

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2011

CONTENTS

Management’s Discussion and Analysis	1-8
Independent Auditors’ Report.....	9-10
Government Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet-Governmental Funds.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds.....	14
Balance Sheet - Proprietary Funds.....	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	16
Statement of Cash Flows – Proprietary Funds	17
Notes to Financial Statements	18-30
Required Supplemental Information	
Budget Information.....	31-33
Combining Balance Sheet – Nonmajor Governmental Funds	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	35
Schedule of Operating Expenses – Combined Utility Fund	36
Schedule of Revenue Bond Requirements – Utility Fund	37
Report in Accordance with Government Auditing Standards	38-39
Single Audit Reporting	
Report in Accordance with OMB A-133	40-41
Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43-44

City of Paris, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Paris's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read the following.....in conjunction with the auditors' report on page 9.....and the City's financial statements, which begin to appear on page 10.

OVERVIEW OF THIS ANNUAL REPORT

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

The focus of local government financial statements is both the City as a **whole (government-wide)** and the **fund financial statements**.

The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements **focus on the individual funds of the City**, reporting the City's operations in more detail than the government-wide statements.

Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government), and enhance the City's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The **Statement of Net Assets** and the **Statement of Activities** report information about the City's activities in a way that will help answer this question.

These statements include all assets and liabilities using the accrual basis of accounting, *which is similar to the accounting used by most private-sector companies*. **All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.**

These two statements report the **net assets** of the City **and changes** in them. One can think of the City's net assets—the difference between assets and liabilities—as one way to measure financial health or financial position.

Over time, increases or decreases in the City's net assets are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

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

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

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

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now **on the City's funds**.

The fund financial statements provide **more information about the City's funds** and not the City as a whole.

The City has two kinds of funds:

Governmental Fund—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets.....that can readily be converted to cash.....flow in and out, and (2), the balances left at year-end that are available for spending.

Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom the governmental funds statement that explains the relationship (or differences) between them.

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

NET ASSETS

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

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

Table A-1

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Current and Other Assets	\$ 2,141,137	\$ 2,804,291	\$ 4,945,428
Capital Assets	<u>5,620,491</u>	<u>11,071,786</u>	<u>16,692,277</u>
Total Assets	7,761,628	13,876,077	21,637,705
Long-Term Debt Outstanding	860,135	4,230,753	5,090,888
Current Liabilities	<u>1,039,752</u>	<u>1,874,933</u>	<u>2,914,685</u>
Total Liabilities	1,899,887	6,105,686	8,005,573
Net Assets			
Invested in Capital Assets net of debt	4,521,229	6,455,224	10,976,453
Restricted	238,985	506,261	745,246
Unrestricted	<u>1,101,527</u>	<u>808,906</u>	<u>1,910,433</u>
Total Net Assets	<u>\$ 5,861,741</u>	<u>\$ 7,770,391</u>	<u>\$ 13,632,132</u>

The capital assets of the City's **governmental activities** increased from \$4,600,827 in 2010 to \$5,620,491 in 2011. This **increase was a result of purchasing vehicles, equipment and infrastructure** for the year.

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

The capital assets of the **business-type activities** decreased from \$11,771,341 in 2010 to \$11,071,786 in 2011. This **decrease was due to depreciation** outpacing capital additions for the year.

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

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Revenues			
<u>Program Revenue</u>			
Charges for Service	\$ -	\$ 8,746,235	\$ 8,746,235
<u>General Revenue</u>			
Tax	656,431		656,431
Licenses	4,520,138		4,520,138
Intergovernmental	686,513	-	686,513
Fines & Forfeits	-		-
Other Revenue	<u>259,465</u>	<u>114,007</u>	<u>373,472</u>
Total Revenue	<u>6,122,547</u>	<u>8,860,242</u>	<u>14,982,789</u>
<u>Program Expenses</u>			
City Commission	367,384		367,384
General Government	1,557,980		1,557,980
Public safety-Police	1,814,643		1,814,643
Public safety-Fire	2,040,572		2,040,572
Public works-Streets	572,442		572,442
Inspection, engineering, parks	300,147		300,147
Interest on long-term debt	17,143		17,143
Electric		4,967,200	4,967,200
Water		1,333,694	1,333,694
Sanitation		882,111	882,111
Sewer		<u>1,833,097</u>	<u>1,833,097</u>
Total Program Expense	<u>6,670,311</u>	<u>9,016,102</u>	<u>15,686,413</u>
Transfers	<u>353,052</u>	<u>(353,052)</u>	<u>-</u>
Net Change in Net Assets	<u>\$ (194,712)</u>	<u>\$ (508,912)</u>	<u>\$ (703,624)</u>

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

Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the **principal portions of debt obligations** are excluded from the above but **are reflected as debt service expenditures along with capital outlay expenditures** in the City's budget for governmental activities.

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

GOVERNMENTAL ACTIVITIES

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

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

Taxes	\$ 656,431
Licenses and permits	4,520,138
Intergovernmental	686,513
Fines & forfeits	0
Other revenues	<u>259,465</u>
Total Revenues	<u>6,122,547</u>
City Commission	367,384
General administration	1,442,209
Public safety-Police	1,732,669
Public safety-Fire	1,922,472
Public works-Streets	511,812
Inspection, engineering, & parks	293,935
Capital outlay	1,402,352
Debt service	<u>416,143</u>
Total Expenditures	<u>8,088,976</u>
Excess Expenditures over Revenues before other Financing sources	<u>\$(1,966,429)</u>

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

BUDGET HIGHLIGHTS

Over the course of the fiscal year, the City amended both the General Fund and Utility Fund Budgets. These amendments were made shortly after the beginning of the calendar year **to reflect the actual beginning balances** shortly after the beginning of said calendar year **or due to unusual events** that may potentially occur.

The budget contains proposed expenditures and expected revenues. A **comparison of the final** amended budget **to actual** amounts for governmental activities is presented in the table below (Tables A-4 & 5).

Table A-4

Condensed Governmental Activities- Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 879,630	\$ 656,431	\$ (223,199)
Licenses and permits	4,449,779	4,520,138	70,359
Intergovernmental	557,400	504,938	(52,462)
Fines & Forfeits	350	0	(350)
Other Revenues	134,900	257,431	122,531
Total Revenues	<u>\$6,022,059</u>	<u>\$ 5,938,938</u>	<u>\$ (83,121)</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government & Capital			
Budgeting	\$1,597,121	\$3,407,725	\$1,810,604
Public Safety- Police	1,970,302	1,732,669	(237,633)
Public Safety- Fire	2,799,950	1,922,472	(877,478)
Public Works- Streets	715,927	511,812	(204,115)
Debt Service	0	0	0
Total Expenditures	<u>\$7,083,300</u>	<u>\$7,574,678</u>	<u>\$ 491,378</u>

The City budgeted for a total of **\$6,022,059** in revenues for 2011, but ended up having revenues of **\$5,938,938**. In other words, the City received 1.4 percent less revenue than budgeted.

A total of **\$7,083,300** was budgeted for expenses, but expenditures totaled **\$7,574,678** at the end of 2011. The City was **over budget on the expenses by 6.9 percent**.

CAPITAL ASSETS

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

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

Table A-6

Capital Assets at Year End Without Depreciation

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 966,979	\$ -	\$ 966,979
Infrastructure	1,785,718	-	1,785,718
Buildings	3,298,373	-	3,298,373
Vehicles	2,816,201	-	2,816,201
Equipment	731,573	2,765,278	3,496,851
Electric System	-	7,446,797	7,446,797
Water System	-	6,734,279	6,734,279
Sewer System	-	<u>16,733,822</u>	<u>16,733,822</u>
Total Capital Assets	<u>\$ 9,598,844</u>	<u>\$ 33,680,176</u>	<u>\$ 43,279,020</u>

DEBT

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

Table A-7

<u>Debt Outstanding at Year End</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Leases	\$ 253,846	\$ 231,429	\$ 485,275
Notes Payable	-	3,312,133	3,312,133
Bond Payable	<u>845,416</u>	<u>1,073,000</u>	<u>1,918,416</u>
Total Debt Outstanding	<u>\$ 1,099,262</u>	<u>\$ 4,616,562</u>	<u>\$ 5,715,824</u>

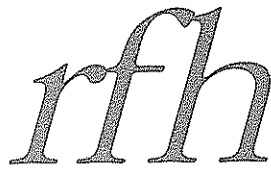
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2011 budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue. They remain sensitive to unfunded mandates from the State and Federal governments, while trying to best meet the needs of the community within the framework of fiscal responsibility.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City's finances.....and to show the City's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact the City Manager at 525 High Street, Paris, Kentucky.



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

Mayor and Commissioners
City of Paris
Paris, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2011, and for the year then ended, which collectively comprise the City of Paris, Kentucky's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paris, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated December 6, 2011, on our consideration of the City of Paris, Kentucky's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299
www.rfhco.com

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 31 through 33 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paris, Kentucky's financial statements as a whole. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 6, 2011

CITY OF PARIS, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			2010 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 746,547	\$ 474,467	\$ 1,221,014	\$ 1,578,799
Receivables (net)	1,122,927	1,100,318	2,223,245	1,802,291
Internal balances	217,791	-	217,791	74,069
Total current assets	2,087,265	1,574,785	3,662,050	3,455,159
Noncurrent assets				
Restricted cash and cash equivalents	-	723,571	723,571	750,304
Capital assets (Note 3)				
Land and improvements	966,979	-	966,979	966,979
Depreciable infrastructure, net	1,562,045	-	1,562,045	799,654
Depreciable buildings, property and equipment, net	3,091,467	11,071,786	14,163,253	14,605,535
Other assets	53,872	505,935	559,807	490,201
Total noncurrent assets	5,674,363	12,301,292	17,975,655	17,612,673
Total assets	\$ 7,761,628	\$ 13,876,077	\$ 21,637,705	\$ 21,067,832
LIABILITIES				
Current liabilities				
Accounts payable	\$ 131,824	\$ 867,532	\$ 999,356	\$ 846,791
Accrued leave payable	618,801	135,588	754,389	488,078
Accrued liabilities	-	27,359	27,359	33,404
Other liabilities	-	240,853	240,853	227,663
Internal balances	-	217,791	217,791	74,069
Deferred revenue	50,000	-	50,000	65,040
Current portion of long-term obligations (Notes 4 & 5)	239,127	385,809	624,936	381,920
Total current liabilities	1,039,752	1,874,932	2,914,684	2,116,965
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	860,135	4,230,753	5,090,888	4,615,110
Total liabilities	1,899,887	6,105,685	8,005,572	6,732,075
NET ASSETS				
Invested in capital assets, net of related debt	4,521,229	6,455,224	10,976,453	11,375,138
Restricted for:				
Debt service	-	506,261	506,261	366,627
Other purposes	238,985	-	238,985	153,531
Unrestricted	1,101,527	808,907	1,910,434	2,440,461
Total net assets	5,861,741	7,770,392	13,632,133	14,335,757
Total liabilities and net assets	\$ 7,761,628	\$ 13,876,077	\$ 21,637,705	\$ 21,067,832

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

CITY OF PARIS, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2010 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
City commission	\$ 367,384	\$ -	\$ -	\$ -	\$ (367,384)	\$ -	\$ (367,384)	\$ (208,797)
General government	1,557,980	-	59,860	242,578	(1,255,542)	-	(1,255,542)	(1,422,360)
Public safety-Police	1,814,643	-	107,834	9,074	(1,697,735)	-	(1,697,735)	(1,768,322)
Public safety-Fire	2,040,572	-	85,592	-	(1,954,980)	-	(1,954,980)	(1,581,535)
Public works-Streets	572,442	-	181,575	-	(390,867)	-	(390,867)	(404,183)
Inspection, engineering, parks & rec	300,147	-	-	-	(300,147)	-	(300,147)	(305,028)
Interest on long-term debt	17,143	-	-	-	(17,143)	-	(17,143)	(17,199)
Total governmental activities	6,670,311	-	434,861	251,652	(5,983,798)	-	(5,983,798)	(5,707,424)
Business-type activities								
Electric	4,967,200	4,654,500	-	-	-	(312,701)	(312,701)	(89,078)
Sanitation	882,110	947,383	-	-	-	65,273	65,273	(40,003)
Water	1,333,694	1,331,972	-	-	-	(1,723)	(1,723)	13,166
Sewer	1,833,097	1,812,381	-	-	-	(20,717)	(20,717)	(131,125)
Total business-type activities	9,016,102	8,746,236	-	-	-	(269,867)	(269,867)	(247,040)
Total primary government	\$ 15,686,413	\$ 8,746,236	\$ 434,861	\$ 251,652	(5,983,798)	(269,867)	(6,253,665)	(5,954,464)
General revenues								
Taxes								
Property taxes, levied for general purposes								
					656,431	-	656,431	764,673
License fees:								
Franchise								
					160,887	-	160,887	148,111
Payroll								
					2,532,353	-	2,532,353	2,421,500
Insurance premiums								
					1,449,132	-	1,449,132	1,702,770
Net profit								
					361,848	-	361,848	266,286
Other licenses and permits								
					15,918	-	15,918	29,717
Fines and forfeits								
					-	-	-	490
Investment earnings								
					9,292	11,809	21,101	17,518
Rents								
					96,106	57,726	153,832	146,004
Miscellaneous								
					154,067	44,472	198,539	120,326
Total general revenues								
					5,436,034	114,007	5,550,041	5,617,395
Transfers								
					353,052	(353,052)	-	-
Change in net assets								
					(194,712)	(508,912)	(703,624)	(337,069)
Net assets-beginning								
					6,056,453	8,279,304	14,335,757	14,672,826
NET ASSETS-ENDING								
					\$ 5,861,741	\$ 7,770,392	\$ 13,632,133	\$ 14,335,757

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
ASSETS				
Cash and cash equivalents	\$ 507,562	\$ 238,985	\$ 746,547	\$ 985,129
Receivables, net	1,122,927	-	1,122,927	1,088,920
Due from other funds	217,791	-	217,791	74,069
Other assets	53,872	-	53,872	54,044
 Total assets	 \$ 1,902,152	 \$ 238,985	 \$ 2,141,137	 \$ 2,202,162
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 131,824	\$ -	\$ 131,824	\$ 148,896
Accrued leave payable	618,801	-	618,801	315,195
Deferred revenue	50,000	-	50,000	65,040
 Total liabilities	 800,625	 -	 800,625	 529,131
FUND BALANCES				
Restricted	-	238,985	238,985	153,531
Unassigned	1,101,527	-	1,101,527	1,519,500
 Total fund balances	 1,101,527	 238,985	 1,340,512	 1,673,031
 Total liabilities and fund balance	 \$ 1,902,152	 \$ 238,985	 \$ 2,141,137	 \$ 2,202,162

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

Fund balances per above		\$ 1,340,512	\$ 1,673,031
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,620,491	4,600,827
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are reported in the funds.		(1,099,262)	(217,405)
 Net assets of governmental activities:		 \$ 5,861,741	 \$ 6,056,453

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, 2011

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
REVENUES				
Taxes	\$ 656,431	\$ -	\$ 656,431	\$ 764,673
Licenses and permits	4,520,138	-	4,520,138	4,568,384
Fees and fines	-	-	-	490
Intergovernmental	504,938	181,575	686,513	464,249
Other revenues	<u>257,431</u>	<u>2,034</u>	<u>259,465</u>	<u>158,612</u>
 Total revenues	 <u>5,938,938</u>	 <u>183,609</u>	 <u>6,122,547</u>	 <u>5,956,408</u>
EXPENDITURES				
Current				
City commission	367,384	-	367,384	208,797
General administration	1,442,209	-	1,442,209	1,414,776
Public safety-Police	1,732,669	-	1,732,669	1,808,808
Public safety-Fire	1,922,472	-	1,922,472	1,564,812
Public works	511,812	-	511,812	518,709
Inspection, engineering, parks & recreation	293,935	-	293,935	300,934
Capital outlay	1,304,197	98,155	1,402,352	193,744
Debt service	<u>-</u>	<u>416,143</u>	<u>416,143</u>	<u>60,792</u>
 Total expenditures	 <u>7,574,678</u>	 <u>514,298</u>	 <u>8,088,976</u>	 <u>6,071,372</u>
Excess (deficiency) of revenues over expenditures	 <u>(1,635,740)</u>	 <u>(330,689)</u>	 <u>(1,966,429)</u>	 <u>(114,964)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	1,280,858	1,280,858	-
Transfers	<u>1,217,767</u>	<u>(864,715)</u>	<u>353,052</u>	<u>563,961</u>
 Total other financing sources (uses)	 <u>1,217,767</u>	 <u>416,143</u>	 <u>1,633,910</u>	 <u>563,961</u>
 Net change in fund balances	 (417,973)	 85,454	 (332,519)	 448,997
 Fund balances-beginning	 <u>1,519,500</u>	 <u>153,531</u>	 <u>1,673,031</u>	 <u>1,224,034</u>
 Fund balances-ending	 <u>\$ 1,101,527</u>	 <u>\$ 238,985</u>	 <u>\$ 1,340,512</u>	 <u>\$ 1,673,031</u>
Reconciliation to government-wide change in net assets				
Net change in fund balances			\$ (332,519)	\$ 448,997
add: capital outlay expenditures			1,402,352	193,744
add: debt service expenditures			416,143	60,792
less: debt proceeds			(1,280,858)	-
less: depreciation on governmental activities assets			(382,687)	(337,638)
less: interest on long-term deb			<u>(17,143)</u>	<u>(17,199)</u>
 Change in net assets Governmental Activitie			 <u>\$ (194,712)</u>	 <u>\$ 348,696</u>

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2011**

	Business-Type Activities Utility Fund	2010 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 474,467	\$ 593,670
Receivables (net)	1,100,318	713,371
Total current assets	1,574,785	1,307,041
Noncurrent assets		
Restricted cash and cash equivalents	723,571	750,304
Other assets	505,935	436,157
Capital assets		
Utility systems	33,680,176	33,256,906
Less accumulated depreciation	(22,608,390)	(21,485,565)
Total non current assets	12,301,292	12,957,802
Total assets	\$ 13,876,077	\$ 14,264,843
LIABILITIES		
Current liabilities		
Accounts payable	\$ 867,532	\$ 697,895
Meter deposits	240,853	227,663
Accrued leave payable	135,588	172,883
Accrued interest payable	27,359	33,404
Other payables	217,791	74,069
Current portion of long-term debt	385,809	350,166
Total current liabilities	1,874,932	1,556,080
Noncurrent liabilities		
Bonds, notes and loans payable	4,230,753	4,429,459
Total noncurrent liabilities	4,230,753	4,429,459
Total liabilities	6,105,685	5,985,539
NET ASSETS		
Invested in capital assets, net of related debt	6,455,224	6,991,716
Restricted for debt service	506,261	366,627
Unrestricted	808,907	920,961
Total net assets	7,770,392	8,279,304
Total liabilities and net assets	\$ 13,876,077	\$ 14,264,843

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

CITY OF PARIS, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2011

	Business-type Activities Utility Fund	2010 Totals
Operating revenues		
Charges for services	\$ 8,848,433	\$ 7,934,311
 Total operating revenues	<u>8,848,433</u>	<u>7,934,311</u>
 Operating expenses		
Utility administration	445,496	795,061
Electric department	4,592,158	3,472,215
Water distribution	1,020,259	962,190
Sewer treatment	982,118	925,166
Sanitation	743,233	763,924
Depreciation	1,122,825	1,084,257
 Total operating expenses	<u>8,906,089</u>	<u>8,002,813</u>
 Operating income (loss)	<u>(57,656)</u>	<u>(68,502)</u>
 Nonoperating revenues (expenses)		
Donated assets	-	58,650
Interest and investment revenue	11,809	10,330
Interest expense	(110,013)	(122,282)
 Total nonoperating revenue (expenses)	<u>(98,204)</u>	<u>(53,302)</u>
 Transfers	<u>(353,052)</u>	<u>(563,961)</u>
 Change in net assets	<u>(508,912)</u>	<u>(685,765)</u>
 Total net assets-beginning	<u>8,279,304</u>	<u>8,965,069</u>
 TOTAL NET ASSETS-ENDING	<u>\$ 7,770,392</u>	<u>\$ 8,279,304</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, 2011**

	Business-Type Activities Utility Fund	2010 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 8,461,486	\$ 7,772,351
Payments to suppliers	(5,370,165)	(4,430,081)
Payments for employee services and benefits	(2,350,535)	(2,218,095)
Customer deposits	13,190	10,360
Net cash provided by operating activities	753,976	1,134,535
CASH FLOWS FROM NON- CAPITAL AND RELATED FINANCING ACTIVITIES		
Payment under interfund agreements	143,722	45,691
Net cash provided by non-capital and related financing activities	143,722	45,691
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(429,315)	(178,881)
Proceeds from bonds, notes, and loans payable	219,664	-
Principal payments on bonds, notes, and loans payable	(382,727)	(342,998)
Transfers to general fund	(353,052)	(563,961)
Interest paid on capital debt	(110,013)	(117,456)
Net cash (used) by capital and related financing activities	(1,055,443)	(1,203,296)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	11,809	10,330
Net cash provided by investing activities	11,809	10,330
Net increase (decrease) in cash and cash equivalents	(145,936)	(12,740)
Balances-beginning of the year	1,343,974	1,356,714
BALANCES-END OF THE YEAR	\$ 1,198,038	\$ 1,343,974
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (57,656)	\$ (68,502)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,122,825	1,084,257
Change in assets and liabilities:		
Receivables, net	(386,947)	(161,960)
Inventory	(69,778)	24,503
Other assets	0	35,718
Customer deposits	13,190	10,360
Accounts and other payables	169,637	160,559
Accrued expenses	(37,295)	49,600
Net cash provided by operating activities	\$ 753,976	\$ 1,134,535

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

Government-wide Financial Statements

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (continued)

Fund Financial Statements

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

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

The following funds are used by the City of Paris:

Governmental Funds

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

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

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

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

Proprietary Funds

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (continued)

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

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

C. Basis of Accounting

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

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (continued)

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

D. Fund Equity

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable. The City has adopted GASB 54 which further breaks down both nonspendable and spendable components into the following components:

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

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

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

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

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

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

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

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

E. Budgeting

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

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

The City began allocating expenses from the General Fund to the Utilities Fund on a reimbursement basis. These reimbursements are included in "Transfers" in the financial statements. Total expenses reimbursed to the General Fund from the Utilities Fund amounted to \$353,052.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Other Accounting Policies

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

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

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

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

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

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

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

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

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

2. CASH AND INVESTMENTS

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

The City of Paris' deposits and investments at June 30, 2011 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 \$1,944,585 and the bank balances were \$1,977,112.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

3. CAPITAL ASSETS

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

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Government Type Activities				
Capital assets not depreciated:				
Land and Improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Capital assets that are depreciated:				
Building and Improvements	3,243,700	54,673	-	3,298,373
Vehicles	2,495,342	320,858	-	2,816,201
Equipment	<u>532,065</u>	<u>199,508</u>	-	<u>731,573</u>
Totals	<u>6,271,107</u>	<u>575,039</u>	-	<u>6,846,147</u>
 Total Non-Infrastructure Assets	 <u>7,238,086</u>	 <u>575,039</u>	 -	 <u>7,813,126</u>
 Recording infrastructure Assets:				
Infrastructure Assets	<u>958,406</u>	<u>827,312</u>	-	<u>1,785,718</u>
Total Capital Assets	<u>8,196,492</u>	<u>1,402,352</u>	-	<u>9,598,844</u>
Less Accumulated Depreciation:				
Building and Improvements	1,562,072	77,357	-	1,639,429
Vehicles	1,505,046	189,801	-	1,694,847
Equipment	369,795	50,608	-	420,403
Infrastructure Assets	<u>158,752</u>	<u>64,920</u>	-	<u>223,672</u>
Totals	<u>3,595,665</u>	<u>382,686</u>	-	<u>3,978,351</u>
Depreciable capital assets, net	<u>\$ 4,600,827</u>	<u>\$ 1,019,664</u>	<u>\$ -</u>	<u>\$ 5,620,491</u>
 Business-Type Activities				
Equipment & Vehicles	\$ 2,760,941	\$ 4,337	\$ -	\$ 2,765,278
Electric Lines, Poles, and Plant	7,096,896	349,901	-	7,446,797
Water Treatment Plant, Land and Water System Improvements	6,714,280	19,999	-	6,734,279
Sewer Treatment Plant, Land and Improvements	<u>16,684,789</u>	<u>49,033</u>	-	<u>16,733,822</u>
Total	<u>33,256,906</u>	<u>423,270</u>	-	<u>33,680,176</u>
Less Accumulated Depreciation	<u>21,485,565</u>	<u>1,122,825</u>	-	<u>22,608,390</u>
Capital Assets, Net	<u>\$ 11,771,341</u>	<u>\$ (699,555)</u>	<u>\$ -</u>	<u>\$ 11,071,786</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 115,771
Police	81,974
Fire	118,100
Parks & Recreation	6,212
Public works	<u>60,630</u>
Total Depreciation Expense	<u>\$ 382,687</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

3. CAPITAL ASSETS (Continued)

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

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

4. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT

Kentucky Infrastructure Loan

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

Note balance at July 1, 2010	\$ 3,629,096
Note principal payments	<u>(316,963)</u>
Note balance at June 30, 2011	<u>\$ 3,312,133</u>

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

	Principal	Interest	Service Fee	Total
2012	\$ 322,694	\$ 58,173	\$ 6,464	\$ 387,331
2013	328,528	52,338	5,815	386,681
2014	334,469	46,398	5,155	386,022
2015	340,516	40,350	4,483	385,349
2016	346,673	34,193	3,799	384,665
Thereafter	<u>1,639,253</u>	<u>74,648</u>	<u>8,293</u>	<u>1,722,193</u>
Total	<u>\$ 3,312,133</u>	<u>\$ 306,100</u>	<u>\$ 34,009</u>	<u>\$ 3,652,241</u>

**CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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

Lease Payable

The City of Paris entered into a long-term financing agreement with CNH Capital for a backhoe during fiscal year ended June 30, 2008. The cost of the backhoe was \$68,633 with 58 payments of \$1,290 beginning in August of 2008. The lease matures on May 1, 2013 and carries an interest rate of approximately 3.5%.

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

	Principal	Interest	Total
2012	\$ 14,711	\$ 773	\$ 15,484
2013	<u>11,614</u>	<u>246</u>	<u>11,860</u>
Total	<u>\$ 26,325</u>	<u>\$ 1,019</u>	<u>\$ 27,344</u>

Lease Payable

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

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

	Principal	Interest	Total
2012	\$ 6,000	\$ 1,328	\$ 7,328
2013	6,000	1,328	7,328
2014	<u>6,000</u>	<u>1,328</u>	<u>7,328</u>
Total	<u>\$ 18,000</u>	<u>\$ 3,984</u>	<u>\$ 21,984</u>

Lease Payable

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

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

	Principal	Interest	Total
2012	28,405	9,347	\$ 37,752
2013	29,846	7,905	37,751
2014	31,360	6,392	37,752
2015	32,951	4,801	37,752
2016	34,622	3,129	37,751
2017	<u>29,920</u>	<u>1,372</u>	<u>31,292</u>
Total	<u>\$ 187,104</u>	<u>\$ 32,946</u>	<u>\$ 220,050</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

PROPRIETARY FUND CHANGES IN BONDS PAYABLE

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

	Issued	Rate	Balance Outstanding 6/30/10	Issued (Retired) During Year	Balance Outstanding 6/30/11
2005 Series	\$1,111,000	4.125%	\$ 1,086,000	\$ (13,000)	\$ 1,073,000

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

	Principal	Interest	Total
2012	\$ 14,000	\$ 43,395	\$ 57,395
2013	14,000	43,973	57,973
2014	15,000	42,797	57,797
2015	16,000	42,158	58,158
2016	16,000	41,498	57,498
Thereafter	<u>998,000</u>	<u>741,840</u>	<u>1,739,840</u>
Total	<u>\$ 1,073,000</u>	<u>\$ 955,661</u>	<u>\$ 2,028,661</u>

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

Current portion	\$ 385,809
Long-term portion	<u>4,230,753</u>
Total	<u>\$ 4,616,562</u>

5. GOVERNMENT ACTIVITIES - LONG-TERM DEBT

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

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Kentucky Bond Corporation	\$ -	\$ 940,000	\$ 94,584	\$ 845,416
Fifth Third Lease-Purchase	-	340,858	87,012	253,846
Farmers Bank Loan	<u>217,405</u>	-	<u>217,405</u>	-
	<u>\$ 217,405</u>	<u>\$ 1,280,858</u>	<u>\$ 399,001</u>	<u>\$ 1,099,262</u>

Farmers Bank Loan

The City obtained a loan in the amount of \$330,106 for capital improvements in 2007. The loan was to mature on March 15, 2016 and carried an interest rate of 7%. The City used the proceeds from the Kentucky Bond Corporation bond issuance (see below) to pay off this loan in November 2010.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

Fifth Third Bank Lease

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

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

	Principal	Interest	Total
2012	\$ 82,044	\$ 7,876	\$ 89,920
2013	84,589	5,330	89,919
2014	<u>87,213</u>	<u>2,706</u>	<u>89,919</u>
Total	<u>\$ 253,846</u>	<u>\$ 15,912</u>	<u>\$ 269,758</u>

Kentucky Bond Corporation

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

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

	Principal	Interest	Expenses	Total
2012	\$ 157,083	\$ 21,258	\$ 2,564	\$ 180,905
2013	160,000	18,167	2,171	180,338
2014	137,083	14,917	1,771	153,771
2015	105,000	11,738	1,428	118,166
2016	107,083	8,587	1,166	116,836
2017	112,083	5,950	898	118,931
2018	<u>67,084</u>	<u>1,437</u>	<u>430</u>	<u>68,951</u>
Total	<u>\$ 845,416</u>	<u>\$ 82,054</u>	<u>\$ 10,428</u>	<u>\$ 937,898</u>

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

Current portion	\$ 239,127
Long-term portion	<u>860,135</u>
Total	<u>\$ 1,099,262</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

6. INDUSTRIAL REVENUE BONDS

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

7. RETIREMENT PLAN

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

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

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

Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's wages for non-hazardous classifications and 33.25% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

Year	Required Contribution	Percentage Contributed
2011	\$ 1,238,966	100%
2010	\$ 1,228,757	100%
2009	\$ 1,202,445	100%

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

8. PROPERTY TAX CALENDER

Property taxes for fiscal year 2011 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2010 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

9. RISK MANAGEMENT

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

10. FAILURE OF TRANSFORMER

In December 2010, a transformer at the Scott Avenue, Paris, Kentucky, substation failed. This transformer supplied a large portion of the total power purchased to residential and business customers in Paris. This transformer also enabled generators at the power plant to connect to the Kentucky Utilities (KU) system and put load on KU's system during times of curtailment of the City's system by KU. This failure did not allow the City to fulfill it's contractual obligations to KU during this interruption. Such breach of contract caused the City to incur additional demand charges from KU of approximately \$970,000 during the fiscal year ended June 30, 2011. These charges were passed on to the consumer and recorded in operating revenues and expenses for the year ended June 30, 2011.

11. SUPREME COURT OF KENTUCKY RULING ON INCENTIVE PAY TO FIRE FIGHTERS

In 1980, the Kentucky General Assembly established the Professional Firefighters Foundation Program Fund with the stated purpose of upgrading the educational and training standards of local firefighters by offering pay incentives to firefighters whose departments participated in the program. The Professional Firefighters Foundation Program Fund was to be administered by the Commission on Fire Protection Personnel Standards and Education (Fire Commission). Local governments, including cities and counties with fire departments meeting certain criteria, were invited to participate by entering into a formal agreement with the Fire Commission. Under the agreements, local governments obligated themselves to comply with the requirements of KRS Chapter 95A and administrative regulations, including those that governed the receipt and allocation of the firefighter incentive pay.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

12. SUPREME COURT OF KENTUCKY RULING ON INCENTIVE PAY TO FIRE FIGHTERS (continued)

For more than two decades prior to 2008, the Kentucky Labor Cabinet, using its interpretation of the applicable statutes (mainly KRS 337.285), issued regulations to inform the Fire Commission how to calculate the overtime pay owed to firefighters receiving the training incentive money. The Fire Commission instructed the participating local governments to pay the firefighters in accordance with the Labor Cabinet regulations. The City complied and paid their firefighters accordingly.

In 2007, the Court of Appeals rendered a decision in *Commonwealth, Labor Cabinet v. Hasken*, in which it disagreed with the Kentucky Labor Cabinet's established formula for calculating firefighters' overtime pay. Based upon its interpretation of the applicable statutes, the Court of Appeals compelled a revision of the method for calculating the overtime pay for firefighters receiving the incentive training money. The calculation approved in *Hasken* is more generous to firefighters than the formula it replaced. As a result, local governments, including the City, that had followed the Labor Cabinet regulations had apparently underpaid their firefighters.

To comply with *Hasken*, the Labor Cabinet revised its regulation for calculating overtime pay for firefighters receiving incentive training pay. It also initiated administrative actions against the City and other municipalities on behalf of the firefighters to collect the unpaid portion of overtime pay, using the *Hasken* formula. The City and other municipalities sought to block that effort by filing the action underlying this appeal in the Franklin Circuit Court.

In August 2011 the Supreme Court of Kentucky ruled that the Kentucky Labor Cabinet was authorized to proceed with its administrative action against the City and the other municipalities across the state of Kentucky for overtime wages on incentive pay to fire fighters by ruling that the City and the other municipal governments were subject to Kentucky's wages and hours law and were not immune from lawsuits brought by the Kentucky Labor Cabinet.

The City has estimated such cost of this ruling will be approximately \$250,000, including wages, retirement, and social security. This amount has been recorded in the City's general fund financial statements as of and for the year ended June 30, 2011 in accrued leave payable and public safety – fire expenditures

12. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications primarily are the result of the adoption of GASB 54 and had no effect on net income. Fund balances remain the same; however, the breakdown between components of fund balance have been adjusted per GASB 54.

13. SUBSEQUENT EVENTS

In July 2011 at the power plant owned by the City a generator failed and caused a fire at the plant. The failure caused the City to be in violation of its contract with Kentucky Utilities once again resulting in an additional six months of demand charges.

The City has evaluated and considered the need to recognize or disclose subsequent events through December 6, 2011, 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, 2011, have not been evaluated by the City.

SUPPLEMENTAL INFORMATION

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2011

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
Taxes				
Property taxes	\$ 557,612	\$ 557,612	\$ 537,046	\$ (20,566)
Vehicle ad valorem tax	62,238	62,238	78,761	16,523
Delinquent taxes	9,412	9,412	8,269	(1,143)
Bank shares	21,758	21,758	23,204	1,446
Payment in lieu of taxes	222,640	222,640	-	(222,640)
Penalties and interest	<u>5,971</u>	<u>5,971</u>	<u>9,151</u>	<u>3,180</u>
	<u>879,630</u>	<u>879,630</u>	<u>656,431</u>	<u>(223,199)</u>
Licenses and permits				
Occupational license	2,401,300	2,401,300	2,532,353	131,053
Insurance license	1,699,478	1,699,478	1,449,132	(250,346)
Net profits license fee	219,060	219,060	361,848	142,788
Franchise fees	109,397	109,397	160,887	51,490
Building inspection fees	8,906	8,906	1,535	(7,371)
Alcohol beverage fees	<u>11,638</u>	<u>11,638</u>	<u>14,383</u>	<u>2,745</u>
	<u>4,449,779</u>	<u>4,449,779</u>	<u>4,520,138</u>	<u>70,359</u>
Fines and forfeits				
Parking fines	<u>350</u>	<u>350</u>	<u>-</u>	<u>(350)</u>
Intergovernmental revenues				
Police incentive pay	78,000	78,000	89,894	11,894
Fire incentive pay	77,000	77,000	85,592	8,592
Highway safety and other grants	175,400	175,400	9,074	(166,326)
Litter grant	-	-	4,542	4,542
FEMA grant	-	-	242,578	242,578
Other grants	200,000	200,000	55,318	(144,682)
District court	<u>27,000</u>	<u>27,000</u>	<u>17,940</u>	<u>(9,060)</u>
	<u>557,400</u>	<u>557,400</u>	<u>504,938</u>	<u>(52,462)</u>
Other revenues				
Rent	85,500	85,500	96,106	10,606
Interest income	3,900	3,900	7,258	3,358
Other	<u>45,500</u>	<u>45,500</u>	<u>154,067</u>	<u>108,567</u>
	<u>134,900</u>	<u>134,900</u>	<u>257,431</u>	<u>122,531</u>
Total	<u>\$ 6,022,059</u>	<u>\$ 6,022,059</u>	<u>\$ 5,938,938</u>	<u>\$ (83,121)</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY INFORMATION
for the year ended June 30, 2011

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
GENERAL GOVERNMENT & CAPITAL BUDGETING				
CITY COMMISSION				
Personnel services	\$ 94,514	\$ 94,514	\$ 85,576	\$ (8,938)
Contractual services	101,000	101,000	176,181	75,181
Material and supplies	-	-	-	-
Other expenses	<u>70,620</u>	<u>70,620</u>	<u>105,627</u>	<u>35,007</u>
 Total City Commission	 <u>266,134</u>	 <u>266,134</u>	 <u>367,384</u>	 <u>101,250</u>
 GENERAL ADMINISTRATION				
Personnel services	162,185	162,185	199,298	37,113
Contractual services	50,300	50,300	242,115	191,815
Materials and supplies	25,500	25,500	23,038	(2,462)
Other expenses	<u>8,530</u>	<u>8,530</u>	<u>83,194</u>	<u>74,664</u>
 Total General Administration	 <u>246,515</u>	 <u>246,515</u>	 <u>547,645</u>	 <u>301,130</u>
 INSPECTION AND ENGINEERING				
Personnel services	224,117	224,117	212,847	(11,270)
Contractual services	109,400	109,400	41,290	(68,110)
Materials and supplies	29,980	29,980	39,798	9,818
Other expenses	<u>21,475</u>	<u>21,475</u>	<u>-</u>	<u>(21,475)</u>
 Total Inspection and Engineering	 <u>384,972</u>	 <u>384,972</u>	 <u>293,935</u>	 <u>(91,037)</u>
 OTHER ADMINISTRATION				
E911 Dispatch	120,000	120,000	138,000	18,000
EMS	-	-	192,000	192,000
Insurance	480,000	480,000	464,834	(15,166)
Legal	68,000	68,000	99,730	31,730
Capital budgeting	<u>31,500</u>	<u>31,500</u>	<u>1,304,197</u>	<u>1,272,697</u>
 Total Other Administration	 <u>699,500</u>	 <u>699,500</u>	 <u>2,198,761</u>	 <u>1,499,261</u>
 Total General Government & Capital Budgeting	 <u>1,597,121</u>	 <u>1,597,121</u>	 <u>3,407,725</u>	 <u>1,810,604</u>

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2011

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
POLICE DEPARTMENT				
Personnel services	\$ 1,641,222	\$ 1,641,222	\$ 1,538,844	\$ (102,378)
Contractual services	166,500	166,500	71,402	(95,098)
Materials and supplies	127,400	127,400	119,922	(7,478)
Other expenses	<u>35,180</u>	<u>35,180</u>	<u>2,501</u>	<u>(32,679)</u>
	<u>1,970,302</u>	<u>1,970,302</u>	<u>1,732,669</u>	<u>(237,633)</u>
FIRE DEPARTMENT				
Personnel services	2,225,805	2,225,805	1,699,566	(526,239)
Contractual services	160,675	160,675	92,264	(68,411)
Materials and supplies	246,770	246,770	126,292	(120,478)
Other expenses	<u>166,700</u>	<u>166,700</u>	<u>4,350</u>	<u>(162,350)</u>
	<u>2,799,950</u>	<u>2,799,950</u>	<u>1,922,472</u>	<u>(877,478)</u>
STREET DEPARTMENT				
Personnel services	386,927	386,927	405,480	18,553
Contractual services	154,800	154,800	56,692	(98,108)
Materials and supplies	<u>174,200</u>	<u>174,200</u>	<u>49,640</u>	<u>(124,560)</u>
	<u>715,927</u>	<u>715,927</u>	<u>511,812</u>	<u>(204,115)</u>
EXPENSES BEFORE TRANSFERS	<u>\$ 7,083,300</u>	<u>\$ 7,083,300</u>	<u>\$ 7,574,678</u>	<u>\$ 491,378</u>

**CITY OF PARIS, KENTUCKY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2011**

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 238,985	\$ -	\$ 238,985
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>238,985</u>	<u>\$ -</u>	<u>\$ 238,985</u>
 LIABILITIES & FUND EQUITY			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund equity			
Restricted	<u>238,985</u>	<u>-</u>	<u>238,985</u>
Total fund equity	<u>\$ 238,985</u>	<u>\$ -</u>	<u>\$ 238,985</u>

CITY OF PARIS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2011

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 181,575	\$ -	\$ 181,575
Other revenues	<u>2,034</u>	<u>-</u>	<u>2,034</u>
 Total revenues	 <u>183,609</u>	 <u>-</u>	 <u>183,609</u>
EXPENDITURES			
Street department	-	-	-
Capital outlay	98,155	-	98,155
Debt service	<u>-</u>	<u>416,143</u>	<u>416,143</u>
 Total expenditures	 <u>98,155</u>	 <u>416,143</u>	 <u>514,298</u>
 Excess revenues over (under) expenditures before other financing sources (uses)	 85,454	 (416,143)	 (330,689)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	1,280,858	1,280,858
Operating transfer, net	<u>-</u>	<u>(864,715)</u>	<u>(864,715)</u>
 Total other financing sources (uses)	 <u>-</u>	 <u>416,143</u>	 <u>416,143</u>
 Net change in fund balances	 <u>85,454</u>	 <u>-</u>	 <u>85,454</u>
 Fund balances - July 1, 2010	 <u>153,531</u>	 <u>-</u>	 <u>153,531</u>
 FUND BALANCES - JUNE 30, 2011	 <u><u>\$ 238,985</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 238,985</u></u>

**CITY OF PARIS, KENTUCKY
COMBINED UTILITY FUND
SCHEDULE OF OPERATING EXPENSES
for the year ended June 30, 2011**

	Budget	Actual	Over (Under) <u>Budget</u>
UTILITY ADMINISTRATION & SPECIAL PROJECTS			
Personnel services	\$ 280,010	\$ 218,413	\$ (61,597)
Contractual services	83,400	174,387	90,987
Materials and supplies	63,150	17,963	(45,187)
Other expenses	33,150	34,733	1,583
Payment-in-lieu-of-taxes	-	-	-
	<u>459,710</u>	<u>445,496</u>	<u>(14,214)</u>
ELECTRIC			
Personnel services	507,051	526,288	19,237
Electric purchases	2,630,000	3,314,945	684,945
Contractual services	55,000	133,466	78,466
Materials and supplies	718,202	617,459	(100,743)
	<u>3,910,253</u>	<u>4,592,158</u>	<u>681,905</u>
WATER SYSTEM			
Personnel services	652,714	666,907	14,193
Contractual services	50,620	114,551	63,931
Materials and supplies	332,000	205,166	(126,834)
Other expenses	7,832	33,635	25,803
	<u>1,043,166</u>	<u>1,020,259</u>	<u>(22,907)</u>
SEWER SYSTEM			
Personnel services	551,870	541,731	(10,139)
Contractual services	56,750	286,986	230,236
Materials and supplies	508,905	153,401	(355,504)
	<u>1,117,525</u>	<u>982,118</u>	<u>(135,407)</u>
TRASH PICK-UP			
Personnel services	450,320	359,901	(90,419)
Contractual services	451,820	318,214	(133,606)
Materials and supplies	223,196	65,118	(158,078)
	<u>1,125,336</u>	<u>743,233</u>	<u>(382,103)</u>
DEPRECIATION			
	<u>-</u>	<u>1,122,825</u>	<u>1,122,825</u>
Total Operating Expenses	<u>\$ 7,655,990</u>	<u>\$ 8,906,089</u>	<u>\$ 1,250,099</u>

**CITY OF PARIS, KENTUCKY
 COMBINED UTILITY FUND
 SCHEDULE OF REVENUE BOND REQUIREMENTS
 June 30, 2011**

<u>FISCAL YEAR ENDING JUNE 30</u>	<u>2005 ISSUE</u>		<u>TOTAL DEBT SERVICE</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2012	\$ 14,000	\$ 43,395	\$ 57,395
2013	14,000	43,973	57,973
2014	15,000	42,797	57,797
2015	16,000	42,158	58,158
2016	16,000	41,498	57,498
Thereafter	998,000	741,840	1,739,840
TOTAL	\$ 1,073,000	\$ 955,661	\$ 2,028,661

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

Mayor and Commissioners
City of Paris
Paris, Kentucky

We have audited the financial statements of the governmental activities, business-type activities and the aggregate remaining fund information of the City of Paris as of and for the year ended June 30, 2011 and have issued our report thereon dated December 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs (2011-1) that we consider to be a material weakness in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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.

Compliance and Other Matters

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

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

The City of Paris' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Paris' response and, accordingly, we express no opinion on it.

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

Ray, Foley, Hensley & Company
Ray, Foley, Hensley & Company, PLLC
December 6, 2011

**CITY OF PARIS, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and Commissioners
City of Paris
Paris, Kentucky

Compliance

We have audited the City of Paris, Kentucky's compliance with the types of compliance requirements described in the **U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement** that could have a direct and material effect on each of the City of Paris's major federal programs for the year ended June 30, 2011. The City of Paris, Kentucky's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Paris, Kentucky's management. Our responsibility is to express an opinion on City of Paris, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Paris, Kentucky's compliance with those requirements and performing such other procedures, as we considered necessary in these circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Paris, Kentucky's compliance with those requirements.

In our opinion, the City of Paris, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

**CITY OF PARIS, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

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

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 6, 2011

CITY OF PARIS, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Grant Contract Period	Award Amount	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through Kentucky Department for Local Government Community Development Block Grant/State's Program (State-Administered Small Cities Program)	14.228	08-027	07/20/2009 -12/31/2011	\$ 500,000	\$ 422,682 *
DEPARTMENT OF HOMELAND SECURITY					
Federal Emergency Management Agency, Assistance to Firefighters	97.044	EMW-2009-FR-00245	04/30/2010 - 04/29/2011	256,074	195,170
U.S. DEPARTMENT OF AGRICULTURE					
Natural Resources Conservation Service, Emergency Watershed Protection Program	10.904	68-5C16-10-186	09/22/2010 - 10/13/2010	<u>55,319</u>	<u>55,319</u>
Total				<u>\$ 811,393</u>	<u>\$ 673,171</u>

***Denotes Major Program**

Basis of Presentation

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

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2011**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Non-compliance material to financial statements noted	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
---	------------------------------	--

Federal Awards:

Internal control over major programs:

Material weaknesses identified	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

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

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in

accordance with Section 510(a) of Circular A-133?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
---	------------------------------	--

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	U.S. Department of Housing and Urban Development Passed through Kentucky Department for Local Government Community Development Block Grant/State's Program (State-Administered Small Cities Program)

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
--	------------------------------	--

CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
for the year ended June 30, 2011

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

#2011-1

Condition:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE