

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2017

CONTENTS

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-10
Government Wide Financial Statements	
Statement of Net Position	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
Statement of Net Position - Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund.....	16
Statement of Cash Flows - Proprietary Funds	17
Notes to Financial Statements.....	18-31
Required Supplementary Information	
Pension Schedules	32-35
Budget Information.....	36
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	38
Schedule of Operating Expenses – Combined Utility Fund.....	39
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 <i>Government Auditing Standards</i>	40-43



INDEPENDENT AUDITORS' REPORT

Mayor and the Commissioners
City of Paris
Paris, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 3-10 and 32-36 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 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 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 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 17, 2018, on our consideration of the City of Paris, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Paris, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
January 17, 2018

City of Paris, Kentucky

Management's Discussion and Analysis

The 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, 2017. As you read the following discussion and analysis please remember that this information, in conjunction with the auditors' report and the City's financial statements, should be considered collectively to ensure the most comprehensive view of the City's financial position at the end of FY 2016 - 2017.

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 the financial statements is both at the macro overall operational level of the agency (**government-wide**) and at the micro level that looks of the various funds.

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 using accounting methods like 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 because of this year's activities?" The **Statement of Net Position** and the **Statement of Activities** are reports that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, *which is like the accounting used by most private-sector companies.* **All the current year's revenues and expenditures are considered regardless of when cash is received or paid.**

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

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

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

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

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

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now at a more micro level and not of the organizational operations 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 soon 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 is generally reported in proprietary funds.

NET POSITION

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

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

Table A-1

	Governmental Activities	Business-Type Activities	Total Government
Current and Other Assets			
And Deferred outflows	\$ 6,380,906	\$ 2,783,572	\$ 9,164,478
Capital Assets	<u>6,055,374</u>	<u>10,446,338</u>	<u>16,501,712</u>
 Total Assets			
And Deferred outflows	12,436,280	13,229,910	25,666,190
 Non-Current Liabilities			
And Deferred inflows	8,049,998	8,225,049	16,275,047
Current Liabilities	<u>696,460</u>	<u>1,441,831</u>	<u>2,138,291</u>
 Total Liabilities			
And Deferred inflows	8,746,458	9,666,880	18,413,338
 Net Position			
Net Invested in			
Capital Assets	5,454,244	5,916,931	11,371,175
Restricted	197,315	269,706	467,021
Unrestricted	<u>(1,961,737)</u>	<u>(2,623,607)</u>	<u>(4,585,344)</u>
Total Net Position	<u>\$ 3,689,822</u>	<u>\$ 3,563,030</u>	<u>\$ 7,252,852</u>

The capital assets of the City's **governmental activities** increased from \$5,708,300 in 2016 to \$6,055,374 in 2017. This increase was due to capital additions exceeding depreciation for the year.

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

The capital assets of the **business-type activities** decreased from \$10,184,167 in 2016 to \$10,026,973 in 2017. This decrease was due to depreciation exceeding capital additions for the year.

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

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Revenues			
<u>Program Revenue</u>			
Charges for Service	\$ -	\$ 10,776,411	\$ 10,776,411
<u>General Revenue</u>			
Tax	727,714		727,714
Licenses	5,652,702		5,652,702
Intergovernmental	1,452,953		1,452,953
Fines & Forfeits	6,704		6,704
Other Revenue	<u>172,785</u>	<u>125,610</u>	<u>298,395</u>
Total Revenue	<u>8,012,858</u>	<u>10,902,021</u>	<u>18,914,879</u>
<u>Program Expenses</u>			
City Commission	344,527		344,527
General Government	1,554,504		1,554,504
Main Street	19,501		19,501
Public safety-Police	2,112,522		2,112,522
Public safety-Fire	1,963,336		1,963,336
Public works-Streets	752,757		752,757
Inspection, engineering	269,644		269,644
Interest on long-term debt	1,310		1,310
Electric		5,695,090	5,695,090
Sanitation		1,558,605	1,558,605
Water		2,014,052	2,014,052
Sewer		<u>1,779,188</u>	<u>1,779,188</u>
Total Program Expense	<u>7,018,101</u>	<u>11,046,935</u>	<u>18,065,036</u>
Net Change in Net Position	<u>\$ 994,757</u>	<u>\$ (144,914)</u>	<u>\$ 849,843</u>

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

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

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

GOVERNMENTAL ACTIVITIES

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

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

Taxes	\$ 727,714
Licenses and permits	5,652,702
Intergovernmental	1,452,953
Fines & forfeits	6,704
Other revenues	<u>172,785</u>
Total Revenues	8,012,858
City Commission	344,527
General administration	1,147,939
Main Street	19,501
Public safety-Police	1,951,773
Public safety-Fire	1,801,123
Public works-Streets	632,205
Inspection, engineering, & parks	257,501
Capital outlay	846,441
Debt service	<u>153,735</u>
Total Expenditures	<u>7,154,745</u>
Excess Revenues over Expenditures before other Financing sources	<u>\$ 858,113</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

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	\$ 708,700	\$ 727,714	\$ 19,014
Licenses and permits	5,502,000	5,652,702	150,702
Intergovernmental	360,000	1,256,424	5,704
Fines & Forfeit	1,000	6,704	896,424
Other Revenues	<u>576,265</u>	<u>171,198</u>	<u>(405,067)</u>
Total Revenues	<u>\$ 7,147,965</u>	<u>\$ 7,814,742</u>	<u>\$ 666,777</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Gov't & Capital			
Budgeting	\$2,280,750	\$2,417,091	\$ 136,341
Public Safety- Police	2,356,975	1,951,773	(405,202)
Public Safety- Fire	1,679,210	1,801,123	121,913
Public Works- Streets	<u>761,030</u>	<u>630,262</u>	<u>(130,768)</u>
Total Expenditures	<u>\$7,077,965</u>	<u>\$6,800,249</u>	<u>\$ (277,716)</u>

The City budgeted for a total of \$7,147,965 in revenues for 2017, but ended up having revenues of \$7,814,742. The City was over budget on revenues by \$666,777.

A total of \$7,077,965 was budgeted for expenditures, but expenditures totaled \$6,800,249 at the end of 2017. The City was under budget on the expenditures by \$277,716.

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 the equipment and materials involved in the operation of an electric, water and sanitary sewer utility.

Table A-6 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
Construction in progress	534,046		534,046
Infrastructure	3,464,227	-	3,464,227
Buildings	3,517,759	-	3,517,759
Vehicles	3,453,155	-	3,453,155
Equipment	942,610	3,161,331	4,103,941
Electric System	-	9,500,612	9,500,612
Water System	-	7,914,557	7,914,557
Sewer System	-	<u>17,562,181</u>	<u>17,562,181</u>
 Total Capital Assets	 <u>\$12,878,776</u>	 <u>\$ 38,138,681</u>	 <u>\$ 51,017,457</u>

DEBT

Table A-7 provides a summary of all the City's outstanding indebtedness as of the end of FY 2017.

Table A-7

<u>Debt Outstanding at Year End</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Notes Payable	-	1,624,336	1,624,336
Bond Payable	<u>67,084</u>	<u>2,209,661</u>	<u>2,276,745</u>
 Total Debt Outstanding	 <u>\$ 67,084</u>	 <u>\$ 3,833,997</u>	 <u>\$ 3,901,081</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's management, and elected officials, take into consideration many factors when setting a budget. Some factors, like anticipated tax revenue, labor costs, and expected expenses are easier to predict when considering historical data. Other factors, such as impact on the economy from external sources, unfunded mandates from the State and Federal governments, and grant funding are less predictable and require more assumptive reasoning on the behalf of management. However, management relies on a mindset of meeting community needs within the framework of responsible fiscal management as the guiding principle when crafting the budget. Always mindful that the public has limited financial resources, the City's management must continuously strike a harmonious balance between meeting public needs while ensuring enough revenues are collected to provide services the public expects.

To this end, in FY 2017 the City took the stance that tax rates and service fees should remain virtually level from the previous FY. Cost savings were realized through not filling some employee vacancies, limited pay increases for employees, ensuring that major expenditures were vetted through a competitive bid process, and ensuring employees understood the managements philosophy of responsible fiscal management.

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, you are invited to contact 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, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,946,365	\$ 662,881	\$ 3,609,246
Receivables, net	1,420,050	815,211	2,235,261
Internal balances	<u>79,218</u>	<u>(79,218)</u>	<u>-</u>
Total current assets	<u>4,445,633</u>	<u>1,398,874</u>	<u>5,844,507</u>
Noncurrent assets			
Restricted cash and cash equivalents	146,152	269,706	415,858
Capital assets			
Land and improvements	966,979	64,802	1,031,781
Depreciable infrastructure, net	2,522,759	-	2,522,759
Depreciable buildings, property, and equipment, net	2,031,590	9,686,126	11,717,716
Construction in progress	534,046	279,045	813,091
Other assets	<u>-</u>	<u>416,365</u>	<u>416,365</u>
Total noncurrent assets	<u>6,201,526</u>	<u>10,716,044</u>	<u>16,917,570</u>
Total assets	10,647,159	12,114,918	22,762,077
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	<u>1,789,121</u>	<u>1,114,992</u>	<u>2,904,113</u>
Total assets and deferred outflows of resources	<u>\$ 12,436,280</u>	<u>\$ 13,229,910</u>	<u>\$ 25,666,190</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 268,187	\$ 587,478	\$ 855,665
Accrued leave payable	361,189	158,420	519,609
Accrued liabilities	-	6,922	6,922
Customer deposits	-	183,217	183,217
Current portion of long-term obligations	<u>67,084</u>	<u>505,794</u>	<u>572,878</u>
Total current liabilities	<u>696,460</u>	<u>1,441,831</u>	<u>2,138,291</u>
Noncurrent liabilities			
Noncurrent portion of long-term obligations	-	3,328,203	3,328,203
Net pension liability	<u>7,699,621</u>	<u>4,896,846</u>	<u>12,596,467</u>
Total noncurrent liabilities	<u>7,699,621</u>	<u>8,225,049</u>	<u>15,924,670</u>
Total liabilities	<u>8,396,081</u>	<u>9,666,880</u>	<u>18,062,961</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	<u>350,377</u>	<u>-</u>	<u>350,377</u>
NET POSITION			
Net investment in capital assets	5,454,244	5,916,931	11,371,175
Restricted for:			
Debt service	-	112,372	112,372
Other purposes	197,315	157,334	354,649
Unrestricted	<u>(1,961,737)</u>	<u>(2,623,607)</u>	<u>(4,585,344)</u>
Total net position	<u>3,689,822</u>	<u>3,563,030</u>	<u>7,252,852</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 12,436,280</u>	<u>\$ 13,229,910</u>	<u>\$ 25,666,190</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, 2017**

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	\$ 344,527	\$ -	\$ -	\$ -	\$ (344,527)	\$ -	\$ (344,527)
General government	1,554,504	-	360,500	529,271	(664,733)	-	(664,733)
Main street	19,501	-	-	-	(19,501)	-	(19,501)
Public safety-police	2,112,522	-	208,314	-	(1,904,208)	-	(1,904,208)
Public safety-fire	1,963,336	-	158,339	-	(1,804,997)	-	(1,804,997)
Public works	752,757	-	-	196,529	(556,228)	-	(556,228)
Engineering and planning & zoning	269,644	-	-	-	(269,644)	-	(269,644)
Interest on long-term debt	1,310	-	-	-	(1,310)	-	(1,310)
Total governmental activities	<u>7,018,101</u>	<u>-</u>	<u>727,153</u>	<u>725,800</u>	<u>(5,565,148)</u>	<u>-</u>	<u>(5,565,148)</u>
Business-type activities							
Electric	5,695,090	6,507,992	-	-	-	812,902	812,902
Sanitation	1,558,605	1,005,644	-	-	-	(552,961)	(552,961)
Water	2,014,052	1,612,815	-	-	-	(401,237)	(401,237)
Sewer	1,779,188	1,649,960	-	-	-	(129,228)	(129,228)
Total business-type activities	<u>11,046,935</u>	<u>10,776,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(270,524)</u>	<u>(270,524)</u>
Total primary government	<u>\$ 18,065,036</u>	<u>\$ 10,776,411</u>	<u>\$ 727,153</u>	<u>\$ 725,800</u>	<u>(5,565,148)</u>	<u>(270,524)</u>	<u>(5,835,672)</u>

General revenues

Taxes			
Property taxes, levied for general purposes	727,714	-	727,714
License fees:			
Franchise	211,543	-	211,543
Payroll	3,024,476	-	3,024,476
Insurance premiums	1,690,486	-	1,690,486
Net profit	676,013	-	676,013
Other licenses and permits	50,184	-	50,184
Fines and forfeits	6,704	-	6,704
Investment earnings	27,636	7,692	35,328
Rents	122,889	46,510	169,399
Miscellaneous	22,260	71,408	93,668
Total general revenues	<u>6,559,905</u>	<u>125,610</u>	<u>6,685,515</u>
Change in net position	994,757	(144,914)	849,843
Net position-beginning, restated	<u>2,695,065</u>	<u>3,707,944</u>	<u>6,403,009</u>
NET POSITION-ENDING	<u>\$ 3,689,822</u>	<u>\$ 3,563,030</u>	<u>\$ 7,252,852</u>

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017**

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,970,323	\$ 122,194	\$ 3,092,517
Receivables, net	1,398,737	21,313	1,420,050
Due from other funds	79,218	-	79,218
Other assets	-	-	-
Total assets	<u>\$ 4,448,278</u>	<u>\$ 143,507</u>	<u>\$ 4,591,785</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 268,187	\$ -	\$ 268,187
Accrued leave payable	361,189	-	361,189
Total liabilities	629,376	-	629,376
Fund balances			
Restricted	53,808	143,507	197,315
Unassigned	3,765,094	-	3,765,094
Total fund balances	3,818,902	143,507	3,962,409
Total liabilities and fund balances	<u>\$ 4,448,278</u>	<u>\$ 143,507</u>	<u>\$ 4,591,785</u>

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

Fund balances per above	\$ 3,962,409
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,055,374
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	1,438,744
Long-term liabilities, including bonds payable and net pension liability that are not due and payable in the current period and therefore are not reported in the funds.	(7,766,705)
Net position of governmental activities	<u>\$ 3,689,822</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, 2017

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 727,714	\$ -	\$ 727,714
Licenses and permits	5,652,702	-	5,652,702
Fees and fines	6,704	-	6,704
Intergovernmental	1,256,424	196,529	1,452,953
Other revenues	171,198	1,587	172,785
	7,814,742	198,116	8,012,858
EXPENDITURES			
Current			
City commission	344,527	-	344,527
General administration	1,147,939	-	1,147,939
Main street	19,501	-	19,501
Public safety-Police	1,951,773	-	1,951,773
Public safety-Fire	1,801,123	-	1,801,123
Public works	630,262	1,943	632,205
Engineering and planning & zoning	257,501	-	257,501
Capital outlay	647,623	198,818	846,441
Debt service	-	153,735	153,735
	6,800,249	354,496	7,154,745
Excess (deficiency) of revenues over expenditures	1,014,493	(156,380)	858,113
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	(153,735)	153,735	-
	(153,735)	153,735	-
Net change in fund balances	860,758	(2,645)	858,113
Fund balances-beginning	2,958,144	146,152	3,104,296
Fund balances-ending	\$ 3,818,902	\$ 143,507	\$ 3,962,409
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 858,113
add: capital outlay expenditures			846,441
add: debt service expenditures			153,735
less: depreciation on governmental activities assets			(499,367)
change in net pension liability			(362,855)
less: interest on long-term debt			(1,310)
			994,757
Change in net position Governmental Activities			\$ 994,757

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

CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-Type Activities Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 662,881
Receivables, net	<u>815,211</u>
Total current assets	<u>1,478,092</u>
Noncurrent assets	
Restricted cash and cash equivalents	269,706
Other assets	416,365
Construction in progress	279,045
Capital assets	38,138,681
Less accumulated depreciation	<u>(28,387,753)</u>
Total non current assets	<u>10,716,044</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	<u>1,114,992</u>
Total assets and deferred outflows of resources	<u>\$ 13,309,128</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 587,478
Customer deposits	183,217
Accrued leave payable	158,420
Accrued interest payable	6,922
Due to other funds	79,218
Current portion of long-term debt	<u>505,794</u>
Total current liabilities	<u>1,521,049</u>
Noncurrent liabilities	
Bonds, notes and loans payable	3,328,203
Net pension liability	<u>4,896,846</u>
Total liabilities	<u>9,746,098</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	<u>-</u>
NET POSITION	
Net investment in capital assets	5,916,931
Restricted for debt service	112,372
Restricted for other purposes	157,334
Unrestricted	<u>(2,623,607)</u>
Total net position	<u>3,563,030</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 13,309,128</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, 2017

	Business-type Activities Utility Fund
Operating revenues	
Charges for services	\$ <u>10,776,411</u>
 Total operating revenues	 <u>10,776,411</u>
 Operating expenses	
Utility administration	1,082,564
Electric department	5,148,361
Water distribution	1,529,406
Sewer treatment	1,034,992
Sanitation	1,202,781
Depreciation	<u>911,619</u>
 Total operating expenses	 <u>10,909,723</u>
 Operating income (loss)	 <u>(133,312)</u>
 Nonoperating revenues (expenses)	
Rental income	46,510
Miscellaneous revenue	71,408
Interest and investment revenue	7,692
Interest expense	<u>(137,212)</u>
 Total nonoperating revenue (expenses)	 <u>(11,602)</u>
 Change in net position	 (144,914)
 Total net position-beginning, as restated	 <u>3,707,944</u>
 TOTAL NET POSITION-ENDING	 <u>\$ 3,563,030</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, 2017**

	<u>Business-Type Activities Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 10,887,191
Payments to suppliers	(7,610,531)
Payments for employee services and benefits	<u>(2,509,201)</u>
 Net cash provided by operating activities	 <u>767,459</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(407,425)
Principal payments on bonds, notes, and loans payable	(558,741)
Interest paid on capital debt	(140,731)
Miscellaneous receipts	71,408
Rental income	<u>46,510</u>
 Net cash (used in) capital and related financing activities	 <u>(988,979)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>7,692</u>
 Net cash provided by investing activities	 <u>7,692</u>
 Net increase in cash and cash equivalents	 (213,828)
Balances-beginning of the year	<u>1,146,415</u>
 BALANCES-END OF THE YEAR	 <u><u>\$ 932,587</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating (loss)	\$ (133,312)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation expense	911,619
Change in assets and liabilities:	
Receivables, net	72,005
Inventory	96,831
Customer deposits	38,775
Accounts and other payables	(340,908)
Net pension liability	295,077
Accrued expenses	<u>(172,628)</u>
 Net cash provided by operating activities	 <u><u>\$ 767,459</u></u>

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017

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, 2017

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, 2017

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 Utilities Fund. These reimbursements are included in "Payment in lieu of taxes" in the financial statements. Total estimated expenses reimbursed to the General Fund from the Utilities Fund amounted to \$360 Million for the year ended June 30, 2017.

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. Other Accounting Policies

Accounts receivable from customers are stated less an allowance for doubtful accounts of \$73,861 in the utility fund.

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

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

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Other Accounting Policies (Continued)

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.

H. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 17, 2018, 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, 2017, have not been evaluated by the City.

2. CASH AND INVESTMENTS

Custodial credit risk is the risk that in event of a bank failure, the government's deposits may not be returned to it. 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, 2017 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 \$4,025,104 and the bank balances were \$4,194,334. Bank balances of \$658,409 were covered by FDIC insurance, and \$3,535,925 by collateral held by the custodial banks.

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:

	General Fund	Nonmajor Funds	Total
<u>Governmental Funds</u>			
Licenses and permits	\$ 1,227,773	\$ -	\$ 1,227,773
Intergovernmental	<u>170,964</u>	<u>21,313</u>	<u>192,277</u>
Total	<u>\$ 1,398,737</u>	<u>\$ 21,313</u>	<u>\$ 1,420,050</u>
 <u>Utility Fund</u>			
<u>Business-Type Fund</u>			
Charges for service	\$ 874,325		
Other	<u>14,747</u>		
Gross receivable	889,072		
Less allowance for uncollectable	<u>(73,861)</u>		
Total	<u>\$ 815,211</u>		

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2016	Additions	Deletions	June 30, 2017
<u>Governmental Activities</u>				
Capital assets not depreciated:				
Land and improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Construction in progress	-	<u>534,046</u>	-	<u>534,046</u>
Total capital assets not depreciated	<u>966,979</u>	<u>534,046</u>	-	<u>1,501,025</u>
Capital assets that are depreciated:				
Building and improvements	3,517,759	-	-	3,517,759
Vehicles	3,351,445	101,710	-	3,453,155
Equipment	<u>930,743</u>	<u>11,867</u>	-	<u>942,610</u>
Total building, vehicle, & equipment	<u>7,799,947</u>	<u>113,577</u>	-	<u>7,913,524</u>
Total non-infrastructure assets	<u>8,766,926</u>	<u>647,623</u>	-	<u>9,414,549</u>
Recording infrastructure assets:				
Infrastructure assets	<u>3,265,409</u>	<u>198,818</u>	-	<u>3,464,227</u>
Total capital assets	<u>12,032,335</u>	<u>846,441</u>	-	<u>12,878,776</u>
Less accumulated depreciation:				
Building and improvements	2,057,465	94,760	-	2,152,225
Vehicles	2,729,687	211,858	-	2,941,545
Equipment	755,894	32,270	-	788,164
Infrastructure assets	<u>780,989</u>	<u>160,479</u>	-	<u>941,468</u>
Totals	<u>6,324,035</u>	<u>499,367</u>	-	<u>6,823,402</u>
Capital assets, net	<u>\$ 5,708,300</u>	<u>\$ 347,074</u>	<u>\$ -</u>	<u>\$ 6,055,374</u>
<u>Business-Type Activities</u>				
Equipment and vehicles	\$ 3,161,331	\$ -	\$ -	\$ 3,161,331
Electric lines, poles, and plant	9,107,748	392,864	-	9,500,612
Water treatment plant, land and water system improvements	7,914,557	-	-	7,914,557
Sewer treatment plant, land and improvements	<u>17,476,665</u>	<u>85,516</u>	-	<u>17,562,181</u>
Totals	<u>37,660,301</u>	<u>478,380</u>	-	<u>38,138,681</u>
Less accumulated depreciation	<u>27,476,134</u>	<u>911,619</u>	-	<u>28,387,753</u>
Capital assets, net	<u>\$ 10,184,167</u>	<u>\$ (433,239)</u>	<u>\$ -</u>	<u>\$ 9,750,928</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental</u>		<u>Business-Type</u>	
General government	\$ 194,933	Electric department	\$ 241,785
Police	117,638	Water department	179,702
Fire	112,225	Sewer department	439,252
Parks and recreation	7,444	Sanitation	<u>50,880</u>
Public works	<u>67,127</u>		
Total depreciation expense	<u>\$ 499,367</u>	Total depreciation expense	<u>\$ 911,619</u>

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

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

5. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2017:

Description	Balance June 30, 2016	Issued	Retired	Balance June 30, 2017	Due within One year
<u>Governmental Activities</u>					
<u>General Fund</u>					
BB&T note payable with interest at 1.69% matured in fiscal year 2017	\$ 40,342	\$ -	\$ 40,342	\$ -	\$ -
KBC note payable with interest at 1.00% matures in fiscal year 2018	<u>179,167</u>	-	<u>112,083</u>	<u>67,084</u>	<u>67,084</u>
Total notes payable	219,509	-	152,425	67,084	67,084
Net Pension Liability - CERS	<u>7,245,105</u>	<u>454,516</u>	-	<u>7,699,621</u>	-
Total governmental activities	<u>\$ 7,464,614</u>	<u>\$ 454,516</u>	<u>\$ 152,425</u>	<u>\$ 7,766,705</u>	<u>\$ 67,084</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

5. LONG-TERM DEBT (CONTINUED)

Description	Balance June 30, 2016	Issued	Retired	Balance June 30, 2017	Due within One year
<u>Business-type Activities</u>					
<u>Utility Fund</u>					
KIA note payable with interest at 1.80% maturing in fiscal year 2021	\$ 1,639,252	\$ -	\$ 352,941	\$ 1,286,311	\$ 359,323
PNC note payable with interest at 2.00%, matured in fiscal year 2017	36,378	-	36,378	-	-
BB&T note payable with interest at 1.76 % matured fiscal year 2017	17,307	-	17,307	-	-
Kentucky Bank note payable interest at 2.50% matured in fiscal year 2017	25,636	-	25,636	-	-
KBC note payable with interest at 3.29% maturing in fiscal year 2032	2,024,165	-	110,004	1,914,161	112,084
Series 2014 Revenue Bonds interest at 2.75% maturing in fiscal year 2054	300,000	-	4,500	295,500	4,500
Traditional Bank note payable with interest at 3.30% maturing in fiscal year 2027	-	345,244	7,219	338,025	29,887
Total bonds and notes payable	<u>4,042,738</u>	<u>345,244</u>	<u>553,985</u>	<u>3,833,997</u>	<u>505,794</u>
Net Pension Liability - CERS	<u>4,306,418</u>	<u>590,428</u>	<u>-</u>	<u>4,896,846</u>	<u>-</u>
Total business-type activities	<u>\$ 8,349,156</u>	<u>\$ 935,672</u>	<u>\$ 553,985</u>	<u>\$ 8,730,843</u>	<u>\$ 505,794</u>

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

Year ended	Principal	Interest	Total
2018	\$ 505,794	\$ 110,204	\$ 615,998
2019	516,703	99,386	616,089
2020	526,440	88,330	614,770
2021	865,061	264,793	1,129,854
2022	789,513	145,698	935,211
2023-2027	387,986	91,939	479,925
2028-2032	32,500	32,043	64,543
2033-2037	37,000	27,239	64,239
2038-2042	43,000	21,736	64,736
2043-2047	49,000	15,435	64,435
2048-2052	56,000	8,218	64,218
2053-2054	25,000	5,045	30,045
	<u>\$ 3,833,997</u>	<u>\$ 910,066</u>	<u>\$ 4,744,063</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017 is not readily available.

7. RETIREMENT PLAN

CERS

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.

Contributions – For the year ended June 30, 2017, 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, 2017, participating employers contributed 18.68% of each employee's wages for non-hazardous job classifications and 31.06% of each employee's wages 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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2017, the City contributed \$751,435, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$561,163 to the CERS pension fund and \$190,272 to the CERS insurance fund. The City contributed \$445,513, or 100% of the required contribution for hazardous job classifications, which was allocated \$311,400 to the CERS pension fund and \$134,113 to the CERS insurance fund.

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

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, 2017, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 12,596,467</u>	<u>\$ 7,707,594</u>	<u>\$ 4,888,873</u>

The net pension liability was measured as of June 30, 2016, 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, 2016 was as follows:

Non-hazardous	Hazardous
.1565%	.2849%

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

The proportionate share at June 30, 2016 increased .0017% for non-hazardous and decreased .0034% for hazardous compared to the proportionate share as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$1,530,495. At June 30, 2017, 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	\$ 104,160	\$ -
Changes of assumptions	688,851	-
Net difference between projected and actual earnings on Plan investments	1,137,013	-
Changes in proportion and differences between City contributions and proportionate share of contributions	101,525	350,377
City contributions subsequent to the measurement date	872,564	-
Total	<u>\$ 2,904,113</u>	<u>\$ 350,377</u>

The \$872,564 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, 2018. 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	\$ 544,214
2019	\$ 368,418
2020	\$ 513,680
2021	\$ 254,860

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	3.25%	
Salary increases	4.00%, average, including inflation	
Investment rate of return	7.50%, net of Plan investment expense, including inflation	

Hazardous

Inflation	3.25%	
Salary increases	4.00%, average, including inflation	
Investment rate of return	7.50%, 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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2016 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.

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 Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	<u>2%</u>	(0.25)%
TOTAL	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 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 29 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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 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	6.50%	\$ 9,604,906	6.50%	\$ 6,141,841
Current discount rate	7.50%	\$ 7,707,594	7.50%	\$ 4,888,873
1% increase	8.50%	\$ 6,081,214	8.50%	\$ 3,855,378

Payable to the Pension Plan – At June 30, 2017, the City reported a payable of \$132,202 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The payable includes both the pension and insurance contribution allocation.

8. PROPERTY TAX CALENDER

Property taxes for fiscal year 2017 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2016 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

9. RISK MANAGEMENT

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

10. BUDGET

In fiscal year 2017, the City exceeded the budget amounts in several departments of the general fund. The fire department was over budget by \$121,913. Engineering and Planning & Zoning together were over budget by \$131,376. Capital outlay expenditures were over budget by \$411,623. Overall expenditures in the general fund were under budget by \$277,716.

11. RESTATEMENT

The Utility Fund customer deposit liability was overstated as previously reported in the previous audit for the year ended June 30, 2016. A restatement has been posted to adjust the deposit liability and restate beginning net position as follows:

Net position, at beginning of year	\$ 3,563,363
Change to customer deposit liability	<u>144,581</u>
Net position, at beginning of year, restated	<u>\$ 3,707,944</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014
City's proportion of the net pension liability	0.1565%	0.1548%	0.1513%	0.1513%
City's proportionate share of the net pension liability (asset)	\$ 7,707,594	\$ 6,655,841	\$ 4,908,008	\$ 5,540,969
City's covered employee payroll	\$ 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	206.54%	186.01%	141.68%	170.53%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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 corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

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

	2017	2016	2015	2014
City's proportion of the net pension liability	0.2849%	0.3189%	0.3229%	0.3229%
City's proportionate share of the net pension liability (asset)	\$ 4,888,873	\$ 4,895,682	\$ 3,880,937	\$ 4,318,002
City's covered employee payroll	\$ 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	328.91%	300.12%	237.44%	244.52%
Plan fiduciary net position as a percentage of the total pension liability	53.95%	57.52%	63.46%	57.74%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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 corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
SCHEDULE OF CONTRIBUTIONS - NONHAZARDOUS
Last Five Fiscal Years**

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

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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.

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
SCHEDULE OF CONTRIBUTIONS - HAZARDOUS
Last Five Fiscal Years**

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

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

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.

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2017

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUE				
Taxes	\$ 708,700	\$ 708,700	\$ 727,714	\$ 19,014
Licenses and permits	5,502,000	5,502,000	5,652,702	150,702
Fines and forfeits	1,000	1,000	6,704	5,704
Intergovernmental	360,000	360,000	1,256,424	896,424
Other revenues	<u>576,265</u>	<u>576,265</u>	<u>171,198</u>	<u>(405,067)</u>
 Total revenues	 <u>7,147,965</u>	 <u>7,147,965</u>	 <u>7,814,742</u>	 <u>666,777</u>
EXPENDITURES				
Current				
City commission	376,085	376,085	344,527	(31,558)
General administration	1,503,645	1,503,645	1,147,939	(355,706)
Main street	38,895	38,895	19,501	(19,394)
Engineering and Planning & Zoning	126,125	126,125	257,501	131,376
Public safety-police	2,356,975	2,356,975	1,951,773	(405,202)
Public safety-fire	1,679,210	1,679,210	1,801,123	121,913
Public works	761,030	761,030	630,262	(130,768)
Capital outlay	<u>236,000</u>	<u>236,000</u>	<u>647,623</u>	<u>411,623</u>
 Total expenditures	 <u>7,077,965</u>	 <u>7,077,965</u>	 <u>6,800,249</u>	 <u>(277,716)</u>
 Excess (deficiency) of revenues over expenditures	 <u>\$ 70,000</u>	 <u>\$ 70,000</u>	 <u>\$ 1,014,493</u>	 <u>\$ 944,493</u>

SUPPLEMENTARY INFORMATION

**CITY OF PARIS, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017**

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 122,194	\$ -	\$ 122,194
Accounts receivable	21,313	-	21,313
Total assets	\$ 143,507	\$ -	\$ 143,507
 LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund balance			
Restricted	143,507	-	143,507
Total fund balance	\$ 143,507	\$ -	\$ 143,507

CITY OF PARIS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 196,529	\$ -	\$ 196,529
Other revenues	1,587	-	1,587
Total revenues	198,116	-	198,116
EXPENDITURES			
Public works	1,943	-	1,943
Capital outlay	198,818	-	198,818
Debt service	-	153,735	153,735
Total expenditures	200,761	153,735	354,496
Excess revenues over (under) expenditures before other financing sources (uses)	(2,645)	(153,735)	(156,380)
OTHER FINANCING SOURCES (USES)			
Operating transfer, net	-	153,735	153,735
Total other financing sources (uses)	-	153,735	153,735
Net change in fund balances	(2,645)	-	(2,645)
Fund balances - July 1, 2016	146,152	-	146,152
FUND BALANCES - JUNE 30, 2017	\$ 143,507	\$ -	\$ 143,507

**CITY OF PARIS, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
COMBINED UTILITY FUND
for the year ended June 30, 2017**

UTILITY ADMINISTRATION AND SPECIAL PROJECTS

Personnel services	\$ 444,796
Contractual services	240,186
Materials and supplies	15,036
Other expenses	22,546
Payment in lieu of taxes	<u>360,000</u>

Total utility administration and special projects 1,082,564

ELECTRIC DEPARTMENT

Personnel services	576,015
Electric purchases	4,144,995
Contractual services	232,146
Materials and supplies	<u>195,205</u>

Total electric department 5,148,361

WATER DISTRIBUTION

Personnel services	1,039,295
Contractual services	146,659
Materials and supplies	339,813
Other expenses	<u>3,639</u>

Total water distribution 1,529,406

SEWER TREATMENT

Personnel services	577,946
Contractual services	330,259
Materials and supplies	<u>126,787</u>

Total sewer treatment 1,034,992

SANITATION

Personnel services	372,838
Contractual services	538,746
Materials and supplies	94,834
Recycling center	<u>196,363</u>

Total sanitation 1,202,781

DEPRECIATION

911,619

Total operating expenses \$ 10,909,723



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

Mayor and Commissioners
City of Paris
Paris, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of and for the year ended June 30, 2017, 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 17, 2018.

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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (2017-001, 2017-002, 2017-003, 2017-004).

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 responses. The 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 17, 2018

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

#2017-001

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 having to prepare accounting journal entries to complete the FY audit. During the period covered by the audit the City went through a management transition period that led to a lapse in financial oversight. However, a new City Manager was employed during the final quarter of FY '17 and upon hiring began a review of current fiscal practices. This review has led to new policies being adopted that should address the weakness. Additionally, the City has contracted with an outside accounting firm to provide additional oversight of the city finances and to provide the leadership required to address the concerns addressed in this finding.

#2017-002

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:

Management did not track accounts receivable adequately throughout the year. Accounts receivable from customers was not reconciled. Accounts payable was 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 until during the audit process.

Effect:

Transactions were identified that were not recorded in the proper accounting period.

Recommendation:

We recommend that accounts receivable and payable 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:

A new City Manager was employed during the final quarter of FY '17. Upon appointment, the City Manager began a review of current fiscal practices. 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.

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

#2017-003

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, now has in place the expertise 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.

#2017-004

Criteria:

Customer deposits are reflected in the utility fund as a liability.

Condition:

The City did not track the customer deposit liability during the year.

Cause:

The City did not have adequate internal controls in place over customer deposits.

Effect:

A restatement was required to correct the liability for customer deposits.

Recommendation:

We recommend that the City review customer deposits on a monthly basis, and reconcile the customer deposit listing to the general ledger. 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 is working with its current software provider, that automates the tracking of utility deposits, to identify why utility deposits are not accurately being reflected in the proper accounts. Additionally, staff are scheduled for retraining this Spring on the functionality and use of the software and how to identify error codes when they occur. Policies and procedures to ensure accurate accounting of the utility deposits, with a review by someone other than the person responsible for the reconciliation, are being implemented in FY '18.

PRIOR AUDIT FINDINGS

Findings 2017-001 through 2017-003 are repeat findings from the fiscal year 2016 audit.