

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Commissioners
City of 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 the City of Paris, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Paris, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, 2018, 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.

Emphasis of a Matter – Implementation of New GASB Accounting Standard

As discussed in Note 12 to the financial statements, effective July 1, 2017, the City of Paris, Kentucky adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and OPEB schedules, and budgetary comparison information on pages 3-16 and 44-52 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 nonmajor fund financial statements and the combined utility fund schedule of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the combined utility fund schedule of operating expenses 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 nonmajor fund financial statements and the combined utility fund schedule of operating expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Paris, Kentucky's 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.

RFH

RFH, PLLC
Lexington, Kentucky
January 18, 2019

**CITY OF PARIS, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The Management’s Discussion and Analysis of the City of Paris (the City) presents a discussion and analysis of the City’s financial performance for the fiscal year ended June 30, 2018. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide a readable explanation of the information within the basic financial statements and the financial statements immediately following the analysis.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government - Wide Highlights

- Total assets plus deferred outflows of resources of the Primary Government exceeded total liabilities and deferred inflows of resources by approximately \$3.59 million at the close of fiscal year 2018. This amount includes a net investment in capital assets of \$12.15 million and an overall deficit in unrestricted net position of approximately \$9.36 million.
- Governmental Activities’ net position was \$1.47 million at the end of fiscal year 2018. This amount includes a net investment in capital assets of \$6.20 million and an overall deficit in unrestricted net position of approximately \$4.88 million. The net investment in capital assets comprises 423.03% of total net position.
- Business-Type Activities’ net position was \$2.12 million at the end of fiscal year 2018. This amount includes a net investment in capital assets of \$5.95 million and an overall deficit in unrestricted net position of approximately \$4.48 million. The net investment in capital assets comprises 280.55% of total net position.

Fund Highlights

- As of June 30, 2018, the City’s governmental funds reported combined ending fund balances of \$5.25 million, an increase of \$1.29 million compared to the previous fiscal year. Of this amount, \$147 thousand is restricted for various projects: public works, public safety, and capital projects.
- The General Fund, the primary operating fund of the City, held unassigned fund balances of \$5.10 million or 76% of general fund expenditures.
- The General Fund’s cash and cash equivalents balance increased approximately \$800 thousand compared to the previous fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Three key elements comprise the basic financial statements, including:

- Government-Wide Financial Statements;
- Fund Financial Statements, and;
- Notes to the Financial Statements

A. Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the City's finances in a manner similar, to a private-sector business. These statements report financial information, except for fiduciary activities, and provide both short-term and long-term information about the City's entire financial position, and assist in the assessment of the City's economic condition at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses of the fiscal year regardless of when cash is received or paid. The *Government-Wide Financial Statements* include two statements: The *Statement of Net Position* and the *Statement of Activities*.

The *Statement of Net Position* reflects the financial position of the City at fiscal year ended June 30, 2018. Accordingly, The City's net position, the difference between assets (what the citizens own) plus deferred outflows of resources and liabilities (what the citizens owe) plus deferred inflows of resources, is one way to determine the financial condition of the City. Over time, increase or decreases in net position are one indicator of whether the financial health of the City is improving or deteriorating. However, additional factors such as changes in the City's revenue structure, its tax base, and its level of assets held, should be considered in order to assess thoroughly the overall financial condition of the City.

The *Statement of Activities* reflects the City's revenues and expenses, as well as other transactions that increase or decrease net position. Program revenues are offset by program expenses in order to provide better information regarding program costs financed by general government revenues.

The *Government-Wide Financial Statements* divide the City's activities into three types:

- Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants), namely licenses and permits, property taxes, and charges for services. Most services normally associated with local government fall into these categories: including police, fire, streets, public works, parks and general administration. Internal Service Fund balances are reported as part of Governmental Activities.

- Business-Type Activities – These activities normally are intended to recover all or a significant portion of costs through user fees and charges to external services of goods and services provided by the City. The Business-Type Activities of the City include the operations of various Enterprise Funds, including electric, water, sanitary sewer services, landfill and disposal costs.

B. Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The *Fund Financial Statements* report the operations of the City in greater detail than the *Government-Wide Financial Statements* by providing information about the City’s most significant funds. Local ordinance or bond covenants may require the creation of some funds; others may be created at the discretion of the Administration for management and fiscal control of financial resources. All funds of the City can be divided into two types of funds: Governmental Funds and Proprietary Funds.

- Governmental funds – Governmental funds are used to account for essentially the same functions reported as Governmental Activities in the *Government-Wide Financial Statements*. However, unlike the *Government-Wide Financial Statements*, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

Most of the basic services performed by the City are reported in the governmental funds’ category. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. Because the focus of governmental funds is narrower than that of the *Government-Wide Financial Statements*, it is useful to compare the information presented for governmental funds with similar information presented for Governmental Activities in the *Government-Wide Financial Statements*. By doing so, readers may better understand the long-term impact of the City’s near-term funding decisions. The governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and Governmental Activities. The following funds are used by the City:

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

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

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

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

- Proprietary funds – when the City charges a fee for services which is intended to cover the cost of providing those services – whether to outside customers or other units of the City – those services are generally reported in the proprietary funds’ category.

The proprietary funds are reported in the same way that all activities are reported in the Government-Wide Financial Statements but the fund statements provide more detail. The Government considers the Utility Fund as its major proprietary funds. The subcategories of the proprietary funds include enterprise funds and internal service funds. The subcategories of the proprietary funds include enterprise funds and internal service funds.

Enterprise funds are used to report the same functions presented as Business-Type Activities in the *Government-Wide Financial Statements*.

Utility Fund – The Utility 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. Notes to the Financial Statements

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the *Government-Wide* and *Fund Financial Statements*. They are an integral part of the financial statements and focus on the primary government and its activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

Net position may serve as a useful indicator of the City’s financial position. In Table 1 below, the City’s combined net position (Governmental and Business-Type Activities) totaled \$3.59 million as of June 30, 2018, a decrease of \$110 thousand from the previous year.

The largest proportion of the City’s net position, \$12.15 million, is invested in capital assets (e.g. land, infrastructures, buildings and improvements, and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The City uses these capital assets to provide services to its citizens. As such, these assets are not available for future spending.

Table 1
City of Paris, Kentucky
Summary of Net Position
For Years as Stated
(in thousands)

	Total Net Position		
	<u>2018</u>	Restated <u>2017</u>	<u>Change</u>
ASSETS			
Current and other assets	\$ 7,011	\$ 5,845	\$ 1,166
Restricted cash and other assets	793	832	(39)
Capital assets	<u>16,110</u>	<u>16,086</u>	<u>24</u>
Total assets	<u><u>23,914</u></u>	<u><u>22,763</u></u>	<u><u>1,151</u></u>
 DEFERRED OUTFLOWS OF RESOURCES	 6,251	 2,904	 3,347
 LIABILITIES			
Current and other liabilities	1,679	2,176	(497)
Long-term liabilities	<u>23,803</u>	<u>19,442</u>	<u>4,361</u>
Total liabilities	<u><u>25,482</u></u>	<u><u>21,618</u></u>	<u><u>3,864</u></u>
 DEFERRED INFLOWS OF RESOURCES	 1,094	 350	 744
 NET POSITION			
Net investment in capital assets	12,152	11,371	781
Restricted for:			
Debt service	284	112	172
Other purposes	509	354	155
Unrestricted	<u>(9,356)</u>	<u>(8,138)</u>	<u>(1,218)</u>
 Total net position	 <u><u>\$ 3,589</u></u>	 <u><u>\$ 3,699</u></u>	 <u><u>\$ (110)</u></u>

Table 2
City of Paris, Kentucky
Summary of Net Position
For Years as Stated
(in thousands)

	Governmental Activities		
	<u>2018</u>	Restated <u>2017</u>	<u>Change</u>
ASSETS			
Current and other assets	\$ 5,467	\$ 4,446	\$ 1,021
Restricted cash and cash equivalents	146	146	0
Capital assets	<u>6,195</u>	<u>6,056</u>	<u>139</u>
Total assets	<u><u>11,808</u></u>	<u><u>10,648</u></u>	<u><u>1,160</u></u>
DEFERRED OUTFLOWS OF RESOURCES	4,141	1,789	2,352
LIABILITIES			
Current and other liabilities	362	698	(336)
Long-term liabilities	<u>13,247</u>	<u>9,972</u>	<u>3,275</u>
Total liabilities	<u><u>13,609</u></u>	<u><u>10,670</u></u>	<u><u>2,939</u></u>
DEFERRED INFLOWS OF RESOURCES	876	350	526
NET POSITION			
Net investment in capital assets	6,195	5,454	741
Restricted for:			
Other purposes	147	197	(50)
Unrestricted	<u>(4,878)</u>	<u>(4,234)</u>	<u>(644)</u>
Total net position	<u><u>\$ 1,464</u></u>	<u><u>\$ 1,417</u></u>	<u><u>\$ 47</u></u>

Table 2 indicates that the net position of Governmental Activities totaled approximately \$1.47 million, or 12.4% of total assets, an increase of \$47 thousand over the previous year. Of this total, \$6.20 million is invested in capital assets (e.g. land, infrastructures, buildings and improvements, and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets.

Current assets exceeded currently liabilities by approximately \$5.11 million at the end of fiscal year 2018.

Table 3
City of Paris, Kentucky
Summary of Net Position
For Years as Stated
(in thousands)

	Business-Type Activities		
	<u>2018</u>	Restated <u>2017</u>	<u>Change</u>
ASSETS			
Current and other assets	\$ 1,544	\$ 1,399	\$ 145
Restricted cash and cash equivalents	645	270	375
Capital assets	<u>9,916</u>	<u>10,446</u>	<u>(530)</u>
Total assets	<u><u>12,105</u></u>	<u><u>12,115</u></u>	<u><u>(10)</u></u>
DEFERRED OUTFLOWS OF RESOURCES	2,110	1,115	995
LIABILITIES			
Current and other liabilities	1,318	1,480	(162)
Long-term liabilities	<u>10,556</u>	<u>9,470</u>	<u>1,086</u>
Total liabilities	<u><u>11,874</u></u>	<u><u>10,950</u></u>	<u><u>924</u></u>
DEFERRED INFLOWS OF RESOURCES	218		218
NET POSITION			
Net investment in capital assets	5,957	5,917	40
Restricted for:			
Debt service	284	112	172
Other purposes	361	157	204
Unrestricted	<u>(4,479)</u>	<u>(3,906)</u>	<u>(573)</u>
Total net position	<u><u>\$ 2,123</u></u>	<u><u>\$ 2,280</u></u>	<u><u>\$ (157)</u></u>

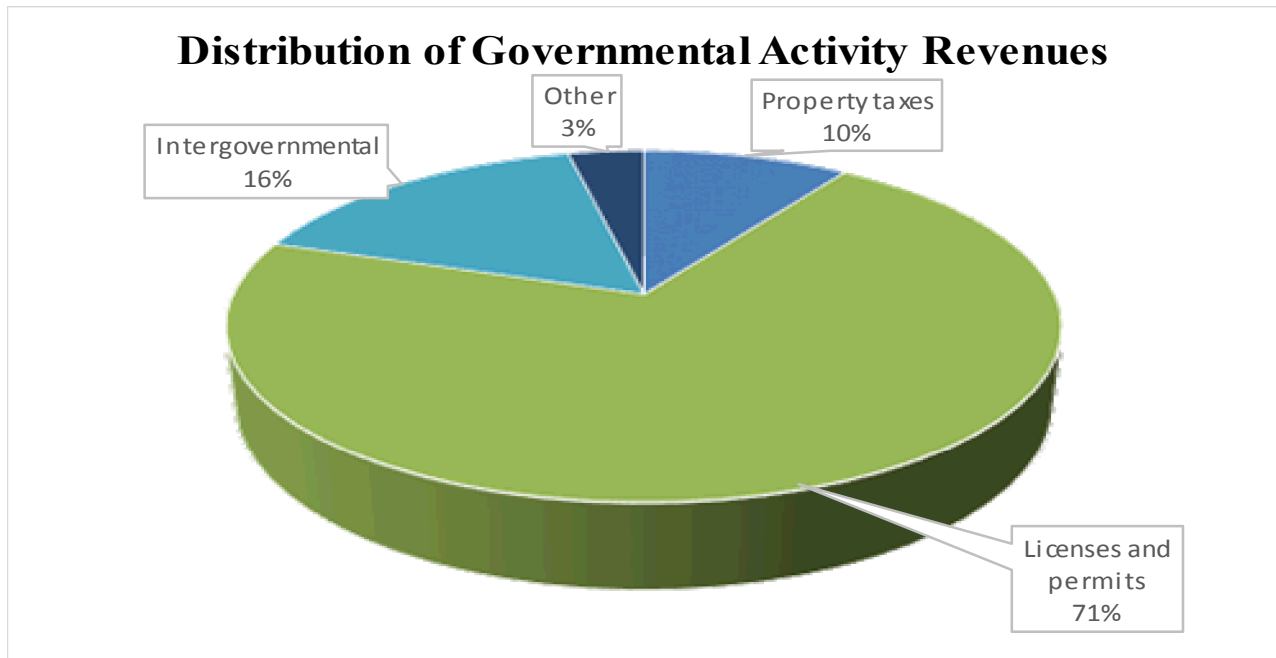
Table 3 indicates that the net position of Business-Type Activities totaled approximately \$2.12 million or 17.5% of total assets, a decrease of \$157 thousand over the previous year. Of this total, \$5.95 million is invested in capital assets, minus related debt which is still outstanding and used to acquire those assets. The City uses these capital assets in the same way as the capital assets held by Governmental Activities.

Current assets exceeded currently liabilities by approximately \$226 thousand at the end of the fiscal year.

Governmental Activities

As indicated in Chart 1, the City funds its Governmental activities from revenue received from two significant categories. A clear majority, 71%, of the City's revenue is provided through licenses and permits. This category includes fees placed on employee withholdings, business returns, insurance premiums, and franchise fees. Property taxes comprise 10% of governmental revenues. Federal and State grant funding represents 16% of governmental revenue. The remaining Other category represents miscellaneous revenues collected by the City.

Chart 1



As indicated in Chart 2, expenditures related to public safety for police and fire represent 32% and 25%, respectively, of total expenditures of the City's Governmental Activities.

Expenditures for police totaled approximately \$2.57 million (Table 4) for fiscal year 2018. An increase of \$453 thousand compared to the previous fiscal year. Expenditures for fire totaled approximately \$1.99 million (Table 4) for fiscal year 2018. An increase of \$31 thousand compared to the previous fiscal year.

Salary and wage costs, including benefits for police totaled \$1.92 million for fiscal year 2018 or approximately 75% of the total expenditures for 2018. An increase of approximately \$208 thousand compared to the previous fiscal year.

Salary and wage costs, including benefits for fire totaled \$1.45 million for fiscal year 2018 or approximately 72% of the total expenditures for 2018. A decrease of approximately \$170 thousand compared to the previous fiscal year.

During 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). GASB Statement No. 75 addresses financial reporting for state and local government employers whose employees are provided with OPEB through defined benefit plans. A restatement of beginning net position was made to correctly adjust accrued liabilities for understatements in the previous year. For Governmental Activities the restatement reduced beginning net position by approximately \$2.27 million. For Business Type Activities the restatement reduced beginning net position by approximately \$1.25 million. Because of this restatement comparable financial expenditure numbers for 2017 may not be consistent with 2018.

Chart 2

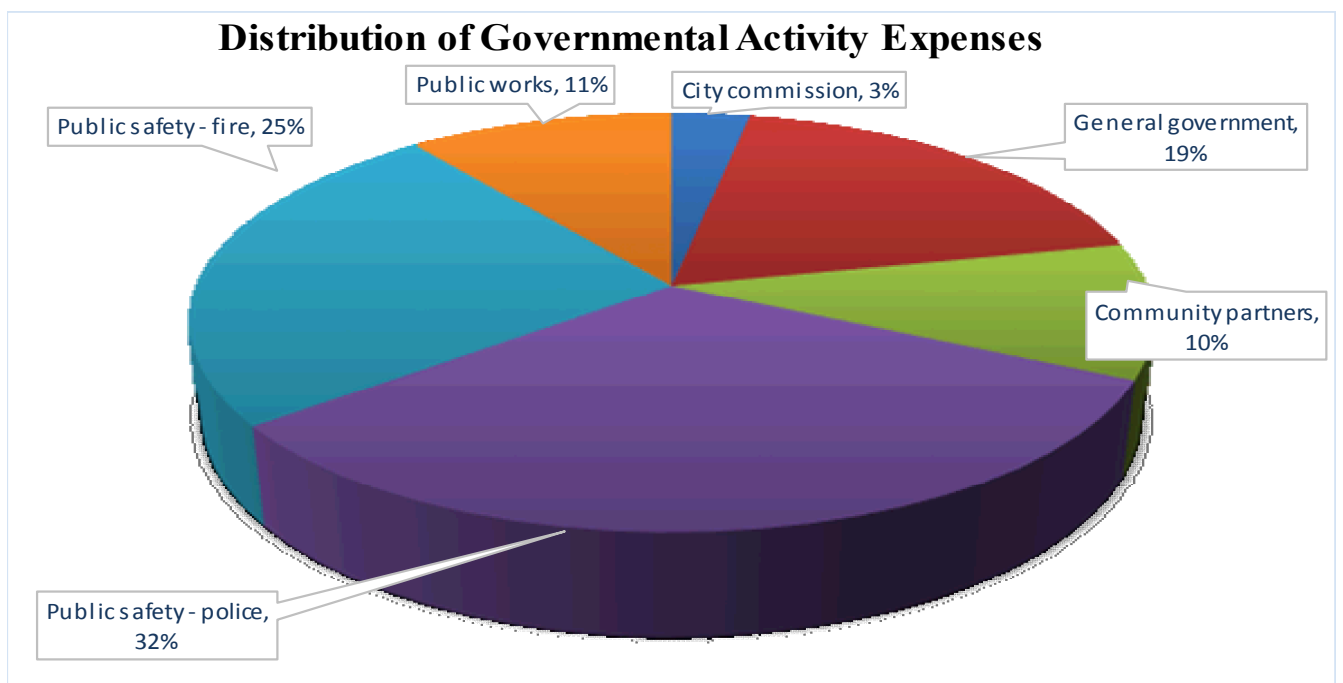


Table 4
City of Paris, Kentucky
Summary of Statement of Activities
For Years as Stated
(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Program Revenue:						
Charge for services	\$ 120	\$	\$ 10,270	\$ 10,776	\$ 10,390	\$ 10,776
General Revenues:						
Tax	764	727			764	727
Licenses	5,658	5,652			5,658	5,652
Intergovernmental	1,201	1,453			1,201	1,453
Fines and Forfeitures	4	6			4	6
Other revenues	<u>253</u>	<u>175</u>	<u>51</u>	<u>126</u>	<u>304</u>	<u>301</u>
Total revenues	<u>8,000</u>	<u>8,013</u>	<u>10,321</u>	<u>10,902</u>	<u>18,321</u>	<u>18,915</u>
Program Expenses:						
City commission	247	344			247	344
General government	1,476	1,237			1,476	1,237
Community partners	830	609			830	609
Public safety - police	2,565	2,112			2,565	2,112
Public safety - fire	1,994	1,963			1,994	1,963
Public works	839	752			839	752
Interest on long-term debt	2	1			2	1
Electric			4,806	5,695	4,806	5,695
Sanitation			1,522	1,559	1,522	1,559
Water			2,249	2,014	2,249	2,014
Sewer			<u>1,903</u>	<u>1,779</u>	<u>1,903</u>	<u>1,779</u>
Total program expenses	<u>7,953</u>	<u>7,018</u>	<u>10,480</u>	<u>11,047</u>	<u>18,433</u>	<u>18,065</u>
Net change in Net position	<u>\$ 47</u>	<u>\$ 995</u>	<u>\$ (159)</u>	<u>\$ (145)</u>	<u>\$ (112)</u>	<u>\$ 850</u>

As indicated by Table 4, revenues from Governmental Activities totaled \$8.0 million, which was a decrease of \$13 thousand or 1.38%, from the previous year. Licenses and permits totaled \$5.66 million, representing 71% of total revenues. As stated earlier, this category includes employee withholdings in the form of an occupational license fee (OLF). This fee is comprised of an assessment of 1.50% on the total wages received by individuals employed in the City of Paris and an assessment of 1.50% on the net profits of businesses operating in the City of Paris. Licenses and permits increased by \$6 thousand from the previous year. Property taxes increased by \$37 thousand.

As noted on Table 4, total expense of Governmental Activities was \$7.95 million, an increase of \$937 thousand for the previous fiscal year.

Business-Type Activities

Also indicated by Table 4, revenues from Business-Type Activities decreased \$581 thousand from the previous fiscal year. Overall lower electric costs were a key factor in the decrease from 2018 compared to 2017.

Total expenses for Business-Type Activities decreased when compared to fiscal year 2017, by \$567 thousand. Overall lower electric costs were a key factor in the decrease from 2018 compared to 2017.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Commission revises the budget from time to time; thus, exercising one of the primary duties of the Commission as guardian of the City's funds. Supplemental appropriations are approved to reflect actual beginning fund balances and to re-appropriate funds for capital projects. As the year progresses and actual revenue collections and budgetary experience is known, amendments are processed in order to reflect the actual results and revised expectations of future revenue and expenditures.

For fiscal year 2018, General Fund revenues totaled \$7.72 million, a decrease of 1.24% from the previous fiscal year. Total revenues were \$384 thousand above the budgeted amount. This slight increase in actual revenue is the result of stabilizing in the U.S. economy, which affected both business returns and franchise fees. Total ad valorem taxes \$30 thousand above the final budgeted amount. Intergovernmental revenues were \$195 thousand above the final budgeted amount.

General fund expenditures of the City totaled \$6.71 million, a decrease of \$93 thousand over the previous fiscal year. Expenditures were \$557 thousand below the final budgeted amount.

During 2018 funding for Community Partners increased by approximately \$221 thousand. The City's financial commitment to support Emergency Management Services within the City of Paris and Bourbon County increased by \$109 thousand compared to the previous fiscal year to a total of \$375 thousand for 2018. In addition, the City's financial commitment to support Paris-Bourbon County E-11 services increased by \$18 thousand compare to the previous fiscal year to a total of \$210 thousand for 2018.

Table 5
City of Paris, Kentucky
General Fund Budgetary Highlights
For the Year Ended June 30, 2018
(in thousands)

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
REVENUES			
Taxes	\$ 734	\$ 764	\$ 30
Licenses and permits	5,465	5,657	192
Fines and forfeitures	2	3	1
Intergovernmental	829	1,024	195
Charges for Services	130	120	(10)
Other revenues	174	150	(24)
Total Revenues	<u>7,334</u>	<u>7,718</u>	<u>384</u>
EXPENDITURES			
Current			
City commission	341	247	(94)
General administration	750	727	(23)
Community partners	821	830	9
Public safety - police	2,315	2,178	(137)
Public safety - fire	1,793	1,630	(163)
Public works	832	647	(185)
Capital outlay	412	448	36
Total expenditures	<u>7,264</u>	<u>6,707</u>	<u>(557)</u>
Excess (deficiency) of revenues over expenditures	<u>70</u>	<u>1,011</u>	<u>941</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets		126	126
Transfers (out)	(70)	(69)	1
Total other financing sources (uses)	<u>(70)</u>	<u>57</u>	<u>127</u>
Net change in fund balance	<u>\$ 0</u>	<u>\$ 1,068</u>	<u>\$ 1,068</u>

CAPITAL ASSETS

The City's capital assets totaled \$16.11 million as of June 30, 2018. This investment includes land, buildings, equipment, park facilities, roads, bridges, and water and sewer systems. For Governmental Activities, the net investment in capital assets totaled \$6.20 million. For Business-Type Activities, the net investment in capital assets totaled \$9.92 million.

This year's major changes in capital assets included:

- Governmental Activities net investment in capital assets increased by \$139 thousand from the prior fiscal year. During 2018, the City's additions to capital assets included a new roof on the City's main building for \$172 thousand; purchase of properties located in a flood plain for \$606 thousand; and infrastructure of \$231 thousand. Depreciation expense for Governmental Activities totaled \$518 thousand for the fiscal year ended 2018.
- Business-Type Activities net investment in capital assets decreased by \$115 thousand from the prior fiscal year. During 2018, the City's additions to capital assets included a new electric substation for \$348 thousand; a new belt filter press for waste water treatment for \$263 thousand; a new filter meter for water treatment for \$114 thousand. Depreciation expense for Business-Type Activities totaled \$892 thousand for the fiscal year ended 2018.

Table 6
City of Paris, Kentucky
Summary of Capital Assets
For the Years as Stated
(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 1,555	\$ 967	\$ 422	\$ 422	\$ 1,977	\$ 1,389
Building and Improvements	3,505	3,518			3,505	3,518
Equipment and vehicles	4,587	4,396	3,171	3,161	7,758	7,557
Electric lines, poles and plant			9,501	9,144	9,501	9,144
Water treatment plant and water system improvements			8,035	7,850	8,035	7,850
Sewer treatment plant and improvements			17,856	17,562	17,856	17,562
Infrastructure assets	3,695	3,464			3,695	3,464
Construction in progress		534	209	279	209	813
	<u>13,342</u>	<u>12,879</u>	<u>39,194</u>	<u>38,418</u>	<u>52,536</u>	<u>51,297</u>
Less accumulated depreciation	<u>7,147</u>	<u>6,823</u>	<u>29,279</u>	<u>28,388</u>	<u>36,426</u>	<u>35,211</u>
Capital assets, net	<u>\$ 6,195</u>	<u>\$ 6,056</u>	<u>\$ 9,915</u>	<u>\$ 10,030</u>	<u>\$ 16,110</u>	<u>\$ 16,086</u>

Construction in progress at June 30, 2018 includes costs of \$65 thousand for the Electric Department's SCADA system and \$144 thousand for construction of a metal frame building on one of the City's properties.

Additional information on the City's capital assets activity can be found in Note 4 to the financial statements.

DEBT ADMINISTRATION

As of the end of fiscal year 2018, the City had \$3.33 million in bonds and notes outstanding; Governmental Activities' debt decreased by \$67 thousand, Business-Type Activities debt decreased by \$506 thousand. Governmental Activities had zero debt outstanding at June 30, 2018.

Table 7
City of Paris, Kentucky
Summary of Outstanding Debt
For the Years as Stated
(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
General obligation bonds, notes and leases	\$	\$ 67	\$ 2,729	\$ 3,200	\$ 2,729	\$ 3,267
Revenue bonds			291	296	291	296
Mortgage notes			308	338	308	338
Total	<u>\$ 0</u>	<u>\$ 67</u>	<u>\$ 3,328</u>	<u>\$ 3,834</u>	<u>\$ 3,328</u>	<u>\$ 3,901</u>

NEXT YEAR'S BUDGET

The City's fiscal year 2019 budget, for all funds combined, net of interfund transfers, is \$16.42 million. In fiscal year 2018, the City took the stance that tax rates and service fees should remain virtually level from previous fiscal years. Cost savings have been realized though not filling some employee vacancies, revised health benefit plan that provided level agency funding for all participants, ensuring that major expenditures are vetted through competitive bid process, and ensuring employees understand management's philosophy or responsible fiscal management.

REQUEST FOR INFORMATION

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. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Manager at 525 High Street, Paris, Kentucky 40361 or by telephone at (859) 987-2110.

CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,693,169	\$ 478,330	\$ 4,171,499
Receivables, net	1,427,900	982,764	2,410,664
Prepaid expense	-	12,888	12,888
Inventory	-	415,851	415,851
Internal balances	<u>345,647</u>	<u>(345,647)</u>	<u>-</u>
Total current assets	<u>5,466,716</u>	<u>1,544,186</u>	<u>7,010,902</u>
Noncurrent assets			
Restricted cash and cash equivalents	147,157	645,349	792,506
Capital assets			
Land and improvements	1,555,025	422,052	1,977,077
Construction in progress	-	208,805	208,805
Depreciable infrastructure, net	2,585,563	-	2,585,563
Depreciable buildings, property, and equipment, net	<u>2,054,322</u>	<u>9,284,844</u>	<u>11,339,166</u>
Total noncurrent assets	<u>6,342,067</u>	<u>10,561,050</u>	<u>16,903,117</u>
Total assets	<u>11,808,783</u>	<u>12,105,236</u>	<u>23,914,019</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	2,816,274	1,615,058	4,431,332
Deferred outflows - OPEB	<u>1,324,973</u>	<u>494,442</u>	<u>1,819,415</u>
Total deferred outflows of resources	<u>4,141,247</u>	<u>2,109,500</u>	<u>6,250,747</u>
Total assets and deferred outflows of resources	<u>\$ 15,950,030</u>	<u>\$ 14,214,736</u>	<u>\$ 30,164,766</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 158,042	\$ 401,174	\$ 559,216
Accrued liabilities	204,143	168,761	372,904
Accrued interest payable	-	6,200	6,200
Customer deposits	-	224,200	224,200
Current portion of long-term obligations	<u>-</u>	<u>516,703</u>	<u>516,703</u>
Total current liabilities	<u>362,185</u>	<u>1,317,038</u>	<u>1,679,223</u>
Noncurrent liabilities			
Compensated absences	231,253	108,393	339,646
Noncurrent portion of long-term obligations	-	2,811,501	2,811,501
Net pension liability	9,354,759	5,908,922	15,263,681
Net OPEB liability	<u>3,661,069</u>	<u>1,727,534</u>	<u>5,388,603</u>
Total noncurrent liabilities	<u>13,247,081</u>	<u>10,556,350</u>	<u>23,803,431</u>
Total liabilities	<u>13,609,266</u>	<u>11,873,388</u>	<u>25,482,654</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	657,866	127,680	785,546
Deferred inflows - OPEB	<u>218,473</u>	<u>90,449</u>	<u>308,922</u>
Total deferred inflows of resources	<u>876,339</u>	<u>218,129</u>	<u>1,094,468</u>
NET POSITION			
Net investment in capital assets	6,194,910	5,956,640	12,151,550
Restricted for:			
Debt service	-	283,887	283,887
Other purposes	147,157	361,462	508,619
Unrestricted	<u>(4,877,642)</u>	<u>(4,478,770)</u>	<u>(9,356,412)</u>
Total net position	<u>1,464,425</u>	<u>2,123,219</u>	<u>3,587,644</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 15,950,030</u>	<u>\$ 14,214,736</u>	<u>\$ 30,164,766</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, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
City commission	\$ 247,054	\$ -	\$ -	\$ -	\$ (247,054)	\$ -	\$ (247,054)
General administration	1,476,213	119,913	585,000	77,965	(693,335)	-	(693,335)
Community partners	829,651	-	-	-	(829,651)	-	(829,651)
Public safety-police	2,565,467	-	175,222	-	(2,390,245)	-	(2,390,245)
Public safety-fire	1,994,373	-	185,516	-	(1,808,857)	-	(1,808,857)
Public works	838,601	-	-	176,961	(661,640)	-	(661,640)
Interest on long-term debt	2,442	-	-	-	(2,442)	-	(2,442)
Total governmental activities	<u>7,953,801</u>	<u>119,913</u>	<u>945,738</u>	<u>254,926</u>	<u>(6,633,224)</u>	<u>-</u>	<u>(6,633,224)</u>
Business-type activities							
Electric	4,805,863	5,895,844	-	-	-	1,089,981	1,089,981
Sanitation	1,522,157	1,009,378	-	-	-	(512,779)	(512,779)
Water	2,248,584	1,636,327	-	-	-	(612,257)	(612,257)
Sewer	1,902,832	1,728,968	-	-	-	(173,864)	(173,864)
Total business-type activities	<u>10,479,436</u>	<u>10,270,517</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(208,919)</u>	<u>(208,919)</u>
Total primary government	\$ 18,433,237	\$ 10,390,430	\$ 945,738	\$ 254,926	(6,633,224)	(208,919)	(6,842,143)
General revenues							
Taxes							
Property taxes, levied for general purposes							
					763,521	-	763,521
License fees:							
Franchise							
					213,629	-	213,629
Payroll							
					3,050,991	-	3,050,991
Insurance premiums							
					1,707,035	-	1,707,035
Net profit							
					662,569	-	662,569
Other licenses and permits							
					23,238	-	23,238
Fines and forfeits							
					3,393	-	3,393
Investment earnings							
					26,599	9,006	35,605
Miscellaneous							
					124,369	41,239	165,608
Total general revenues					<u>6,575,344</u>	<u>50,245</u>	<u>6,625,589</u>
Gain on disposal of assets					104,971	-	104,971
Change in net position					47,091	(158,674)	(111,583)
Net position-beginning, as restated					<u>1,417,334</u>	<u>2,281,893</u>	<u>3,699,227</u>
NET POSITION-ENDING					\$ 1,464,425	\$ 2,123,219	\$ 3,587,644

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

CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,771,555	\$ 68,771	\$ 3,840,326
Receivables, net	1,405,941	21,959	1,427,900
Due from other funds	345,647	-	345,647
Total assets	\$ 5,523,143	\$ 90,730	\$ 5,613,873
LIABILITIES			
Accounts payable	\$ 158,042	\$ -	\$ 158,042
Accrued liabilities	204,143	-	204,143
Total liabilities	362,185	-	362,185
FUND BALANCES			
Restricted	56,427	90,730	147,157
Unassigned	5,104,531	-	5,104,531
Total fund balances	5,160,958	90,730	5,251,688
Total liabilities and fund balances	\$ 5,523,143	\$ 90,730	\$ 5,613,873

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

Fund balances per above	\$ 5,251,688
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,194,910
Long-term liabilities and related pension/OPEB deferred inflows/outflows are not due and payable in the current period and therefore are not reported in the funds.	<u>(9,982,173)</u>
Net position of governmental activities	<u>\$ 1,464,425</u>

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

CITY OF PARIS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 763,521	\$ -	\$ 763,521
Licenses and permits	5,657,462	-	5,657,462
Fees and fines	3,393	-	3,393
Intergovernmental	1,023,703	176,961	1,200,664
Charges for services	119,913	-	119,913
Other revenues	149,998	970	150,968
Total revenues	7,717,990	177,931	7,895,921
EXPENDITURES			
Current			
City commission	247,054	-	247,054
General administration	727,238	-	727,238
Community partners	829,651	-	829,651
Public safety-police	2,178,627	-	2,178,627
Public safety-fire	1,629,642	-	1,629,642
Public works	647,104	-	647,104
Capital outlay	447,691	230,708	678,399
Debt service	-	69,526	69,526
Total expenditures	6,707,007	300,234	7,007,241
Excess (deficiency) of revenues over expenditures	1,010,983	(122,303)	888,680
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	126,200	-	126,200
Transfers in (out)	(69,526)	69,526	-
Total other financing sources (uses)	56,674	69,526	126,200
Net change in fund balances	1,067,657	(52,777)	1,014,880
Fund balances-beginning, as restated	4,093,301	143,507	4,236,808
Fund balances-ending	\$ 5,160,958	\$ 90,730	\$ 5,251,688
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 1,014,880
Add: capital outlay expenditures			678,399
Add: debt service expenditures			69,526
Add: gain on disposal of assets			104,971
Add: change in compensated absences			43,146
Less: proceeds from sale of assets			(126,200)
Less: depreciation on governmental activities assets			(517,634)
Less: change in net pension liability			(935,475)
Less: change in net OPEB liability			(282,080)
Less: interest on long-term deb			(2,442)
Change in net position Governmental Activities			\$ 47,091

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

CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	<u>Business-Type Activities Utility Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 478,330
Receivables, net	982,764
Prepaid expenses	12,888
Inventory	<u>415,851</u>
Total current assets	<u>1,889,833</u>
Noncurrent assets	
Restricted cash and cash equivalents	645,349
Land and improvements	422,052
Construction in progress	208,805
Depreciable buildings, property, and equipment	38,564,294
Less: accumulated depreciation	<u>(29,279,450)</u>
Total noncurrent assets	<u>10,561,050</u>
Total assets	<u>12,450,883</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	1,615,058
Deferred outflows - OPEB	<u>494,442</u>
Total deferred outflows of resources	<u>2,109,500</u>
Total assets and deferred outflows of resources	<u>\$ 14,560,383</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 401,174
Accrued liabilities	168,761
Accrued interest payable	6,200
Customer deposits	224,200
Due to other funds	345,647
Current portion of long-term debt	<u>516,703</u>
Total current liabilities	<u>1,662,685</u>
Noncurrent liabilities	
Compensated absences	108,393
Bonds, notes and loans payable	2,811,501
Net pension liability	5,908,922
Net OPEB liability	<u>1,727,534</u>
Total noncurrent liabilities	<u>10,556,350</u>
Total liabilities	<u>12,219,035</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	127,680
Deferred inflows - OPEB	<u>90,449</u>
Total deferred inflows of resources	<u>218,129</u>
NET POSITION	
Net investment in capital assets	5,956,640
Restricted for:	
Debt service	283,887
Other purposes	361,462
Unrestricted	<u>(4,478,770)</u>
Total net position	<u>2,123,219</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 14,560,383</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, 2018**

	Business-type Activities Utility Fund
Operating revenues	
Charges for services	\$ 10,248,618
Rental income	21,899
Miscellaneous	<u>41,239</u>
Total operating revenues	<u>10,311,756</u>
Operating expenses	
Utility administration	1,436,540
Electric department	4,186,118
Water distribution	1,645,308
Sewer treatment	1,100,246
Sanitation	1,116,927
Depreciation	<u>891,697</u>
Total operating expenses	<u>10,376,836</u>
Operating income	<u>(65,080)</u>
Nonoperating revenues (expenses)	
Interest and investment income	9,006
Interest expense	<u>(102,600)</u>
Total nonoperating revenue (expenses)	<u>(93,594)</u>
Change in net position	(158,674)
Total net position-beginning, as restated	<u>2,281,893</u>
TOTAL NET POSITION-ENDING	<u><u>\$ 2,123,219</u></u>

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

CITY OF PARIS, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2018

**Business-Type
Activities
Utility Fund**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 10,122,048
Payments to suppliers	(6,376,143)
Payments for employee services and benefits	(1,937,007)
Payments for interfund services used	(585,000)
Other receipts	<u>63,138</u>
Net cash provided by operating activities	<u>1,287,036</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	(762,264)
Principal payments on bonds, notes, and loans payable	(505,793)
Interest paid on capital debt	<u>(103,322)</u>
Net cash (used in) capital and related financing activities	<u>(1,371,379)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipts on interfund loans	<u>266,429</u>
Net cash provided by noncapital financing activities	<u>266,429</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and investment income	<u>9,006</u>
Net cash provided by investing activities	<u>9,006</u>

Net increase in cash and cash equivalents	191,092
Cash and cash equivalents-beginning of the year	<u>932,587</u>

CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 1,123,679</u>
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Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ (65,080)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	891,697
Net pension liability	639,689
Net OPEB liability	78,318
Change in assets and liabilities:	
Receivables, net	(167,553)
Prepaid expense	(12,888)
Inventory	514
Customer deposits	40,983
Accounts and other payables	(201,464)
Accrued expenses	<u>82,820</u>

Net cash provided by operating activities	<u>\$ 1,287,036</u>
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Reconciliation of total cash and cash equivalents:

Current assets - cash and cash equivalents	\$ 478,330
Restricted cash and cash equivalents	<u>645,349</u>
	<u>\$ 1,123,679</u>

Supplemental disclosure of cash flow information:

Noncash capital and related financing activities:	
Accounts payable for capital items, net	<u>\$ 15,160</u>

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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
6. Paris-Bourbon County Economic Development Authority

B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements include the 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.

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 balance or net position, 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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

The following funds are used by the City of Paris:

Governmental Funds

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

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

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

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

Proprietary Funds

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

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.

Utility Fund – The Utility 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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Fund Financial Statements

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

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

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred. Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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

D. Fund Balance

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

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

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

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

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Balance (Continued)

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 estimates the expenses the General Fund paid or incurred on behalf of the Utility Fund. Total estimated expenses reimbursed to the General Fund from the Utilities Fund amounted to \$585,000 for the year ended June 30, 2018. In the fund financial statements, these reimbursements are recorded as "Intergovernmental" revenue in the General Fund and "Utility administration" expense in the Utility Fund.

F. Pensions

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

G. Postemployment Benefits Other Than Pensions (OPEB)

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (i.e., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

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

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

I. Compensated Absences

Full-time employees of the City may accumulate sick leave at the rate of eight hours per month. Fire department employees assigned to 24-hour shifts may accumulate twelve hours per month. Sick days are allowed to be accumulated and carried over to a maximum of 520 work hours at the beginning of the calendar year. Fire department employees can carry a maximum of 720 work hours at the beginning of the calendar year. The City has a policy that employees must complete a minimum of five years of service to be eligible for a payout. Employees must have an accrual balance higher than 420 total hours to be eligible for a payout. At the end of the calendar year, employees with a balance higher than 420 hours may cash out up to a maximum of 80 hours at a 4 to 1 ratio of their current hourly rate. Upon resignation in good standing or retirement from the City, an employee may cash out all the remaining accrued sick hours at a 3 to 1 ratio of their current hourly rate.

New employees of the City may accumulate vacation leave on the first day of the month following six months of employment. There is no maximum accrual for vacation leave. Employees who resign in good standing or retire are eligible to receive payment for unused vacation days.

The City accrues compensated absences for employees who meet the minimum years of service and hourly accrual balance requirements for sick leave. The City also accrues compensated absences for employees who have met the probationary period for vacation leave.

J. Interfund balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Other Accounting Policies

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

Inventory is 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 Utility Fund consists of materials, supplies and fuel.

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

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

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.

L. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 18, 2019, 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, 2018, 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. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a policy regarding interest rate risk.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk beyond that specified in KRS 66.480. The City's deposits and investments at June 30, 2018 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 \$4,964,005 and the bank balances were \$5,304,301. Bank balances of \$654,899 were covered by FDIC insurance, and \$4,649,402 by collateral held by the custodial banks.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

3. ACCOUNTS RECEIVABLE

Receivables at year end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectable accounts are as follows:

<u>Governmental activities</u>	General Fund	Nonmajor Funds	Total
Licenses and permits	\$ 1,240,852	\$ -	\$ 1,240,852
Intergovernmental	159,735	21,959	181,694
Other	<u>5,354</u>	<u>-</u>	<u>5,354</u>
Total receivables	<u>\$ 1,405,941</u>	<u>\$ 21,959</u>	<u>\$ 1,427,900</u>
<u>Business-type activities</u>	Utility Fund		
Charges for service	\$ 1,005,305		
Other	<u>3,184</u>		
Gross receivable	1,008,489		
Less: allowance for uncollectible	<u>(25,725)</u>		
Total receivables, net	<u>\$ 982,764</u>		

4. CAPITAL ASSETS

A summary of capital asset activity during the year ended June 30, 2018 is as follows:

<u>Governmental activities</u>	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land and improvements	\$ 966,979	\$ 606,046	\$ (18,000)	\$ 1,555,025
Construction in progress	<u>534,046</u>	<u>72,000</u>	<u>(606,046)</u>	<u>-</u>
Total	<u>1,501,025</u>	<u>678,046</u>	<u>(624,046)</u>	<u>1,555,025</u>
Capital assets being depreciated:				
Building and improvements	3,517,759	172,318	(185,100)	3,504,977
Vehicles	3,453,155	106,403	-	3,559,558
Equipment	<u>942,610</u>	<u>96,970</u>	<u>(11,700)</u>	<u>1,027,880</u>
Total	<u>7,913,524</u>	<u>375,691</u>	<u>(196,800)</u>	<u>8,092,415</u>
Total non-infrastructure assets	<u>9,414,549</u>	<u>1,053,737</u>	<u>(820,846)</u>	<u>9,647,440</u>
Infrastructure assets	<u>3,464,227</u>	<u>230,708</u>	<u>-</u>	<u>3,694,935</u>
Total capital assets	<u>12,878,776</u>	<u>1,284,445</u>	<u>(820,846)</u>	<u>13,342,375</u>
Accumulated depreciation:				
Buildings and improvements	2,152,225	94,357	(181,871)	2,064,711
Vehicles	2,941,545	220,125	-	3,161,670
Equipment	788,164	35,248	(11,700)	811,712
Infrastructure assets	<u>941,468</u>	<u>167,904</u>	<u>-</u>	<u>1,109,372</u>
Total	<u>6,823,402</u>	<u>517,634</u>	<u>(193,571)</u>	<u>7,147,465</u>
Governmental activities capital assets, net	<u>\$ 6,055,374</u>	<u>\$ 766,811</u>	<u>\$ (627,275)</u>	<u>\$ 6,194,910</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

4. CAPITAL ASSETS (CONTINUED)

<u>Business-type activities</u>	Balance			Balance
	July 1, 2017	Additions	Deletions	June 30, 2018
Capital assets not being depreciated:				
Land and improvements	\$ 422,052	\$ -	\$ -	\$ 422,052
Construction in progress	<u>279,045</u>	<u>277,520</u>	<u>(347,760)</u>	<u>208,805</u>
Total	<u>701,097</u>	<u>277,520</u>	<u>(347,760)</u>	<u>630,857</u>
Capital assets being depreciated:				
Equipment and vehicles	3,161,331	9,224	-	3,170,555
Electric lines, poles, and plant	9,143,362	357,106	-	9,500,468
Water treatment plant and water system improvements	7,849,754	185,270	-	8,035,024
Sewer treatment plant and improvements	<u>17,562,182</u>	<u>296,065</u>	<u>-</u>	<u>17,858,247</u>
Total	<u>37,716,629</u>	<u>847,665</u>	<u>-</u>	<u>38,564,294</u>
Total capital assets	<u>38,417,726</u>	<u>1,125,185</u>	<u>(347,760)</u>	<u>39,195,151</u>
Accumulated depreciation	<u>28,387,753</u>	<u>891,697</u>	<u>-</u>	<u>29,279,450</u>
Business-type activities capital assets, net	<u>\$ 10,029,973</u>	<u>\$ 233,488</u>	<u>\$ (347,760)</u>	<u>\$ 9,915,701</u>

Construction in progress at June 30, 2018 includes costs of \$65,273 for the Electric department's SCADA system and \$143,532 in costs for the construction of a metal frame building on Legion Drive.

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

Governmental activities:

General government	\$ 207,921
Police	126,500
Fire	102,319
Public works	<u>80,894</u>
Total depreciation expense	<u>\$ 517,634</u>

Business-type activities:

Electric department	\$ 234,960
Water department	218,491
Sewer department	417,801
Sanitation	<u>20,445</u>
Total depreciation expense	<u>\$ 891,697</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. LONG-TERM DEBT

Governmental activities

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
KBC note payable with interest at 1.00%	\$ 67,084	\$ -	\$ (67,084)	\$ -
Compensated absences	274,399	-	(43,146)	231,253
Net pension liability	7,699,621	1,655,138	-	9,354,759
Net OPEB liability	<u>2,484,034</u>	<u>1,177,035</u>	<u>-</u>	<u>3,661,069</u>
Total governmental activities	<u>\$ 10,525,138</u>	<u>\$ 2,832,173</u>	<u>\$ (110,230)</u>	<u>\$ 13,247,081</u>

The beginning balance of long-term debt in governmental activities has been restated to include the net OPEB liability. See Note 12 for the effect of the restatement on net position.

Business-type activities

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Due within one year
KIA note payable with interest at 1.80% maturing in fiscal year 2021	\$ 1,286,311	\$ -	\$ (359,323)	\$ 926,988	\$ 365,819
KBC note payable with interest at 3.29% maturing in fiscal year 2032	1,914,161	-	(112,083)	1,802,078	114,996
Series 2014 Revenue Bonds interest at 2.75% maturing in fiscal year 2054	295,500	-	(4,500)	291,000	5,000
Traditional Bank note payable with interest at 3.30% maturing in fiscal year 2027	<u>338,025</u>	<u>-</u>	<u>(29,887)</u>	<u>308,138</u>	<u>30,888</u>
Total bonds and notes payable	<u>3,833,997</u>	<u>-</u>	<u>(505,793)</u>	<u>3,328,204</u>	<u>516,703</u>
Compensated absences	117,744	-	(9,351)	108,393	-
Net pension liability	4,896,846	1,012,076	-	5,908,922	-
Net OPEB liability	<u>1,355,025</u>	<u>372,509</u>	<u>-</u>	<u>1,727,534</u>	<u>-</u>
Total business-type activities	<u>\$ 10,203,612</u>	<u>\$ 1,384,585</u>	<u>\$ (515,144)</u>	<u>\$ 11,073,053</u>	<u>\$ 516,703</u>

The beginning balance of long-term debt in business-type activities has been restated to include the net OPEB liability. See Note 12 for the effect of the restatement on net position.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. LONG-TERM DEBT (CONTINUED)

Business-type activities, continued

The annual debt service requirements to maturity for all business-type activity bonds and notes payable are as follows:

Year ended	Principal	Interest	Total
2019	\$ 516,703	\$ 99,521	\$ 616,224
2020	526,438	88,469	614,907
2021	346,728	75,381	422,109
2022	161,183	54,837	216,020
2023	167,824	62,532	230,356
2024-2028	872,406	226,718	1,099,124
2029-2033	533,911	65,686	599,597
2034-2038	38,000	26,197	64,197
2039-2043	44,000	20,544	64,544
2044-2048	50,500	14,069	64,569
2049-2053	57,500	6,653	64,153
2054	<u>13,011</u>	<u>349</u>	<u>13,360</u>
	<u>\$ 3,328,204</u>	<u>\$ 740,956</u>	<u>\$ 4,069,160</u>

6. CONDUIT DEBT

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. The amount of bonds outstanding at June 30, 2018 is not readily available.

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended June 30, 2018, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee’s wages for non-hazardous job classifications and 31.55% of each employee’s wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 8. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications and 22.20% to the pension trust for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

For the year ended June 30, 2018, the City contributed \$589,123, or 100% of the required contribution for non-hazardous job classifications, and the City contributed \$267,810, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+ Not available

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 15,263,681</u>	<u>\$ 9,649,119</u>	<u>\$ 5,614,562</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was as follows:

Non-hazardous	Hazardous
.1648%	.2510%

The proportionate share at June 30, 2017 increased .0083% for non-hazardous and decreased .0339% for hazardous compared to the proportionate share as of June 30, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$2,405,215. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 217,904	\$ 244,936
Changes of assumptions	2,900,501	-
Net difference between projected and actual earnings on Plan investments	168,413	-
Changes in proportion and differences between City contributions and proportionate share of contributions	300,885	540,610
City contributions subsequent to the measurement date	<u>843,629</u>	<u>-</u>
Total	<u>\$ 4,431,332</u>	<u>\$ 785,546</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

The \$843,629 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2018	\$ 1,154,477
2019	\$ 1,289,357
2020	\$ 543,486
2021	\$ (185,163)

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.0%	3.65%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net pension liability	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 12,169,642	5.25%	\$ 7,059,283
Current discount rate	6.25%	\$ 9,649,119	6.25%	\$ 5,614,562
1% increase	7.25%	\$ 7,540,746	7.25%	\$ 4,421,417

Payable to the Pension Plan – At June 30, 2018, the City reported a payable of \$185,619 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the City of Paris, Kentucky participates in the County Employees’ Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2018, the employer’s contribution was 4.70% to the insurance trust for non-hazardous job classifications and 9.35% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2018, the City contributed \$191,221, or 100% of the required contribution for non-hazardous job classifications, and \$112,794, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net OPEB Liability	Non-hazardous	Hazardous
<u>\$ 5,388,603</u>	<u>\$ 3,314,029</u>	<u>\$ 2,074,574</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was .1648% for non-hazardous and .2510% for hazardous.

For the year ended June 30, 2018, the City recognized OPEB expense of \$693,479. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 14,039
Changes of assumptions	1,486,335	-
Net difference between projected and actual earnings on Plan investments	-	286,781
Changes in proportion and differences between City contributions and proportionate share of contributions	-	8,102
City contributions subsequent to the measurement date	<u>333,080</u>	<u>-</u>
Total	<u>\$ 1,819,415</u>	<u>\$ 308,922</u>

The \$333,080 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. This includes adjustments of \$40,503 for the nonhazardous implicit subsidy and (\$7,119) for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,

2019	\$	276,361
2020	\$	276,361
2021	\$	276,361
2022	\$	177,608
2023	\$	133,376
2024	\$	37,346

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous and
Hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	
	Pre – 65: Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
	Post – 65: Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	<u>2.0%</u>	2.69%
Total	100%	

Discount Rate – The discount rate used to measure the total net OPEB liability was 5.84% and 5.96% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net OPEB liability calculated using the discount rate as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City’s proportionate share of net OPEB liability	Discount rate	City’s proportionate share of net OPEB liability
1% decrease	4.84%	\$ 4,216,925	4.96%	\$ 2,780,216
Current discount rate	5.84%	\$ 3,314,029	5.96%	\$ 2,074,574
1% increase	6.84%	\$ 2,562,688	6.96%	\$ 1,497,247

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Non-hazardous	Hazardous
	City's proportionate share of net OPEB liability	City's proportionate share of net OPEB liability
1% decrease	\$ 2,542,035	\$ 1,468,561
Current trend rate	\$ 3,314,029	\$ 2,074,574
1% increase	\$ 4,317,589	\$ 2,824,612

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

9. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2018 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2017 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

10. RISK MANAGEMENT

The City of Paris is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. 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, 2018

10. RESTATEMENT

Implementation of new accounting standard GASB Statement No. 75

During 2018 the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position.

Accrued liabilities

A restatement of beginning net position was made to correctly state accrued liabilities for an understatement in the previous year.

The effect of the restatements of beginning net position are as follows:

Governmental activities	
Net position-beginning	\$ 3,689,822
Beginning net OPEB liability	<u>(2,272,488)</u>
Net position-beginning, as restated	<u>\$ 1,417,334</u>
 Business-type activities	
<u>Utility Fund</u>	
Net position-beginning	3,563,030
Beginning net OPEB liability	(1,245,223)
Accrued liabilities	<u>(35,914)</u>
Net position-beginning, as restated	<u>\$ 2,281,893</u>

Compensated absences

A restatement of beginning fund balance was made in the General Fund to correctly state the portion of compensated absences that is payable from expendable available financial resources. This restatement had no effect on the governmental activities of the government-wide financial statements. The effect of the restatement of beginning fund balance in the General Fund is as follows:

General Fund	
Fund balances-beginning	\$ 3,818,902
Compensated absences	<u>274,399</u>
Fund balances-beginning, as restated	<u>\$ 4,093,301</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.1648%	0.1565%	0.1548%	0.1513%	0.1513%
City's proportionate share of the net pension liability (asset)	\$ 9,649,119	\$ 7,707,594	\$ 6,655,841	\$ 4,908,008	\$ 5,540,969
City's covered employee payroll	\$ 4,022,672	\$ 3,731,788	\$ 3,578,212	\$ 3,464,140	\$ 3,249,210
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	239.87%	206.54%	186.01%	141.68%	170.53%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the City's corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

The above schedule will present 10 years of historical data, once available.

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.2510%	0.2849%	0.3189%	0.3229%	0.3229%
City's proportionate share of the net pension liability (asset)	\$ 5,614,562	\$ 4,888,873	\$ 4,895,682	\$ 3,880,937	\$ 4,318,002
City's covered employee payroll	\$ 1,394,492	\$ 1,486,407	\$ 1,631,230	\$ 1,634,497	\$ 1,765,881
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	402.62%	328.91%	300.12%	237.44%	244.52%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	53.95%	57.52%	63.46%	57.74%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the City's corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

The above schedule will present 10 years of historical data, once available.

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS - NONHAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 589,123	\$ 561,163	\$ 464,886	\$ 457,406	\$ 475,973	\$ 410,050
Contributions relative to contractually required employer contribution	<u>589,123</u>	<u>561,163</u>	<u>464,886</u>	<u>457,406</u>	<u>475,973</u>	<u>410,050</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 4,068,530	\$ 4,022,672	\$ 3,731,788	\$ 3,578,212	\$ 3,464,140	\$ 3,249,210
Employer contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.46%	12.78%	13.74%	12.62%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net pension liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS - HAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 267,810	\$ 311,400	\$ 306,301	\$ 342,713	\$ 374,768	\$ 354,942
Contributions relative to contractually required employer contribution	<u>267,810</u>	<u>311,400</u>	<u>306,301</u>	<u>342,713</u>	<u>374,768</u>	<u>354,942</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,206,352	\$ 1,394,492	\$ 1,486,407	\$ 1,631,230	\$ 1,634,497	\$ 1,765,881
Employer contributions as a percentage of covered-employee payroll	22.20%	22.33%	20.61%	21.01%	22.93%	20.10%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

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

	2018	2017
City's proportion of the net OPEB liability	0.1648%	0.1648%
City's proportionate share of the net OPEB liability (asset)	\$ 3,314,029	\$ 2,599,425
City's covered employee payroll	\$ 4,022,672	\$ 3,731,788
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	82.38%	69.66%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

The above schedule will present 10 years of historical data, once available.

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

	2018	2017
City's proportion of the net OPEB liability	0.2510%	0.2510%
City's proportionate share of the net OPEB liability (asset)	\$ 2,074,574	\$ 1,239,634
City's covered employee payroll	\$ 1,394,492	\$ 1,486,407
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	148.77%	83.40%
Plan fiduciary net position as a percentage of the total OPEB liability	58.99%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

The above schedule will present 10 years of historical data, once available.

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - NONHAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 191,221	\$ 190,272	\$ 173,575	\$ 176,239	\$ 178,403	\$ 225,170
Contributions relative to contractually required employer contribution	<u>191,221</u>	<u>190,272</u>	<u>173,575</u>	<u>176,239</u>	<u>178,403</u>	<u>225,170</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 4,068,530	\$ 4,022,672	\$ 3,731,788	\$ 3,578,212	\$ 3,464,140	\$ 3,249,210
Employer contributions as a percentage of covered-employee payroll	4.70%	4.73%	4.65%	4.93%	5.15%	6.93%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net OPEB liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - HAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 112,794	\$ 134,113	\$ 192,068	\$ 224,508	\$ 239,803	\$ 309,029
Contributions relative to contractually required employer contribution	<u>112,794</u>	<u>134,113</u>	<u>192,068</u>	<u>224,508</u>	<u>239,803</u>	<u>309,029</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 1,206,352	\$ 1,394,492	\$ 1,486,407	\$ 1,631,230	\$ 1,634,497	\$ 1,765,881
Employer contributions as a percentage of covered-employee payroll	9.35%	9.62%	12.92%	13.76%	14.67%	17.50%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net OPEB liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY
BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2018**

	Enacted Budget	(Note 1) Amended Budget	Actual	Over (Under) Budget
REVENUES				
Taxes	\$ 734,000	\$ 734,000	\$ 763,521	\$ 29,521
Licenses and permits	5,465,000	5,465,000	5,657,462	192,462
Fines and forfeits	2,000	2,000	3,393	1,393
Intergovernmental	829,000	829,000	1,023,703	194,703
Charges for services	130,000	130,000	119,913	(10,087)
Other revenues	174,000	174,000	149,998	(24,002)
	<u>7,334,000</u>	<u>7,334,000</u>	<u>7,717,990</u>	<u>383,990</u>
EXPENDITURES				
Current				
City commission	362,865	341,400	247,054	(94,346)
General administration	1,004,400	750,000	727,238	(22,762)
Community partners	820,575	820,575	829,651	9,076
Public safety-police	2,459,735	2,315,000	2,178,627	(136,373)
Public safety-fire	1,538,725	1,793,000	1,629,642	(163,358)
Public works	962,700	832,000	647,104	(184,896)
Capital outlay	60,000	412,025	447,691	35,666
Debt service	-	-	-	-
	<u>7,209,000</u>	<u>7,264,000</u>	<u>6,707,007</u>	<u>(556,993)</u>
Excess (deficiency) of revenues over expenditures	<u>125,000</u>	<u>70,000</u>	<u>1,010,983</u>	<u>940,983</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	126,200	126,200
Transfers (out)	(125,000)	(70,000)	(69,526)	474
	<u>(125,000)</u>	<u>(70,000)</u>	<u>56,674</u>	<u>126,674</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,067,657</u>	<u>\$ 1,067,657</u>

Note 1 - The amended budget was adopted as of August 14, 2018, subsequent to June 30, 2018.

SUPPLEMENTARY INFORMATION

**CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2018**

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 68,771	\$ -	\$ 68,771
Accounts receivable	21,959	-	21,959
Total assets	\$ 90,730	\$ -	\$ 90,730
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
FUND BALANCES			
Restricted	90,730	-	90,730
Total liabilities and fund balances	\$ 90,730	\$ -	\$ 90,730

CITY OF PARIS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 176,961	\$ -	\$ 176,961
Other revenues	970	-	970
Total revenues	177,931	-	177,931
EXPENDITURES			
Capital outlay	230,708	-	230,708
Debt service	-	69,526	69,526
Total expenditures	230,708	69,526	300,234
Excess (deficiency) of revenues over expenditures	(52,777)	(69,526)	(122,303)
OTHER FINANCING SOURCES			
Transfers in	-	69,526	69,526
Total other financing sources	-	69,526	69,526
Net change in fund balances	(52,777)	-	(52,777)
Fund balances-beginning	143,507	-	143,507
Fund balances-ending	\$ 90,730	\$ -	\$ 90,730

CITY OF PARIS, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
UTILITY FUND
for the year ended June 30, 2018

UTILITY ADMINISTRATION

Personnel services	\$ 535,944
Contractual services	186,111
Materials and supplies	49,811
Other expenses	79,674
Payment in lieu of taxes	<u>585,000</u>
Total utility administration	<u>1,436,540</u>

ELECTRIC DEPARTMENT

Personnel services	601,010
Electric purchases	3,228,704
Contractual services	269,198
Materials and supplies	<u>87,206</u>
Total electric department	<u>4,186,118</u>

WATER DISTRIBUTION

Personnel services	1,135,408
Contractual services	192,769
Materials and supplies	314,368
Other expenses	<u>2,763</u>
Total water distribution	<u>1,645,308</u>

SEWER TREATMENT

Personnel services	625,256
Contractual services	370,529
Materials and supplies	<u>104,461</u>
Total sewer treatment	<u>1,100,246</u>

SANITATION

Personnel services	425,216
Contractual services	453,741
Materials and supplies	65,109
Recycling center	<u>172,861</u>
Total sanitation	<u>1,116,927</u>

DEPRECIATION

	<u>891,697</u>
Total operating expenses	<u>\$ 10,376,836</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**

To the Mayor and Commissioners
City of Paris, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Paris, Kentucky's basic financial statements and have issued our report thereon dated January 18, 2019.

Internal Control over Financial Reporting

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

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2018-001, 2018-002, and 20018-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paris, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

RFH

RFH, PLLC
Lexington, Kentucky
January 18, 2019

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

2018-001 – Material Weakness – Audit Adjustments (Recurring)

Criteria:

The City is required to have internal controls over the period-end financial reporting process that enables the City to record and process year-end journal entries to produce financial records that are in accordance with generally accepted accounting principles.

Condition:

Material misstatements were identified throughout the audit process.

Cause:

The City lacks proper oversight over period-end financial reporting, which results in misstated accounting records prior to audit.

Effect:

The City relied on auditor prepared accounting adjustments to ensure the financial records are properly stated in accordance with generally accepted accounting principles. The City reviewed, approved, and accepted responsibility for the accounting adjustments; as the auditor cannot be a component of the City's internal controls.

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 shares the same concerns as the auditors in relationship to the auditor preparing journal entries. The City has begun implementation of cross training internal staff to assist in these matters and in addition the City's outside accounting firm is committed to providing additional resources, oversight, and leadership to address this finding.

2018-002 – Material Weakness – Balance Sheet Account Reconciliations (Recurring)

Criteria:

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

Condition:

Accounts receivable from customers was not reconciled throughout the year. Accounts payable was not reconciled throughout the year. Accrued liabilities were not reconciled throughout the year.

Cause:

The City did not have adequate internal controls in place over the monthly reconciliation process, and did not reconcile year end balances.

Effect:

The City relied on auditor adjustments to reconcile accounts receivable, accounts payable, and accrued liabilities.

Recommendation:

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

Response:

The City Manager has detailed the expectations with representatives of the accounting firm that is under contract to act as the City's accountant, and with city staff, of the need for timely reconciliations. The City is engaging in cross training of staff to provide assistance and address this finding.

CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018

2018-003 - Material Weakness - Capital Assets (Recurring)

Criteria:

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

Condition:

Management did not track capital asset activity throughout the year.

Cause:

The City did not have adequate internal controls in place over asset capitalization.

Effect:

Asset purchases were not properly recorded as capital outlay or as asset additions.

Recommendation:

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

Response:

The City, through a contract with an outside accounting firm, the expertise in place and knowledge to assist with asset capitalization. Additional training will be provided to internal staff to ensure that the asset management policy is fully understood and that procedures are in place to capture capital expenditures through our asset inventory software.