

CITY OF PARIS
Paris, Kentucky

FINANCIAL STATEMENTS
June 30, 2016

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.....	18-33
Required Supplementary Information	
Pension Schedules	34-37
Budget Information.....	38
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds.....	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	40
Schedule of Operating Expenses – Combined Utility Fund.....	41
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>	42-45



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 City Paris, Kentucky, as of and for the year ended June 30, 2016, 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, 2016, 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 34-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paris, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements and the utility schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, and the schedule of operating expenses - utility fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of operating expenses - utility fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

We have previously audited the City's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated March 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2017, 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
June 8, 2017

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, 2016. 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 2015 – 2016.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Government</u>
Current and Other Assets			
And Deferred outflows	\$ 4,894,222	\$ 2,796,060	\$ 7,690,282
Capital Assets	<u>5,708,867</u>	<u>10,697,363</u>	<u>16,406,230</u>
Total Assets			
And Deferred outflows	10,603,089	13,493,423	24,096,512
Non-Current Liabilities			
And Deferred inflows	7,332,224	7,837,374	15,169,598
Current Liabilities	<u>575,800</u>	<u>2,092,686</u>	<u>2,668,486</u>
Total Liabilities			
And Deferred inflows	7,908,024	9,930,060	17,838,084
Net Position			
Net Invested in			
Capital Assets	5,488,791	6,141,429	11,630,220
Restricted	199,960	344,504	544,464
Unrestricted	<u>(2,993,686)</u>	<u>(2,922,570)</u>	<u>(5,916,256)</u>
Total Net Position	<u>\$ 2,695,065</u>	<u>\$ 3,563,363</u>	<u>\$ 6,258,428</u>

The capital assets of the City's **governmental activities** increased from \$5,571,552 in 2015 to \$5,708,300 in 2016. 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** increased from \$10,590,332 in 2015 to \$10,697,363 in 2016. This increase was due to capital additions exceeding depreciation 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	\$ -	\$ 10,346,225	\$ 10,346,225
<u>General Revenue</u>			
Tax	804,766		804,766
Licenses	5,654,646		5,654,646
Intergovernmental	500,068		500,068
Fines & Forfeits	968		968
Other Revenue	<u>190,051</u>	<u>598,019</u>	<u>788,070</u>
Total Revenue	<u>7,150,499</u>	<u>10,944,244</u>	<u>18,094,743</u>
<u>Program Expenses</u>			
City Commission	510,465		510,465
General Government	1,430,445		1,430,445
Public safety-Police	2,241,740		2,241,740
Public safety-Fire	1,893,461		1,893,461
Public works-Streets	704,804		704,804
Inspection, engineering	135,826		135,826
Interest on long-term debt	4,962		4,962
Electric		5,924,539	5,924,539
Sanitation		1,349,608	1,349,608
Water		2,010,166	2,010,166
Sewer		<u>1,872,412</u>	<u>1,872,412</u>
Total Program Expense	<u>6,921,703</u>	<u>11,156,724</u>	<u>18,078,427</u>
Net Change in Net Position	<u>\$ 228,796</u>	<u>\$ (212,480)</u>	<u>\$ 16,316</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	\$ 804,766
Licenses and permits	5,654,646
Intergovernmental	500,068
Fines & forfeits	968
Other revenues	<u>190,051</u>
Total Revenues	7,150,499
City Commission	501,565
General administration	1,211,158
Public safety-Police	1,961,014
Public safety-Fire	1,584,216
Public works-Streets	612,207
Inspection, engineering, & parks	130,793
Capital outlay	665,064
Debt service	<u>198,173</u>
Total Expenditures	<u>6,864,190</u>
Excess Revenues over Expenditures before other Financing sources	 <u>\$ 286,309</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	\$ 710,000	\$ 804,766	\$ 94,766
Licenses and permits	5,202,000	5,654,646	452,646
Intergovernmental	360,000	324,510	(35,490)
Fines & Forfeit	1,000	968	(32)
Other Revenues	<u>593,125</u>	<u>188,187</u>	<u>(404,938)</u>
Total Revenues	<u>\$ 6,866,125</u>	<u>\$ 6,973,077</u>	<u>\$ 106,952</u>

Table A-5

Condensed Governmental Activities- Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Gov't & Capital			
Budgeting	\$2,317,125	\$2,123,873	\$ (193,252)
Public Safety- Police	2,025,000	1,961,014	(63,986)
Public Safety- Fire	1,422,000	1,584,216	162,216
Public Works- Streets	<u>558,000</u>	<u>612,207</u>	<u>54,207</u>
Total Expenditures	<u>\$6,322,125</u>	<u>\$6,281,310</u>	<u>\$ (40,815)</u>

The City budgeted for a total of \$6,866,125 in revenues for 2016, but ended up having revenues of \$6,973,077. The City was over budget on revenues by \$106,952.

A total of \$6,322,125 was budgeted for expenditures, but expenditures totaled \$6,281,310 at the end of 2016. The City was under budget on the expenditures by \$40,815.

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
Infrastructure	3,265,409	-	3,265,409
Buildings	3,517,759	-	3,517,759
Vehicles	3,351,445	-	3,351,445
Equipment	930,744	3,161,331	4,092,075
Electric System	-	9,107,748	9,107,748
Water System	-	7,914,557	7,914,557
Sewer System	-	<u>17,467,665</u>	<u>17,467,665</u>
 Total Capital Assets	 <u>\$12,032,336</u>	 <u>\$ 37,660,301</u>	 <u>\$ 49,692,637</u>

DEBT

Table A-7 provides a summary of all the City's outstanding indebtedness as of the end of FY 2016.

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	\$ 40,342	\$ 79,321	\$ 119,663
Notes Payable	-	1,639,252	1,639,252
Bond Payable	<u>179,167</u>	<u>2,324,165</u>	<u>2,503,332</u>
 Total Debt Outstanding	 <u>\$ 219,509</u>	 <u>\$ 4,042,738</u>	 <u>\$ 4,262,247</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 2016 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, 2016

	Primary Government			2015 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,932,678	\$ 801,911	\$ 2,734,589	\$ 2,481,136
Receivables, net	1,369,056	887,216	2,256,272	2,544,211
Internal balances	79,218	(79,218)	-	-
Total current assets	<u>3,380,952</u>	<u>1,609,909</u>	<u>4,990,861</u>	<u>5,025,347</u>
Noncurrent assets				
Restricted cash and cash equivalents	146,152	344,504	490,656	646,614
Capital assets				
Land and improvements	966,979	64,802	1,031,781	1,031,781
Depreciable infrastructure, net	2,484,420	-	2,484,420	2,243,893
Depreciable buildings, property, and equipment, net	2,256,901	10,119,365	12,376,266	12,811,210
Construction in progress	-	-	-	75,000
Other assets	567	513,196	513,763	555,058
Total noncurrent assets	<u>5,855,019</u>	<u>11,041,867</u>	<u>16,896,886</u>	<u>17,363,556</u>
Total assets	<u>9,235,971</u>	<u>12,651,776</u>	<u>21,887,747</u>	<u>22,388,903</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	1,367,118	841,647	2,208,765	793,038
Total assets and deferred outflows of resources	<u>\$ 10,603,089</u>	<u>\$ 13,493,423</u>	<u>\$ 24,096,512</u>	<u>\$ 23,181,941</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 96,968	\$ 928,386	\$ 1,025,354	\$ 1,455,636
Accrued leave payable	326,407	331,048	657,455	671,188
Accrued liabilities	-	10,441	10,441	10,441
Other liabilities	-	289,023	289,023	283,344
Current portion of long-term obligations	152,425	533,788	686,213	718,679
Total current liabilities	<u>575,800</u>	<u>2,092,686</u>	<u>2,668,486</u>	<u>3,139,288</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	67,084	3,508,950	3,576,034	4,267,595
Net pension liability	7,245,105	4,306,418	11,551,523	8,755,945
Total noncurrent liabilities	<u>7,312,189</u>	<u>7,815,368</u>	<u>15,127,557</u>	<u>13,056,540</u>
Total liabilities	<u>7,887,989</u>	<u>9,908,054</u>	<u>17,796,043</u>	<u>16,195,828</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	20,035	22,006	42,041	744,001
NET POSITION				
Net investment in capital assets	5,488,791	6,141,429	11,630,220	11,175,610
Restricted for:				
Debt service	-	218,192	218,192	534,429
Other purposes	199,960	126,312	326,272	353,437
Unrestricted	(2,993,686)	(2,922,570)	(5,916,256)	(5,821,364)
Total net position	<u>2,695,065</u>	<u>3,563,363</u>	<u>6,258,428</u>	<u>6,242,112</u>
Total liabilities, deferred inflows, and net position	<u>\$ 10,603,089</u>	<u>\$ 13,493,423</u>	<u>\$ 24,096,512</u>	<u>\$ 23,181,941</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, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2015 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
City commission	\$ 510,465	\$ -	\$ -	\$ -	\$ (510,465)	\$ -	\$ (510,465)	\$ (389,827)
General government	1,430,445	-	84,038	-	(1,346,407)	-	(1,346,407)	(1,531,229)
Public safety-police	2,241,740	-	125,960	-	(2,115,780)	-	(2,115,780)	(1,919,403)
Public safety-fire	1,893,461	-	114,512	-	(1,778,949)	-	(1,778,949)	(1,557,865)
Public works	704,804	-	-	175,558	(529,246)	-	(529,246)	(456,404)
Engineering and planning & zoning	135,826	-	-	-	(135,826)	-	(135,826)	(225,976)
Interest on long-term debt	4,962	-	-	-	(4,962)	-	(4,962)	(17,301)
Total governmental activities	6,921,703	-	324,510	175,558	(6,421,635)	-	(6,421,635)	(6,098,005)
Business-type activities								
Electric	5,924,539	5,913,358	-	-	-	(11,181)	(11,181)	33,463
Sanitation	1,349,608	968,683	-	-	-	(380,925)	(380,925)	(393,570)
Water	2,010,166	1,582,485	-	-	-	(427,681)	(427,681)	426,266
Sewer	1,872,412	1,881,699	-	-	-	9,287	9,287	(275,979)
Total business-type activities	11,156,724	10,346,225	-	-	-	(810,499)	(810,499)	(209,820)
Total primary government	\$ 18,078,427	\$ 10,346,225	\$ 324,510	\$ 175,558	(6,421,635)	(810,499)	(7,232,134)	(6,307,825)
General revenues								
Taxes								
Property taxes, levied for general purposes					804,766	-	804,766	1,170,471
License fees:								
Franchise					182,841	-	182,841	177,122
Payroll					3,134,958	-	3,134,958	3,076,235
Insurance premiums					1,647,776	-	1,647,776	1,623,383
Net profit					668,762	-	668,762	607,826
Other licenses and permits					20,309	-	20,309	24,237
Fines and forfeits					968	-	968	830
Investment earnings					14,648	8,683	23,331	21,430
Rents					128,898	61,654	190,552	190,010
Miscellaneous					46,505	527,682	574,187	238,552
Total general revenues					6,650,431	598,019	7,248,450	7,130,096
(Loss) on disposal of assets					-	-	-	(3,800)
Change in net position					228,796	(212,480)	16,316	818,471
Net position-beginning					2,466,269	3,775,843	6,242,112	5,423,641
NET POSITION-ENDING					\$ 2,695,065	\$ 3,563,363	\$ 6,258,428	\$ 6,242,112

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

**CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	General	Other Governmental Funds	Total Governmental Funds	2015 Totals
ASSETS				
Cash and cash equivalents	\$ 1,932,678	\$ 146,152	\$ 2,078,830	\$ 2,263,351
Receivables, net	1,369,056	-	1,369,056	1,374,731
Due from other funds	79,218	-	79,218	48,101
Other assets	567	-	567	567
Total assets	\$ 3,381,519	\$ 146,152	\$ 3,527,671	\$ 3,686,750
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 96,968	\$ -	\$ 96,968	\$ 396,521
Accrued leave payable	326,407	-	326,407	472,242
Total liabilities	423,375	-	423,375	868,763
Fund Balances				
Restricted	53,808	146,152	199,960	353,437
Unassigned	2,904,336	-	2,904,336	2,464,550
Total fund balances	2,958,144	146,152	3,104,296	2,817,987
Total liabilities and fund balances	\$ 3,381,519	\$ 146,152	\$ 3,527,671	\$ 3,686,750
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:				
Fund balances per above			\$ 3,104,296	\$ 2,817,987
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,708,300	5,571,552
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.			1,347,083	38,155
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.			(7,464,614)	(5,961,425)
Net position of governmental activities			\$ 2,695,065	\$ 2,466,269

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, 2016

	General	Other Governmental Funds	Total Governmental Funds	2015 Totals
REVENUES				
Taxes	\$ 804,766	\$ -	\$ 804,766	\$ 1,170,471
Licenses and permits	5,654,646	-	5,654,646	5,508,803
Fees and fines	968	-	968	830
Intergovernmental	324,510	175,558	500,068	484,746
Other revenues	188,187	1,864	190,051	169,985
Total revenues	6,973,077	177,422	7,150,499	7,334,835
EXPENDITURES				
Current				
City commission	501,565	-	501,565	389,427
General administration	1,211,158	-	1,211,158	1,425,662
Public safety-Police	1,961,014	-	1,961,014	2,042,550
Public safety-Fire	1,584,216	-	1,584,216	1,545,815
Public works	612,207	-	612,207	584,763
Engineering and planning & zoning	130,793	-	130,793	217,823
Capital outlay	280,357	384,707	665,064	463,467
Debt service	-	198,173	198,173	208,232
Total expenditures	6,281,310	582,880	6,864,190	6,877,739
Excess (deficiency) of revenues over expenditures	691,767	(405,458)	286,309	457,096
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(198,173)	198,173	-	-
Total other financing sources (uses)	(198,173)	198,173	-	-
Net change in fund balances	493,594	(207,285)	286,309	457,096
Fund balances-beginning	2,464,550	353,437	2,817,987	2,360,891
Fund balances-ending	\$ 2,958,144	\$ 146,152	\$ 3,104,296	\$ 2,817,987
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 286,309	\$ 457,096
add: capital outlay expenditures			665,064	463,467
add: debt service expenditures			198,173	208,232
less: loss on disposal of assets			-	(3,800)
less: depreciation on governmental activities assets			(528,316)	(531,237)
change in net pension liability			(387,472)	171,827
less: interest on long-term debt			(4,962)	(17,301)
Change in net position Governmental Activities			\$ 228,796	\$ 748,284

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

**CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016**

	Business-Type Activities Utility Fund	2015 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 801,911	\$ 217,785
Receivables, net	887,216	1,169,480
Total current assets	1,689,127	1,387,265
Noncurrent assets		
Restricted cash and cash equivalents	344,504	646,614
Other assets	513,196	554,491
Capital assets		
Utility systems	37,660,301	37,138,027
Less accumulated depreciation	(27,476,134)	(26,547,695)
Total non current assets	11,041,867	11,791,437
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	841,647	300,312
Total assets and deferred outflows of resources	\$ 13,572,641	\$ 13,479,014
LIABILITIES		
Current liabilities		
Accounts payable	\$ 928,386	\$ 1,059,115
Meter deposits	289,023	283,344
Accrued leave payable	331,048	198,946
Accrued interest payable	10,441	10,441
Due to other funds	79,218	48,101
Current portion of long-term debt	533,788	534,927
Total current liabilities	2,171,904	2,134,874
Noncurrent liabilities		
Bonds, notes and loans payable	3,508,950	4,038,627
Net pension liability	4,306,418	3,240,240
Total liabilities	9,987,272	9,413,741
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	22,006	289,430
NET POSITION		
Invested in capital assets	6,141,429	6,016,778
Restricted for debt service	218,192	625,429
Restricted for other purposes	126,312	21,185
Unrestricted	(2,922,570)	(2,887,549)
Total net position	3,563,363	3,775,843
Total liabilities, deferred inflows of resources, and net position	\$ 13,572,641	\$ 13,479,014

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, 2016

	Business-type Activities Utility Fund	2015 Totals
Operating revenues		
Charges for services	\$ 10,346,225	\$ 10,293,341
Total operating revenues	10,346,225	10,293,341
Operating expenses		
Utility administration	1,006,615	1,404,668
Electric department	5,374,419	5,240,053
Water distribution	1,514,870	1,258,922
Sewer treatment	1,167,364	1,179,682
Sanitation	1,008,845	912,026
Depreciation	928,439	953,486
Total operating expenses	11,000,552	10,948,837
Operating income (loss)	(654,327)	(655,496)
Nonoperating revenues (expenses)		
Grant revenue	-	719,271
Rental income	61,654	54,954
Miscellaneous revenue	527,682	54,174
Interest and investment revenue	8,683	8,820
Interest expense	(156,172)	(111,536)
Total nonoperating revenue (expenses)	441,847	725,683
Change in net position	(212,480)	70,187
Total net position-beginning	3,775,843	3,705,656
TOTAL NET POSITION-ENDING	\$ 3,563,363	\$ 3,775,843

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, 2016**

	Business-Type Activities Utility Fund	2015 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 10,367,293	\$ 10,223,805
Payments to suppliers	(7,488,808)	(7,629,320)
Payments for employee services and benefits	<u>(2,283,218)</u>	<u>(2,280,699)</u>
Net cash provided by operating activities	<u>595,267</u>	<u>313,786</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Net receipts under interfund agreements	<u>31,117</u>	<u>20,686</u>
Net cash provided by non-capital and related financing activities	<u>31,117</u>	<u>20,686</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(522,274)	(1,294,857)
Principal payments on bonds, notes, and loans payable	(530,816)	(550,008)
Proceeds from note payable	-	37,982
Proceeds from issuance of bond	-	300,000
Interest paid on capital debt	(156,172)	(113,298)
Miscellaneous receipts	760,286	(178,430)
Rental income	61,654	54,954
Grant proceeds	<u>34,271</u>	<u>685,000</u>
Net cash (used in) capital and related financing activities	<u>(353,051)</u>	<u>(1,058,657)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>8,683</u>	<u>8,820</u>
Net cash provided by investing activities	<u>8,683</u>	<u>8,820</u>
Net increase (decrease) in cash and cash equivalents	282,016	(715,365)
Balances-beginning of the year	<u>864,399</u>	<u>1,579,764</u>
BALANCES-END OF THE YEAR	<u><u>\$ 1,146,415</u></u>	<u><u>\$ 864,399</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (654,327)	\$ (655,496)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation expense	928,439	953,486
Change in assets and liabilities:		
Receivables, net	15,389	(83,947)
Inventory	41,295	79,054
Customer deposits	5,679	14,411
Accounts and other payables	(130,729)	90,905
Net pension liability	257,419	(113,213)
Accrued expenses	<u>132,102</u>	<u>28,586</u>
Net cash provided by operating activities	<u><u>\$ 595,267</u></u>	<u><u>\$ 313,786</u></u>

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Government-wide Financial Statements

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

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, 2016

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, 2016

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 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, 2016

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 \$90,000 for the year ended June 30, 2016.

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 \$31,521 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, 2016

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 June 8, 2017, 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, 2016, 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, 2016 were fully covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The book balances of the City's deposits were \$3,225,245 and the bank balances were \$3,702,555. Bank balances of \$700,255 were covered by FDIC insurance, and \$3,002,300 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	\$ 1,219,764	\$ -	\$ 1,219,764
Intergovernmental	119,484	-	119,484
Other	<u>29,808</u>	<u>-</u>	<u>29,808</u>
Total	<u>\$ 1,369,056</u>	<u>\$ -</u>	<u>\$ 1,369,056</u>
<u>Utility Fund</u>			
<u>Business-Type Fund</u>			
Charges for service	\$ 912,021		
Other	<u>6,716</u>		
Gross receivable	918,737		
Less allowance for uncollectable	<u>(31,521)</u>		
Total	<u>\$ 887,216</u>		

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

4. CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2015	Additions	Deletions	June 30, 2016
<u>Governmental Activities</u>				
Capital assets not depreciated:				
Land and Improvements	\$ 966,979	\$ -	\$ -	\$ 966,979
Construction in progress	<u>75,000</u>	<u>-</u>	<u>75,000</u>	<u>-</u>
Capital assets that are depreciated:				
Building and Improvements	3,367,948	149,811	-	3,517,759
Vehicles	3,199,043	152,401	-	3,351,445
Equipment	<u>877,599</u>	<u>53,145</u>	<u>-</u>	<u>930,744</u>
Total Building, Vehicle, & Equipment	<u>7,444,590</u>	<u>355,357</u>	<u>-</u>	<u>7,799,947</u>
Total Non-Infrastructure Assets	<u>8,486,568</u>	<u>355,357</u>	<u>75,000</u>	<u>8,766,926</u>
Recording infrastructure Assets:				
Infrastructure Assets	<u>2,880,702</u>	<u>384,707</u>	<u>-</u>	<u>3,265,409</u>
Total Capital Assets	<u>11,367,270</u>	<u>740,064</u>	<u>75,000</u>	<u>12,032,335</u>
Less Accumulated Depreciation:				
Building and Improvements	1,966,034	91,431	-	2,057,465
Vehicles	2,492,474	237,213	-	2,729,687
Equipment	700,402	55,492	-	755,894
Infrastructure Assets	<u>636,809</u>	<u>144,180</u>	<u>-</u>	<u>780,989</u>
Totals	<u>5,795,719</u>	<u>528,316</u>	<u>-</u>	<u>6,324,035</u>
Capital Assets, net	<u>\$ 5,571,552</u>	<u>\$ 211,748</u>	<u>\$ 75,000</u>	<u>\$ 5,708,300</u>
<u>Business-Type Activities</u>				
Equipment and Vehicles	\$ 3,161,331	\$ -	\$ -	\$ 3,161,331
Electric Lines, Poles, and Plant	9,037,520	70,228	-	9,107,748
Water Treatment Plant, Land and Water System Improvements	7,871,248	43,309	-	7,914,557
Sewer Treatment Plant, Land and Improvements	<u>17,067,928</u>	<u>408,737</u>	<u>-</u>	<u>17,467,665</u>
Totals	<u>37,138,027</u>	<u>522,274</u>	<u>-</u>	<u>37,660,301</u>
Less Accumulated Depreciation	<u>26,547,695</u>	<u>928,439</u>	<u>-</u>	<u>27,476,134</u>
Capital Assets, net	<u>\$ 10,590,332</u>	<u>\$ (406,165)</u>	<u>\$ -</u>	<u>\$ 10,184,167</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 196,000	Electric department	\$ 259,423
Police	126,168	Water department	204,599
Fire	130,472	Sewer department	414,351
Parks and recreation	8,153	Sanitation	50,066
Public works	<u>67,523</u>	Total depreciation expense	<u>\$ 928,439</u>
Total depreciation expense	<u>\$ 528,316</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. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT

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

	Balance			Balance
	June 30, 2015	Additions	Deletions	June 30, 2016
Kentucky Infrastructure Loan	\$ 1,985,925	\$ -	\$ (346,673)	\$ 1,639,252
PNC Bank Equipment Finance	66,929	-	(30,551)	36,378
BB&T Equipment Finance	51,468	-	(34,161)	17,307
Bobcat Loan	37,982	-	(12,346)	25,636
2014 KY Bond Corp Lease	2,131,250	-	(107,085)	2,024,165
2014 Water Revenue Bonds	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
	<u>\$ 4,573,554</u>	<u>\$ -</u>	<u>\$ (530,816)</u>	<u>\$ 4,042,738</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Kentucky Infrastructure Loan

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

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

	Principal	Interest	Service Fee	Total
2017	\$ 352,941	\$ 31,073	\$ 3,102	\$ 387,116
2018	359,323	24,749	3,293	387,365
2019	365,819	18,310	1,672	385,801
2020	372,434	11,755	937	385,126
2021	<u>188,735</u>	<u>3,382</u>	<u>189</u>	<u>192,306</u>
Total	<u>\$ 1,639,252</u>	<u>\$ 89,269</u>	<u>\$ 9,193</u>	<u>\$ 1,737,714</u>

Lease Payable

The City of Paris entered into a long-term financing agreement with PNC Equipment Finance for a Terex Telelect C5048 Digger Derrick during fiscal year ended June 30, 2011. The cost of the equipment was approximately \$220,000 with bi-annual payments of \$18,876 beginning in July 2010. The lease matures in January 2017 and bears interest at a rate of approximately 2%. The Digger Derrick, which as of June 30, 2016, had a net book value of \$87,866, is collateral on the lease.

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

	Principal	Interest	Total
2017	<u>\$ 36,378</u>	<u>\$ 1,372</u>	<u>\$ 37,750</u>

Lease Payable

The City of Paris entered into a long-term financing agreement with Bluegrass Bank & Trust for an International Garbage Truck during fiscal year ended June 30, 2013. The cost of the truck was approximately \$134,287 with 48 payments of \$2,899 beginning in January of 2013. The lease matures in December 2016 and bears interest at a rate of approximately 1.76%. The Garbage Truck, which as of June 30, 2016, had a net book value of \$57,551, is collateral on the lease.

	Principal	Interest	Total
2017	<u>\$ 17,307</u>	<u>\$ 89</u>	<u>\$ 17,396</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Loan Payable

The City of Paris entered into a long term financing agreement with Kentucky Bank for an S650 T4 Bobcat during the fiscal year ended June 30, 2015. The cost of the truck was approximately \$37,982 with monthly payments of \$1,097 beginning in July of 2015. The loan matures in June of 2018 and bears interest at an annual rate of 2.5%.

	Principal	Interest	Total
2017	\$ 12,658	\$ 497	\$ 13,155
2018	<u>12,978</u>	<u>176</u>	<u>13,154</u>
Total	<u>\$ 25,636</u>	<u>\$ 673</u>	<u>\$ 26,309</u>

Lease Payable

The City of Paris entered into a \$2,275,000 lease agreement with the Kentucky Bond Corporation in February 2014 to refinance the City's 2006 bond with the Rural Development Authority, make modifications to diesel generators at the City's power plant, and to make repairs to the Lexington Road lift station. The note accrues interest at 3.29%, requires varying monthly payments ranging from \$14,197 to \$17,606, and is to mature in 2032. Also, \$91,000 of the proceeds were set aside in a debt service reserve fund for payments due in February 2029 through January 2030.

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

	Principal	Interest	Service Fee	Total
2017	\$ 110,004	\$ 61,197	\$ 5,513	\$ 176,714
2018	112,084	59,001	5,237	176,322
2019	114,996	56,760	4,956	176,712
2020	117,083	54,457	4,668	176,208
2021	120,000	51,987	4,375	176,362
2022-2026	518,333	150,129	14,595	683,057
2027-2031	846,665	106,355	8,344	961,364
2032	<u>85,000</u>	<u>34,000</u>	<u>663</u>	<u>119,663</u>
Total	<u>\$ 2,024,165</u>	<u>\$ 573,886</u>	<u>\$ 48,531</u>	<u>\$ 2,646,402</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Bonds Payable

The City of Paris entered into a \$300,000 lease agreement with the Kentucky Infrastructure Authority to help finance a construction project consisting of extensions, additions, and improvements to the existing water system of the City. Interest on the bond is payable semiannually with principal installments being payable in January 2017 through January 2054. The bond accrues interest at a rate of 2.75%.

	Principal	Interest	Total
2017	\$ 4,500	\$ 8,250	\$ 12,750
2018	4,500	8,119	12,619
2019	5,000	7,984	12,984
2020	5,000	7,845	12,845
2021	5,000	7,702	12,702
2022-2026	27,500	36,238	63,738
2027-2031	31,500	32,043	63,543
2032-2036	36,000	27,239	63,239
2037-2041	42,000	21,736	63,736
2042-2046	47,500	15,435	62,935
2047-2051	54,500	8,218	62,718
2052-2054	<u>37,000</u>	<u>5,045</u>	<u>42,045</u>
	<u>\$ 300,000</u>	<u>\$ 185,854</u>	<u>\$ 485,854</u>

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

Current portion	\$ 533,788
Long-term portion	<u>3,508,950</u>
Total	<u>\$ 4,042,738</u>

6. GOVERNMENT ACTIVITIES - LONG-TERM DEBT

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

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Kentucky Bond Corporation	\$ 286,250	\$ -	\$ (107,083)	\$ 179,167
BB&T Lease	<u>126,470</u>	<u>-</u>	<u>(86,128)</u>	<u>40,342</u>
	<u>\$ 412,720</u>	<u>\$ -</u>	<u>\$ (193,211)</u>	<u>\$ 219,509</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

Kentucky Bond Corporation

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

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

	Principal	Interest	Fees	Total
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>\$ 179,167</u>	<u>\$ 7,387</u>	<u>\$ 1,328</u>	<u>\$ 187,882</u>

Branch Bank & Trust (BB&T) Lease

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

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

	Principal	Interest	Total
2017	<u>\$ 40,342</u>	<u>\$ 199</u>	<u>\$ 40,541</u>

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

Current portion	\$ 152,425
Long-term portion	<u>67,084</u>
Total	<u>\$ 219,509</u>

7. 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.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

8. 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, 2016, 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 are 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.06% of each employee's wages for non-hazardous job classifications and 32.95% 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.

For the year ended June 30, 2016, the City contributed \$638,461, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$464,886 to the CERS pension fund and \$173,575 to the CERS insurance fund. The City contributed \$498,369, or 100% of the required contribution for hazardous job classifications, which was allocated \$306,301 to the CERS pension fund and \$192,068 to the CERS insurance fund.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

8. RETIREMENT PLAN (CONTINUED)

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+ and sum of service years plus age equal 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+ and sum of service years plus age equal 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, 2016, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
\$ 11,551,523	\$ 6,665,841	\$ 4,895,682

The net pension liability was measured as of June 30, 2015, 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, 2015 was as follows:

Non-hazardous	Hazardous
.1548%	.3190%

The proportionate share at June 30, 2015 increased .0035% for non-hazardous and a .0040% decrease for hazardous to the proportionate share as of June 30, 2014.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

8. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2016, the City recognized pension expense of \$644,892. At June 30, 2016, 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	\$ 161,643	\$ -
Changes of assumptions	1,094,236	-
Net difference between projected and actual earnings on Plan investments	90,412	-
Changes in proportion and differences between City contributions and proportionate share of contributions	91,287	42,041
City contributions subsequent to the measurement date	<u>771,187</u>	<u>-</u>
Total	<u>\$ 2,208,765</u>	<u>\$ 42,041</u>

The \$771,187 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, 2016. 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,

2017		\$ 415,202
2018		415,202
2019		255,558
2020		309,575

Actuarial Assumptions – The total pension liability in the June 30, 2015 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, 2016

8. RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2015 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, 2016

8. 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%	\$ 8,497,013	6.50%	\$ 6,266,646
Current discount rate	7.50%	\$ 6,655,841	7.50%	\$ 4,895,682
1% increase	8.50%	\$ 5,079,048	8.50%	\$ 3,759,818

9. PROPERTY TAX CALENDER

Property taxes for fiscal year 2016 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2015 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

10. RISK MANAGEMENT

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

11. RECLASSIFICATIONS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	2014	2015	2016
City's proportion of the net pension liability	0.1513%	0.1513%	0.1548%
City's proportionate share of the net pension liability (asset)	\$ 5,540,969	\$ 4,908,008	\$ 6,655,841
City's covered employee payroll	\$ 3,464,140	\$ 3,578,212	\$ 3,731,788
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	159.95%	137.16%	178.36%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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

	2014	2015	2016
City's proportion of the net pension liability	0.3229%	0.3229%	0.3189%
City's proportionate share of the net pension liability (asset)	\$ 4,318,002	\$ 3,880,937	\$ 4,895,682
City's covered employee payroll	\$ 1,634,497	\$ 1,631,230	\$ 1,486,407
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	264.18%	237.91%	329.36%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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

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

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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

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

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

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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

CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2016

	Enacted Budget	Amended Budget	Actual	Over (Under) Budget
REVENUE				
Taxes	\$ 710,000	\$ 710,000	\$ 804,766	\$ 94,766
Licenses and permits	5,202,000	5,202,000	5,654,646	452,646
Fines and forfeits	1,000	1,000	968	(32)
Intergovernmental	360,000	360,000	324,510	(35,490)
Other revenues	593,125	593,125	188,187	(404,938)
Total revenues	6,866,125	6,866,125	6,973,077	106,952
EXPENDITURES				
Current				
City commission	366,000	366,000	501,565	135,565
General administration	1,402,000	1,402,000	1,211,158	(190,842)
Engineering and Planning & Zoning	313,125	313,125	130,793	(182,332)
Public safety-police	2,025,000	2,025,000	1,961,014	(63,986)
Public safety-fire	1,422,000	1,422,000	1,584,216	162,216
Public works	558,000	558,000	612,207	54,207
Capital outlay	236,000	236,000	280,357	44,357
Total expenditures	6,322,125	6,322,125	6,281,310	(40,815)
Excess (deficiency) of revenues over expenditures	\$ 544,000	\$ 544,000	\$ 691,767	\$ 147,767

SUPPLEMENTARY INFORMATION

**CITY OF PARIS, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016**

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 146,152	\$ -	\$ 146,152
Accounts receivable	-	-	-
Due from other funds	-	-	-
Total assets	\$ 146,152	\$ -	\$ 146,152
 LIABILITIES & FUND BALANCE			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund balance			
Restricted	146,152	-	146,152
Total fund balance	\$ 146,152	\$ -	\$ 146,152

CITY OF PARIS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 175,558	\$ -	\$ 175,558
Other revenues	1,864	-	1,864
Total revenues	177,422	-	177,422
EXPENDITURES			
Capital outlay	384,707	-	384,707
Debt service	-	198,173	198,173
Total expenditures	384,707	198,173	582,880
Excess revenues over (under) expenditures before other financing sources (uses)	(207,285)	(198,173)	(405,458)
OTHER FINANCING SOURCES (USES)			
Operating transfer, net	-	198,173	198,173
Total other financing sources (uses)	-	198,173	198,173
Net change in fund balances	(207,285)	-	(207,285)
Fund balances - July 1, 2015	353,437	-	353,437
FUND BALANCES - JUNE 30, 2016	\$ 146,152	\$ -	\$ 146,152

CITY OF PARIS, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
UTILITY FUND
for the year ended June 30, 2016

UTILITY ADMINISTRATION & SPECIAL PROJECTS

Personnel services	\$ 374,685
Contractual services	456,069
Materials and supplies	45,306
Other expenses	40,555
Payment in lieu of taxes	<u>90,000</u>

Total utility administration & special projects 1,006,615

ELECTRIC DEPARTMENT

Personnel services	649,594
Electric purchases	4,242,684
Contractual services	291,619
Materials and supplies	<u>190,522</u>

Total electric department 5,374,419

WATER DISTRIBUTION

Personnel services	951,607
Contractual services	237,346
Materials and supplies	314,155
Other expenses	<u>11,762</u>

Total water distribution 1,514,870

SEWER TREATMENT

Personnel services	619,565
Contractual services	375,702
Materials and supplies	<u>172,097</u>

Total sewer treatment 1,167,364

SANITATION

Personnel services	374,180
Contractual services	442,666
Materials and supplies	66,813
Recycling center	<u>125,186</u>

Total sanitation 1,008,845

DEPRECIATION

928,439

Total operating expenses \$ 11,000,552



CPAs | Consultants

**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, 2016, 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 June 8, 2017.

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 questioned costs that we consider to be material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (2016-001, 2016-002, 2016-003, 2016-004).

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items. (2016-005).

City of Paris, Kentucky's Response to Findings

City of Paris, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Paris, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
June 8, 2017

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

#2016-001

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:

The City has taken measures during FY 2016-2017 to train staff on proper procedures for reporting to the financial management system. With the help of the external accounting firm that has been engaged by the City to provide financial services and act on the City's behalf as the Financial Officer.

#2016-002

Criteria:

Bank reconciliations should be performed on a timely basis at the end of each month, and reviewed by a qualified individual.

Condition:

Individuals were assigned the responsibility to reconcile the bank accounts each month, with no additional oversight to ensure they were performed timely and accurately.

Cause:

The City did not have adequate internal controls in place over the monthly bank reconciliation process, and the individuals assigned responsibility did not perform their assignment.

Effect:

Bank statements were not reconciled timely by the responsible personnel. Transactions were identified that were not recorded.

Recommendation:

We recommend that an individual other than the preparer of the bank reconciliations, review all reconciliations to ensure these are completed within 10-15 days after month end. The reviewer should examine the bank statement, reconciliation, and month-end account balance. Upon completion, the reviewer should initial and date the bank reconciliation.

Response:

The previous employee responsible for this duty is no longer employed with the City. The City has implemented procedures during FY 2016-2017 to ensure a cross employee examination of the financial reconciliation with each employee responsible for initialing and dating documents.

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

#2016-003

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.

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 the individuals assigned responsibility did not perform their assignment

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:

The City has hired an external accounting firm that has the responsibility to reconcile receivables and payables. Staff have also been trained to recognize due dates from vendor invoices to ensure that invoices are paid within terms of the vendor.

#2016-004

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 attempt to identify assets throughout the year that met the capitalization policy.

Cause:

The City did not have adequate internal controls in place over asset capitalization, and the individuals assigned responsibility did not perform their assignment

Effect:

Asset purchases not properly being 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 has hired an external accounting firm that has the knowledge and expertise to properly, and actively, capitalize purchases throughout the year.

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

#2016-005

Criteria:

The City is a participant in the Kentucky Bond Corporation, and is required to provide the City's completed audited financial statements no later than March 1 following the fiscal year ending on the preceding June 30.

Condition:

The City did not have their audit completed by March 1, 2016, and therefore did not submit it on time to meet their debt covenants.

Cause:

The City's financial records were not available for audit due to material weaknesses in internal controls 2015-1 through 2015-4.

Effect:

The City was not in compliance with their debt covenants.

Recommendation:

The City should improve the previously mentioned internal control findings, to make financial statements available to audit closer to year end in order to meet debt covenants.

Response:

The City has hired an external accounting firm that has the responsibility of ensuring that the City's finances are in proper order to allow auditors the ability to begin the audit process during the fall of the Fiscal Year. Additionally, the City hired a new City Manager in March of 2017 that has already had conversations with current auditors to ensure that the Audit is completed and ready for presentation to the City Commissioner no later than the first Commission meeting in January. This will ensure that the Audit is completed and presented prior to the statutory requirement of February 1 following the end of the previous Fiscal Year.

PRIOR AUDIT FINDINGS

All findings 2016-001 through 2016-005 are repeat findings from the fiscal year 2015 audit.