment in lieu of taxes	480,000	480,000	-
 Total utility administration & special projects	 <u>1,146,035</u>	 <u>1,271,736</u>	 <u>125,701</u>
ELECTRIC DEPARTMENT			
Personnel services	548,050	483,436	(64,614)
Electric purchases	2,205,000	2,627,344	422,344
Contractual services	161,090	181,372	20,282
Materials and supplies	759,400	566,903	(192,497)
 Total electric department	 <u>3,673,540</u>	 <u>3,859,055</u>	 <u>185,515</u>
WATER DISTRIBUTION			
Personnel services	648,975	778,501	129,526
Contractual services	115,800	152,205	36,405
Materials and supplies	225,100	269,162	44,062
Other expenses	23,500	229,300	205,800
 Total water distribution	 <u>1,013,375</u>	 <u>1,429,168</u>	 <u>415,793</u>
SEWER TREATMENT			
Personnel services	524,350	491,032	(33,318)
Contractual services	254,200	300,680	46,480
Materials and supplies	152,900	231,264	78,364
 Total sewer treatment	 <u>931,450</u>	 <u>1,022,976</u>	 <u>91,526</u>
SANITATION			
Personnel services	364,950	296,872	(68,078)
Contractual services	314,250	265,641	(48,609)
Materials and supplies	70,400	153,532	83,132
Recycling center	100,000	67,977	(32,023)
 Total sanitation	 <u>849,600</u>	 <u>784,022</u>	 <u>(65,578)</u>
DEPRECIATION			
	-	906,549	906,549
 Total operating expenses	 <u>\$ 7,614,000</u>	 <u>\$ 9,273,506</u>	 <u>\$ 1,659,506</u>

CITY OF PARIS, KENTUCKY
 SCHEDULE OF REVENUE BOND REQUIREMENTS
 COMBINED UTILITY FUND
 June 30, 2013

FISCAL YEAR ENDING JUNE 30	2005 ISSUE		TOTAL DEBT SERVICE
	PRINCIPAL	INTEREST	
2014	\$ 15,000	\$ 42,797	\$ 57,797
2015	16,000	42,158	58,158
2016	16,000	41,498	57,498
2017	17,000	40,817	57,817
2018	18,000	40,095	58,095
2019-2023	101,000	188,533	289,533
2024-2028	125,000	165,309	290,309
2029-2033	153,000	136,764	289,764
2034-2038	189,000	101,578	290,578
2039-2043	231,000	58,389	289,389
2044-2046	164,000	10,354	174,354
TOTAL	\$ 1,045,000	\$ 868,292	\$ 1,913,292



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

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

Mayor and Commissioners
City of Paris
Paris, Kentucky

We have audited, 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 City of Paris, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Paris, Kentucky's basic financial statements and have issued our report thereon dated March 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City of Paris, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Paris, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses (2013-01) that we consider to be a significant deficiency.

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CITY OF PARIS, KENTUCKY
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 4, 2014

CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013

Findings:

#2013-01

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Response:

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

PRIOR FINDINGS:

As noted above.