

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2014

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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, 2014. 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	\$ 3,141,798	\$ 3,031,967	\$ 6,173,765
Capital Assets	<u>5,643,121</u>	<u>10,248,961</u>	<u>15,892,082</u>
Total Assets	8,784,919	13,280,928	22,065,847
Long-Term Debt Outstanding	412,720	4,235,571	4,648,291
Current Liabilities	<u>703,304</u>	<u>1,997,130</u>	<u>2,700,434</u>
Total Liabilities	1,116,024	6,232,701	7,348,725
Net Position			
Net Invested in			
Capital Assets	5,039,470	5,463,381	10,502,851
Restricted	408,287	614,318	1,022,605
Unrestricted	<u>2,221,138</u>	<u>970,528</u>	<u>3,191,666</u>
Total Net Position	<u>\$ 7,668,895</u>	<u>\$ 7,048,227</u>	<u>\$ 14,717,122</u>

The capital assets of the City's **governmental activities** increased from \$5,213,046 in 2013 to \$5,643,121 in 2014. This **increase was due to capital additions** for the year.

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

The capital assets of the **business-type activities** increased from \$10,009,065 in 2013 to \$10,248,961 in 2014. This **increase was due to capital additions** for the year.

Net position from one activity generally cannot be used to make up for any deficits in the other activities.

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Revenues			
<u>Program Revenue</u>			
Charges for Service	\$ -	\$ 9,439,947	\$ 9,439,947
<u>General Revenue</u>			
Tax	1,195,380		1,195,380
Licenses	5,159,565		5,159,565
Intergovernmental	816,411		816,411
Fines & Forfeits	498		498
Other Revenue	<u>274,900</u>	<u>234,878</u>	<u>509,778</u>
Total Revenue	<u>7,446,754</u>	<u>9,674,825</u>	<u>17,121,579</u>
<u>Program Expenses</u>			
City Commission	330,872		330,872
General Government	1,412,246		1,412,246
Public safety-Police	2,016,731		2,016,731
Public safety-Fire	1,520,945		1,520,945
Public works-Streets	663,701		663,701
Inspection, engineering, parks	435,582		435,582
Interest on long-term debt	14,444		14,444
Electric		5,185,547	5,185,547
Sanitation		1,230,552	1,230,552
Water		1,779,829	1,779,829
Sewer		<u>1,772,224</u>	<u>1,772,224</u>
Total Program Expense	<u>6,394,521</u>	<u>9,968,153</u>	<u>16,362,674</u>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Net Assets	<u>\$ 1,052,233</u>	<u>\$ (293,328)</u>	<u>\$ 758,905</u>

The City's **change in Net Position** above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities these numbers **include "paper" depreciation expenses** that are not cash expenditures of the City.

These "paper" bookkeeping entries are now considered as part of the City's budget process. Additionally, the **principal portions of debt obligations** are excluded from the above but **are reflected as debt service expenditures along with capital outlay expenditures** in the City's budget for governmental activities.

The business-type activities have always been on the full accrual basis.

GOVERNMENTAL ACTIVITIES

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

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

Taxes	\$1,195,380
Licenses and permits	5,159,565
Intergovernmental	816,411
Fines & forfeits	498
Other revenues	<u>274,900</u>
Total Revenues	7,466,754
City Commission	330,872
General administration	1,245,122
Public safety-Police	1,934,436
Public safety-Fire	1,382,608
Public works-Streets	594,867
Inspection, engineering, & parks	428,761
Capital outlay	893,486
Debt service	<u>283,620</u>
Total Expenditures	<u>7,093,772</u>
Excess Revenues over Expenditures before other Financing sources	<u>\$ 352,982</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	\$1,157,500	\$ 1,195,380	\$ 37,880
Licenses and permits	4,695,000	5,159,565	464,565
Intergovernmental	659,000	590,409	(68,591)
Fines & Forfeit	1,500	498	(1,002)
Other Revenues	<u>147,000</u>	<u>509,313</u>	<u>362,313</u>
Total Revenues	<u>\$6,660,000</u>	<u>\$ 7,455,165</u>	<u>\$ 795,165</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government & Capital			
Budgeting	\$2,634,500	\$2,694,358	\$ 59,858
Public Safety- Police	1,983,500	1,934,436	(49,064)
Public Safety- Fire	1,401,000	1,382,608	(18,392)
Public Works- Streets	<u>550,000</u>	<u>568,885</u>	<u>18,885</u>
Total Expenditures	<u>\$6,569,000</u>	<u>\$6,580,287</u>	<u>\$ 11,287</u>

The City budgeted for a total of \$6,660,000 in revenues for 2014, but ended up having revenues of \$7,455,165. In other words, the City received 11.1 percent more revenue than budgeted.

A total of \$6,569,000 was budgeted for expenses, but expenditures totaled \$6,580,287 at the end of 2014. The City was over budget on the expenses by 0.2 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	2,647,005	-	2,647,005
Buildings	3,336,222	-	3,336,222
Vehicles	3,079,798	-	3,079,798
Equipment	877,599	3,093,433	3,971,032
Electric System	-	9,037,520	9,037,520
Water System	-	6,804,289	6,804,289
Sewer System	-	<u>16,907,928</u>	<u>16,907,928</u>
Total Capital Assets	<u>\$10,907,603</u>	<u>\$ 35,843,170</u>	<u>\$ 46,750,773</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	\$ 212,401	\$ 214,139	\$ 426,540
Notes Payable	-	2,326,441	2,326,441
Bond Payable	391,250	2,245,000	2,636,250
Total Debt Outstanding	<u>\$ 603,651</u>	<u>\$ 4,785,580</u>	<u>\$ 5,389,231</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.

rfh Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Mayor and Commissioners
City of Paris
Paris, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paris, Kentucky, as of and for the year ended June 30, 2014, 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, 2014, 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.

Prior-Year Comparative Information

We have previously audited the City's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated March 4, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the effects of the restatement of net position described in Note 12.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of the City of Paris, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Paris, Kentucky's internal control over financial reporting and compliance.

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
December 4, 2014

CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	<u>Primary Government</u>			<u>2013 Totals</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,875,887	\$ 859,452	\$ 2,735,339	\$ 1,651,226
Receivables (net)	1,237,929	818,658	2,056,587	1,949,567
Internal balances	<u>27,415</u>	<u>-</u>	<u>27,415</u>	<u>26,346</u>
Total current assets	<u>3,141,231</u>	<u>1,678,110</u>	<u>4,819,341</u>	<u>3,627,139</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	720,312	720,312	768,707
Capital assets (Note 3)				
Land and improvements	966,979	-	966,979	966,979
Depreciable infrastructure, net	2,138,366	-	2,138,366	1,704,650
Depreciable buildings, property and equipment, net	2,537,776	10,248,961	12,786,737	12,550,482
Other assets	<u>567</u>	<u>633,545</u>	<u>634,112</u>	<u>579,431</u>
Total noncurrent assets	<u>5,643,688</u>	<u>11,602,818</u>	<u>17,246,506</u>	<u>16,570,249</u>
Total assets	<u>\$ 8,784,919</u>	<u>\$ 13,280,928</u>	<u>\$ 22,065,847</u>	<u>\$ 20,197,388</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 111,551	\$ 968,210	\$ 1,079,761	\$ 752,552
Accrued leave payable	400,822	170,360	571,182	503,225
Accrued liabilities	-	12,203	12,203	10,965
Other liabilities	-	268,933	268,933	256,413
Internal balances	-	27,415	27,415	31,967
Deferred revenue	-	-	-	50,000
Current portion of long-term obligations (Notes 4 & 5)	<u>190,931</u>	<u>550,009</u>	<u>740,940</u>	<u>679,950</u>
Total current liabilities	<u>703,304</u>	<u>1,997,130</u>	<u>2,700,434</u>	<u>2,285,072</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	<u>412,720</u>	<u>4,235,571</u>	<u>4,648,291</u>	<u>3,954,099</u>
Total liabilities	<u>1,116,024</u>	<u>6,232,701</u>	<u>7,348,725</u>	<u>6,239,171</u>
NET POSITION				
Net investment in capital assets	5,039,470	5,463,381	10,502,851	10,588,062
Restricted for:				
Debt service	-	614,318	614,318	525,262
Other purposes	408,287	-	408,287	409,544
Unrestricted	<u>2,221,138</u>	<u>970,528</u>	<u>3,191,666</u>	<u>2,435,349</u>
Total net position	<u>7,668,895</u>	<u>7,048,227</u>	<u>14,717,122</u>	<u>13,958,217</u>
Total liabilities and net position	<u>\$ 8,784,919</u>	<u>\$ 13,280,928</u>	<u>\$ 22,065,847</u>	<u>\$ 20,197,388</u>

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

**CITY OF PARIS, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2013 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
City commission	\$ 330,872	\$ -	\$ -	\$ -	\$ (330,872)	\$ -	\$ (330,872)	\$ (285,595)
General government	1,412,246	-	341,408	-	(1,070,838)	-	(1,070,838)	(1,408,663)
Public safety-Police	2,016,731	-	158,177	8,021	(1,850,533)	-	(1,850,533)	(1,854,204)
Public safety-Fire	1,520,945	-	82,803	-	(1,438,142)	-	(1,438,142)	(1,436,694)
Public works-Streets	663,701	-	226,002	-	(437,699)	-	(437,699)	(271,317)
Inspection, engineering, parks & rec	435,582	-	-	-	(435,582)	-	(435,582)	(260,461)
Interest on long-term debt	14,444	-	-	-	(14,444)	-	(14,444)	(26,755)
Total governmental activities	6,394,521	-	808,390	8,021	(5,578,110)	-	(5,578,110)	(5,543,689)
Business-type activities								
Electric	5,185,547	5,251,986	-	-	-	66,439	66,439	251,513
Sanitation	1,230,552	914,091	-	-	-	(316,461)	(316,461)	(214,205)
Water	1,779,829	1,474,388	-	-	-	(305,441)	(305,441)	(564,664)
Sewer	1,772,224	1,799,481	-	-	-	27,257	27,257	(41,204)
Total business-type activities	9,968,153	9,439,947	-	-	-	(528,206)	(528,206)	(568,560)
Total primary government	\$ 16,362,674	\$ 9,439,947	\$ 808,390	\$ 8,021	(5,578,110)	(528,206)	(6,106,316)	(6,112,249)
General revenues								
Taxes								
Property taxes, levied for general purposes								
					1,195,380	-	1,195,380	1,176,563
License fees:								
Franchise								
					168,446	-	168,446	159,093
Payroll								
					2,901,244	-	2,901,244	2,775,778
Insurance premiums								
					1,545,048	-	1,545,048	1,452,684
Net profit								
					514,999	-	514,999	546,868
Other licenses and permits								
					29,828	-	29,828	30,267
Fines and forfeits								
					498	-	498	2,485
Investment earnings								
					11,584	10,151	21,735	31,416
Rents								
					132,281	61,785	194,066	168,865
Reimbursement from state for road project								
					-	-	-	284,407
Miscellaneous								
					131,035	162,942	293,977	151,377
Total general revenues								
					6,630,343	234,878	6,865,221	6,779,803
Transfers								
					-	-	-	-
Change in net position								
					1,052,233	(293,328)	758,905	667,554
Net position-beginning, restated								
					6,616,662	7,341,555	13,958,217	13,290,663
NET POSITION-ENDING								
					\$ 7,668,895	\$ 7,048,227	\$ 14,717,122	\$ 13,958,217

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

CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds	2013 Totals
ASSETS				
Cash and cash equivalents	\$ 1,485,367	\$ 390,520	\$ 1,875,887	\$ 1,281,854
Receivables (net)	1,220,162	17,767	1,237,929	1,184,218
Due from other funds	27,415	-	27,415	26,346
Other assets	567	-	567	21,604
Total assets	\$ 2,733,511	\$ 408,287	\$ 3,141,798	\$ 2,514,022
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 111,551	\$ -	\$ 111,551	\$ 73,809
Accrued leave payable	400,822	-	400,822	350,789
Deferred revenue	-	-	-	50,000
Total liabilities	512,373	-	512,373	474,598
FUND BALANCES				
Restricted	-	408,287	408,287	409,544
Unassigned	2,221,138	-	2,221,138	1,629,880
Total fund balances	2,221,138	408,287	2,629,425	2,039,424
Total liabilities and fund balances	\$ 2,733,511	\$ 408,287	\$ 3,141,798	\$ 2,514,022

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

Fund balances per above		\$ 2,629,425	\$ 2,039,424
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,643,121	5,213,046
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are reported in the funds.		(603,651)	(635,808)
Net position of governmental activities		\$ 7,668,895	\$ 6,616,662

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, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2013 Totals</u>
REVENUES				
Taxes	\$ 1,195,380	\$ -	\$ 1,195,380	\$ 1,176,563
Licenses and permits	5,159,565	-	5,159,565	4,964,690
Fees and fines	498	-	498	2,485
Intergovernmental	590,409	226,002	816,411	562,435
Other revenues	<u>272,294</u>	<u>2,606</u>	<u>274,900</u>	<u>182,078</u>
Total revenues	<u>7,218,146</u>	<u>228,608</u>	<u>7,446,754</u>	<u>6,888,251</u>
EXPENDITURES				
Current				
City commission	330,872	-	330,872	285,595
General administration	1,245,122	-	1,245,122	1,258,745
Public safety-Police	1,934,436	-	1,934,436	1,959,498
Public safety-Fire	1,382,608	-	1,382,608	1,387,688
Public works	568,885	25,982	594,867	513,504
Inspection, engineering, parks & recreation	428,761	-	428,761	255,941
Capital outlay	689,603	203,883	893,486	231,388
Debt service	<u>-</u>	<u>283,620</u>	<u>283,620</u>	<u>276,494</u>
Total expenditures	<u>6,580,287</u>	<u>513,485</u>	<u>7,093,772</u>	<u>6,168,853</u>
Excess (deficiency) of revenues over expenditures	<u>637,859</u>	<u>(284,877)</u>	<u>352,982</u>	<u>719,398</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	237,019	-	237,019	25,412
Transfers in (out)	<u>(283,620)</u>	<u>283,620</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(46,601)</u>	<u>283,620</u>	<u>237,019</u>	<u>25,412</u>
Net change in fund balances	591,258	(1,257)	590,001	744,810
Fund balances-beginning	<u>1,629,880</u>	<u>409,544</u>	<u>2,039,424</u>	<u>1,294,614</u>
Fund balances-ending	<u>\$ 2,221,138</u>	<u>\$ 408,287</u>	<u>\$ 2,629,425</u>	<u>\$ 2,039,424</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 590,001	\$ 744,810
add: capital outlay expenditures			893,486	231,388
add: debt service expenditures			283,620	276,494
less: loan proceeds			(237,019)	(25,412)
less: depreciation on governmental activities assets			(463,411)	(418,398)
less: interest on long-term debt			<u>(14,444)</u>	<u>(26,755)</u>
Change in net position Governmental Activities			<u>\$ 1,052,233</u>	<u>\$ 782,127</u>

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

**CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014**

	Business-Type Activities Utility Fund	2013 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 859,452	\$ 369,372
Receivables (net)	<u>818,658</u>	<u>765,349</u>
Total current assets	<u>1,678,110</u>	<u>1,134,721</u>
Noncurrent assets		
Restricted cash and cash equivalents	720,312	768,707
Other assets	633,545	557,827
Capital assets		
Utility systems	35,843,170	34,636,338
Less accumulated depreciation	<u>(25,594,209)</u>	<u>(24,627,273)</u>
Total non current assets	<u>11,602,818</u>	<u>11,335,599</u>
Total assets	<u>\$ 13,280,928</u>	<u>\$ 12,470,320</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 968,210	\$ 678,743
Meter deposits	268,933	256,413
Accrued leave payable	170,360	152,436
Accrued interest payable	12,203	10,965
Other payables	27,415	31,967
Current portion of long-term debt	<u>550,009</u>	<u>442,988</u>
Total current liabilities	<u>1,997,130</u>	<u>1,573,512</u>
Noncurrent liabilities		
Bonds, notes and loans payable	<u>4,235,571</u>	<u>3,555,253</u>
Total liabilities	<u>6,232,701</u>	<u>5,128,765</u>
NET POSITION		
Invested in capital assets	5,463,381	6,010,824
Restricted for debt service	614,318	525,262
Unrestricted	<u>970,528</u>	<u>805,469</u>
Total net position	<u>7,048,227</u>	<u>7,341,555</u>
Total liabilities and net position	<u>\$ 13,280,928</u>	<u>\$ 12,470,320</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, 2014

	Business-type Activities Utility Fund	2013 Totals
Operating revenues		
Charges for services	\$ 9,664,674	\$ 9,161,836
Total operating revenues	9,664,674	9,161,836
Operating expenses		
Utility administration	1,452,464	1,271,736
Electric department	4,468,107	4,052,214
Water distribution	1,197,302	1,429,168
Sewer treatment	984,071	1,022,976
Sanitation	785,872	784,022
Depreciation	966,936	906,549
Total operating expenses	9,854,752	9,466,665
Operating income (loss)	(190,078)	(304,829)
Nonoperating revenues (expenses)		
Grant revenue	-	2,901
Reimbursement from state for road project	-	284,407
Interest and investment revenue	10,151	17,666
Interest expense	(113,401)	(114,718)
Total nonoperating revenue (expenses)	(103,250)	190,256
Change in net position	(293,328)	(114,573)
Total net position-beginning, restated	7,341,555	7,456,128
TOTAL NET POSITION-ENDING	\$ 7,048,227	\$ 7,341,555

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, 2014

	Business-Type Activities Utility Fund	2013 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 9,804,524	\$ 9,181,451
Payments to suppliers	(6,381,448)	(6,164,630)
Payments for employee services and benefits	(2,467,854)	(2,434,323)
Customer deposits	12,520	4,835
Net cash provided by operating activities	967,742	587,333
CASH FLOWS FROM NON- CAPITAL AND RELATED FINANCING ACTIVITIES		
Net (payments) receipts under interfund agreements	(4,552)	(9,626)
Net cash provided by (used in) non-capital and related financing activities	(4,552)	(9,626)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,206,832)	(248,219)
Principal payments on bonds, notes, and loans payable	(1,487,661)	(413,300)
Proceeds from issuance of note payable	2,275,000	180,787
Interest paid on capital debt	(112,163)	(125,738)
Reimbursement from state for road project	-	284,407
KIA grant proceeds	-	2,901
Net cash (used in) capital and related financing activities	(531,656)	(319,162)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	10,151	17,666
Net cash provided by investing activities	10,151	17,666
Net increase in cash and cash equivalents	441,685	276,211
Balances-beginning of the year	1,138,079	861,868
BALANCES-END OF THE YEAR	\$ 1,579,764	\$ 1,138,079
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (190,078)	\$ (304,829)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	966,936	906,549
Change in assets and liabilities:		
Receivables (net)	(53,309)	19,615
Inventory	(99,440)	(26,403)
Other assets	23,722	(3,212)
Customer deposits	12,520	4,835
Accounts and other payables	289,467	(4,921)
Accrued expenses	17,924	(4,301)
Net cash provided by operating activities	\$ 967,742	\$ 587,333

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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, 2014

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 financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 are 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 December 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, 2014, 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, 2014 were fully covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The book balances of the City's deposits were \$3,364,651 and the bank balances were \$3,466,306.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

3. CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014
<u>Government Type Activities</u>				
Capital assets not depreciated:				
Land and Improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Construction in progress	-	3,800	-	3,800
Capital assets that are depreciated:				
Building and Improvements	3,336,222	-	-	3,336,222
Vehicles	2,821,435	258,363	-	3,079,798
Equipment	<u>786,520</u>	<u>91,079</u>	-	<u>877,599</u>
Totals	<u>6,944,177</u>	<u>349,442</u>	-	<u>7,293,619</u>
Total Non-Infrastructure Assets	<u>7,911,156</u>	<u>353,242</u>	-	<u>8,264,398</u>
Recording infrastructure Assets:				
Infrastructure Assets	<u>2,102,961</u>	<u>540,244</u>	-	<u>2,643,205</u>
Total Capital Assets	<u>10,014,117</u>	<u>893,486</u>	-	<u>10,907,603</u>
Less Accumulated Depreciation:				
Building and Improvements	1,801,803	81,666	-	1,883,499
Vehicles	2,046,754	203,633	-	2,250,387
Equipment	554,203	71,554	-	625,757
Infrastructure Assets	<u>398,311</u>	<u>106,528</u>	-	<u>504,839</u>
Totals	<u>4,801,071</u>	<u>463,411</u>	-	<u>5,264,482</u>
Depreciable capital assets, net	<u>\$ 5,213,046</u>	<u>\$ 430,075</u>	<u>\$ -</u>	<u>\$ 5,643,121</u>
<u>Business-Type Activities</u>				
Equipment and Vehicles	\$ 3,042,029	\$ 51,404	\$ -	\$ 3,093,433
Electric Lines, Poles, and Plant	8,037,957	999,563	-	9,037,520
Water Treatment Plant, Land and Water System Improvements	6,752,094	52,195	-	6,804,289
Sewer Treatment Plant, Land and Improvements	<u>16,804,258</u>	<u>103,670</u>	-	<u>16,907,928</u>
Totals	<u>34,636,338</u>	<u>1,206,832</u>	-	<u>35,843,170</u>
Less Accumulated Depreciation	<u>24,627,273</u>	<u>966,936</u>	-	<u>25,594,209</u>
Capital Assets, Net	<u>\$ 10,009,065</u>	<u>\$ 239,896</u>	<u>\$ -</u>	<u>\$ 10,248,961</u>

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

<u>Government-Type</u>		<u>Business-Type</u>	
General government	\$ 167,124		
Police	82,295	Electric department	\$ 325,974
Fire	138,337	Water department	191,061
Parks and recreation	6,821	Sewer department	396,687
Public works	<u>68,834</u>	Sanitation	<u>53,214</u>
Total depreciation expense	<u>\$ 463,411</u>	Total depreciation expense	<u>\$ 966,936</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2013	Additions	Deletions	Balance June 30, 2014
Kentucky Infrastructure Loan	\$ 2,660,910	\$ -	\$ (334,469)	\$ 2,326,441
Leasing One Corporation Lease	6,000	-	(6,000)	-
PNC Bank Equipment Finance	131,239	-	(31,360)	99,879
BB&T Equipment Finance	118,013	-	(32,980)	85,033
Traditional Bank Lease	37,079	-	(7,852)	29,227
2014 KY Bank Corp Bond	-	2,275,000	(30,000)	2,245,000
2005 Rural Development Bond	<u>1,045,000</u>	<u>-</u>	<u>(1,045,000)</u>	<u>-</u>
	<u>\$ 4,230,754</u>	<u>\$2,275,000</u>	<u>\$(1,487,661)</u>	<u>\$ 4,785,580</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
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	365,819	15,047	1,672	382,538
2020-2021	<u>561,169</u>	<u>10,132</u>	<u>1,126</u>	<u>572,427</u>
Total	<u>\$ 2,326,441</u>	<u>\$ 149,191</u>	<u>\$ 16,575</u>	<u>\$ 2,492,207</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

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 matured in December 2014 and bore interest at a rate of approximately 5%.

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
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>\$ 99,879</u>	<u>\$ 9,302</u>	<u>\$ 109,181</u>

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 accrued interest at 4.125%, was amortized over forty years, and was to mature in 2046. This bond was refinanced during the year ended June 30, 2014 through a new 2014 bond with the Kentucky Bond Corporation (see below for details).

	Issued	Rate	Balance Outstanding June 30, 2013	Issued (Retired) During Year	Balance Outstanding June 30, 2014
2005 Series	\$1,111,000	4.125%	\$ 1,045,000	\$(1,045,000)	\$ -

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
2015	\$ 29,227	\$ 163	\$ 29,389

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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
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>\$ 85,033</u>	<u>\$ 1,907</u>	<u>\$ 86,940</u>

Bonds Payable

The City of Paris entered into a \$2,275,000 lease agreement with the Kentucky Bond Corporation in February 2014 to refinance the City's 2006 bond with the Rural Development Authority, make modifications to diesel generators at the City's power plan, and to make repairs to the Lexington Road lift station. The note accrues interest at 3.29%, requires varying monthly payments ranging from \$17,606 to \$14,198, and is to mature in 2032. Also, \$91,000 of the proceeds were required to be set aside in a debt service reserve fund for payments due in February 2029 through January 2030.

	Issued	Rate	Balance Outstanding June 30, 2013	Issued (Retired) During Year	Balance Outstanding June 30, 2014
2014 Series	\$2,275,000	3.29%	\$ -	\$ 2,245,000	\$ 2,245,000

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

	Principal	Interest	Service Fee	Total
2015	\$ 113,750	\$ 66,898	\$ 6,452	\$ 187,100
2016	107,085	63,337	5,782	176,204
2017	110,004	61,197	5,513	176,714
2018	112,084	59,001	5,237	176,322
2019	114,996	56,760	4,956	176,712
Thereafter	<u>1,687,081</u>	<u>412,171</u>	<u>35,033</u>	<u>2,134,285</u>
Total	<u>\$ 2,245,000</u>	<u>\$ 719,364</u>	<u>\$ 62,973</u>	<u>\$3,027,337</u>

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

Current portion	\$ 550,009
Long-term portion	<u>4,235,571</u>
Total	<u>\$ 4,785,580</u>

**CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT

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

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Kentucky Bond Corporation	\$ 528,333	\$ -	\$(137,083)	\$ 391,250
Traditional Bank Lease	20,263	-	(12,667)	7,596
BB&T Lease	-	237,019	(32,214)	204,805
Fifth Third Lease-Purchase	<u>87,212</u>	<u>-</u>	<u>(87,212)</u>	<u>-</u>
	<u>\$ 635,808</u>	<u>\$ 237,019</u>	<u>\$(269,176)</u>	<u>\$ 603,651</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 matured in April 2014 and bore interest at a rate of approximately 3%.

Kentucky Bond Corporation

In November 2010, the City entered into a long-term financing assistance agreement with the Kentucky Bond Corporation, Financing Program Revenue Bonds, 2010 First Series C to provide financing for resurfacing, 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
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>\$ 391,250</u>	<u>\$ 27,712</u>	<u>\$ 3,922</u>	<u>\$ 422,884</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
2015	\$ 7,596	\$ 89	\$ 7,685

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Branch Bank & Trust (BB&T) Lease

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

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

	Principal	Interest	Total
2015	\$ 78,335	\$ 2,747	\$ 81,082
2016	76,669	1,412	78,081
2017	<u>49,801</u>	<u>199</u>	<u>50,000</u>
Total	<u>\$ 204,805</u>	<u>\$ 4,358</u>	<u>\$ 209,163</u>

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

Current portion	\$ 190,931
Long-term portion	<u>412,720</u>
Total	<u>\$ 603,651</u>

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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended June 30, 2014, 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, 2014, participating employers contributed 18.89%, of each employee's wages for non-hazardous job classifications and 35.70% 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>
2014	\$ 1,312,305	100%
2013	\$ 1,325,411	100%
2012	\$ 1,327,601	100%

8. PROPERTY TAX CALENDER

Property taxes for fiscal year 2014 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2013 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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 during the years ended June 30, 2014 and 2013. These charges were passed on to the consumer and recorded in operating revenues and expenses for the years ended June 30, 2014 and 2013, respectively.

11. RECLASSIFICATIONS

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

12. RESTATEMENT OF NET POSITION

A payment to Kentucky Utilities in the amount of \$193,159 that occurred in 2013 was not previously reported in the correct period. Therefore, an additional expense of \$193,159 has been included in 2013 electric department expense, resulting in business-type activity net position of \$7,534,714 as previously reported to a restated beginning net position of \$7,341,555.

13. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

13. SUBSEQUENT EVENTS (CONTINUED)

Statement No. 68 will take effect for pension plans in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, 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, 2015, 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, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Taxes				
Property taxes	\$ 560,000	\$ 560,000	\$ 588,096	\$ 28,096
Vehicle ad valorem tax	75,000	75,000	84,739	9,739
Delinquent taxes	7,500	7,500	6,696	(804)
Bank shares	25,000	25,000	23,261	(1,739)
Payment in lieu of taxes	480,000	480,000	480,000	-
Penalties and interest	10,000	10,000	12,588	2,588
	<u>1,157,500</u>	<u>1,157,500</u>	<u>1,195,380</u>	<u>37,880</u>
Licenses and permits				
Occupational license	2,650,000	2,650,000	2,901,244	251,244
Insurance license	1,500,000	1,500,000	1,545,048	45,048
Net profits license fee	400,000	400,000	514,999	114,999
Franchise fees	125,000	125,000	168,446	43,446
Building inspection fees	7,500	7,500	5,150	(2,350)
Alcohol beverage fees	12,500	12,500	24,678	12,178
	<u>4,695,000</u>	<u>4,695,000</u>	<u>5,159,565</u>	<u>464,565</u>
Fines and forfeits				
Parking fines	1,500	1,500	498	(1,002)
Intergovernmental revenues				
Police incentive pay	90,000	90,000	106,762	16,762
Fire incentive pay	90,000	90,000	82,803	(7,197)
Highway safety grant	7,500	7,500	8,021	521
CDBG YMCA grant	-	-	-	-
Stoner Creek Trails grant	415,000	415,000	-	(415,000)
Cops grants	15,000	15,000	36,248	21,248
CDBG Sidewalk	-	-	157,982	157,982
Hopewell Retaining Wall	-	-	173,378	173,378
FEMA Funds	10,000	10,000	-	(10,000)
Other grants	6,500	6,500	10,048	3,548
District court	25,000	25,000	15,167	(9,833)
	<u>659,000</u>	<u>659,000</u>	<u>590,409</u>	<u>(68,591)</u>
Other revenues				
Rent	135,000	135,000	132,281	(2,719)
Interest income	7,000	7,000	8,978	1,978
Loan proceeds	-	-	237,019	237,019
Other	5,000	5,000	131,035	126,035
	<u>147,000</u>	<u>147,000</u>	<u>509,313</u>	<u>362,313</u>
Total	<u>\$ 6,660,000</u>	<u>\$ 6,660,000</u>	<u>\$ 7,455,165</u>	<u>\$ 795,165</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
GENERAL GOVERNMENT & CAPITAL BUDGETING				
CITY COMMISSION				
Personnel services	\$ 95,000	\$ 95,000	\$ 91,537	\$ (3,463)
Contractual services	86,500	86,500	169,965	83,465
Other expenses	<u>80,500</u>	<u>80,500</u>	<u>69,370</u>	<u>(11,130)</u>
 Total city commission	 <u>262,000</u>	 <u>262,000</u>	 <u>330,872</u>	 <u>68,872</u>
 GENERAL ADMINISTRATION				
Personnel services	368,350	368,350	358,448	(9,902)
Contractual services	227,000	227,000	285,187	58,187
Materials and supplies	12,750	12,750	12,626	(124)
Other expenses	36,500	500	9,100	8,600
E911 Dispatch	180,000	180,000	163,810	(16,190)
EMS	266,400	266,400	183,571	(82,829)
Insurance	245,000	245,000	171,642	(73,358)
Legal	<u>45,000</u>	<u>45,000</u>	<u>60,738</u>	<u>15,738</u>
 Total general administration	 <u>1,381,000</u>	 <u>1,345,000</u>	 <u>1,245,122</u>	 <u>(99,878)</u>
 INSPECTION AND ENGINEERING				
Personnel services	171,675	171,675	156,922	(14,753)
Contractual services	66,125	66,125	27,336	(38,789)
Materials and supplies	6,700	6,700	199,417	192,717
Other expenses	<u>500</u>	<u>500</u>	<u>45,086</u>	<u>44,586</u>
 Total inspection and engineering	 <u>245,000</u>	 <u>245,000</u>	 <u>428,761</u>	 <u>183,761</u>
 OTHER ADMINISTRATION				
Capital budgeting	<u>782,500</u>	<u>782,500</u>	<u>689,603</u>	<u>(92,897)</u>
 Total other administration	 <u>782,500</u>	 <u>782,500</u>	 <u>689,603</u>	 <u>(92,897)</u>
 Total general government and capital budgeting	 <u>\$ 2,670,500</u>	 <u>\$ 2,634,500</u>	 <u>\$ 2,694,358</u>	 <u>\$ 59,858</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
POLICE DEPARTMENT				
Personnel services	\$ 1,788,500	\$ 1,788,500	\$ 1,756,097	\$ (32,403)
Contractual services	68,750	68,750	72,286	3,536
Materials and supplies	124,250	124,250	104,685	(19,565)
Other expenses	<u>2,000</u>	<u>2,000</u>	<u>1,368</u>	<u>(632)</u>
	<u>1,983,500</u>	<u>1,983,500</u>	<u>1,934,436</u>	<u>(49,064)</u>
FIRE DEPARTMENT				
Personnel services	1,254,900	1,254,900	1,225,319	(29,581)
Contractual services	84,100	84,100	107,941	23,841
Materials and supplies	58,000	58,000	45,859	(12,141)
Other expenses	<u>4,000</u>	<u>4,000</u>	<u>3,489</u>	<u>(511)</u>
	<u>1,401,000</u>	<u>1,401,000</u>	<u>1,382,608</u>	<u>(18,392)</u>
STREET DEPARTMENT				
Personnel services	421,850	421,850	449,757	27,907
Contractual services	29,700	29,700	65,144	35,444
Materials and supplies	98,450	98,450	50,708	(47,742)
Other expenses	<u>-</u>	<u>-</u>	<u>3,276</u>	<u>3,276</u>
	<u>550,000</u>	<u>550,000</u>	<u>568,885</u>	<u>18,885</u>
EXPENSES BEFORE TRANSFERS	<u>\$ 6,605,000</u>	<u>\$ 6,569,000</u>	<u>\$ 6,580,287</u>	<u>\$ 11,287</u>

CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 390,520	\$ -	\$ 390,520
Accounts receivable	17,767	-	17,767
Due from other funds	-	-	-
Total assets	\$ 408,287	\$ -	\$ 408,287
 LIABILITIES & FUND EQUITY			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund equity			
Restricted	408,287	-	408,287
Total fund equity	\$ 408,287	\$ -	\$ 408,287

CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 226,002	\$ -	\$ 226,002
Other revenues	2,606	-	2,606
Total revenues	228,608	-	228,608
EXPENDITURES			
Street department	25,982	-	25,982
Capital outlay	203,883	-	203,883
Debt service	-	283,620	283,620
Total expenditures	229,865	283,620	513,485
Excess revenues over (under) expenditures before other financing sources (uses)	(1,257)	(283,620)	(284,877)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	237,019	237,019
Operating transfer, net	-	46,601	46,601
Total other financing sources (uses)	-	283,620	283,620
Net change in fund balances	(1,257)	-	(1,257)
Fund balances - July 1, 2013	409,544	-	409,544
FUND BALANCES - JUNE 30, 2014	\$ 408,287	\$ -	\$ 408,287

CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	Budget	Actual	Over (Under) Budget
UTILITY ADMINISTRATION & SPECIAL PROJECTS			
Personnel services	\$ 475,050	\$ 430,576	\$ (44,474)
Contractual services	83,500	220,737	137,237
Materials and supplies	14,500	30,940	16,440
Other expenses	94,500	139,241	44,741
Allocation from General Fund	150,000	150,970	970
Payment in lieu of taxes	480,000	480,000	-
Total utility administration & special projects	<u>1,297,550</u>	<u>1,452,464</u>	<u>154,914</u>
 ELECTRIC DEPARTMENT			
Personnel services	493,550	490,327	(3,223)
Electric purchases	2,430,000	3,231,676	801,676
Contractual services	204,900	175,745	(29,155)
Materials and supplies	774,150	570,359	(203,791)
Total electric department	<u>3,902,600</u>	<u>4,468,107</u>	<u>565,507</u>
 WATER DISTRIBUTION			
Personnel services	672,200	747,442	75,242
Contractual services	129,200	182,195	52,995
Materials and supplies	259,750	235,550	(24,200)
Other expenses	30,000	32,115	2,115
Total water distribution	<u>1,091,150</u>	<u>1,197,302</u>	<u>106,152</u>
 SEWER TREATMENT			
Personnel services	494,200	498,809	4,609
Contractual services	277,700	317,276	39,576
Materials and supplies	150,000	167,986	17,986
Total sewer treatment	<u>921,900</u>	<u>984,071</u>	<u>62,171</u>
 SANITATION			
Personnel services	319,550	318,624	(926)
Contractual services	374,250	344,545	(29,705)
Materials and supplies	58,500	90,841	32,341
Recycling center	102,500	31,862	(70,638)
Total sanitation	<u>854,800</u>	<u>785,872</u>	<u>(68,928)</u>
 DEPRECIATION			
	<u>1,100,000</u>	<u>966,936</u>	<u>(133,064)</u>
Total operating expenses	<u>\$ 9,168,000</u>	<u>\$ 9,854,752</u>	<u>\$ 686,752</u>

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

Mayor and Commissioners
City of Paris
Paris, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Paris, Kentucky, as of and for the year ended June 30, 2014, 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 December 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 (2014-01) that we consider to be a significant deficiency.

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
December 4, 2014

CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Findings:

#2014-01

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.