

CITY OF PARIS
Paris, Kentucky

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Commissioners
City of Paris, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Paris, Kentucky's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Paris, Kentucky and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Paris, Kentucky's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Paris, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Paris, Kentucky's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and OPEB schedules, and budgetary comparison information on pages 4-17 and 47-57 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 accompanying combining nonmajor fund financial statements, the utility fund schedule of operating expenses, and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, the utility fund schedule of operating expenses, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2023, on our consideration of the City of Paris, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Paris, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Paris, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
March 17, 2023

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

The Management’s Discussion and Analysis of the City of Paris (the City) presents a discussion and analysis of the City’s financial performance for the fiscal year ended June 30, 2022. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide a readable explanation of the information within the basic financial statements. It should be read in conjunction with the financial statements immediately following the analysis.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government - Wide Highlights

- Total assets plus deferred outflows of resources of the Primary Government exceeded total liabilities and deferred inflows of resources by approximately \$5.92 million at the close of fiscal year 2022. This amount includes a net investment in capital assets of \$13.62 million and an overall deficit in unrestricted net position of approximately \$9.25 million.
- Governmental Activities’ net position was \$4.65 million at the end of fiscal year 2022. This amount includes a net investment in capital assets of \$6.45 million and an overall deficit in unrestricted net position of approximately \$1.87 million. The net investment in capital assets comprises 138.78% of total net position.
- Business-Type Activities’ net position was \$1.27 million at the end of fiscal year 2022. This amount includes a net investment in capital assets of \$7.17 million and an overall deficit in unrestricted net position of approximately \$7.38 million. The net investment in capital assets comprises 564.23% of total net position.

Fund Highlights

- As of June 30, 2022, the City’s governmental funds reported combined ending fund balances of \$11.09 million, an increase of \$2.34 million compared to the previous fiscal year. Of this amount, \$71 thousand is restricted for various projects: public works, public safety, and capital projects.
- The General Fund, the primary operating fund of the City, held unassigned fund balances of \$11.06 million or 118.22% of general fund expenditures.

The General Fund’s cash and cash equivalents balance increased approximately \$3.22 million compared to the previous fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Three key elements comprise the basic financial statements, including:

- Government-Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

A. Government-Wide Financial Statements

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

The *Statement of Net Position* reflects the financial position of the City at fiscal year ended June 30, 2022. Accordingly, the City's net position, the difference between assets (what the citizens own) plus deferred outflows of resources and liabilities (what the citizens owe) plus deferred inflows of resources, is one way to determine the financial condition of the City. Over time, increases or decreases in net position are one indicator of whether the financial health of the City is improving or deteriorating. However, additional factors such as changes in the City's revenue structure, its tax base, and its level of assets held, should be considered in order to assess thoroughly the overall financial condition of the City.

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

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

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

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

B. Fund Financial Statements

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

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

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

- **General Fund** – the general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund. Most of the essential governmental services such as police and fire protection, community services, and general administration are reported in this fund.
- **Special Revenue Funds** – The special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted by law to be expended for specific purposes. The following special revenue funds are maintained by the City:

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

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

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

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

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

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

C. Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

Net position may serve as a useful indicator of the City’s financial position. In Table 1 below, the City’s combined net position (Governmental and Business-Type Activities) totaled \$5.92 million as of June 30, 2022, a increase of \$3.14 million from the previous year.

The largest proportion of the City’s net position, \$13.62 million, is invested in capital assets (e.g. land, infrastructures, buildings and improvements, and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The City uses these capital assets to provide services to its citizens. As such, these assets are not available for future spending.

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

	<u>2022</u>	Total Net Position	
		<u>2021</u>	<u>Change</u>
ASSETS			
Current and other assets	\$ 14,481	\$ 10,548	\$ 3,933
Restricted cash and other assets	1,552	3,370	(1,818)
Capital assets and other noncurrent assets	<u>19,607</u>	<u>17,131</u>	<u>2,476</u>
Total assets	<u><u>35,640</u></u>	<u><u>31,049</u></u>	<u><u>4,591</u></u>
DEFERRED OUTFLOWS OF RESOURCES	5,036	5,391	(355)
LIABILITIES			
Current and other liabilities	3,257	2,101	1,156
Long-term liabilities	<u>26,430</u>	<u>29,541</u>	<u>(3,111)</u>
Total liabilities	<u><u>29,687</u></u>	<u><u>31,642</u></u>	<u><u>(1,955)</u></u>
DEFERRED INFLOWS OF RESOURCES	5,072	2,016	3,056
NET POSITON			
Net investment in capital assets	13,618	13,440	178
Restricted for:			
Debt service	343	283	60
Other purposes	1,209	1,053	156
Unrestricted	<u>(9,253)</u>	<u>(11,995)</u>	<u>2,742</u>
Total net position	<u><u>\$ 5,917</u></u>	<u><u>\$ 2,781</u></u>	<u><u>\$ 3,136</u></u>

Table 2 indicates that the net position of Governmental Activities totaled approximately \$4.65 million, or 22.2% of total assets, an increase of \$2.51 million over the previous year. Of this total, \$6.45 million is invested in capital assets (e.g. land, infrastructures, buildings and improvements, and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets.

Current assets exceeded current liabilities by approximately \$10.67 million at the end of fiscal year 2022.

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

	Total Governmental Activities		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
ASSETS			
Current and other assets	\$ 12,834	\$ 9,159	\$ 3,675
Restricted cash and other assets	71	60	11
Capital assets	<u>8,035</u>	<u>7,604</u>	<u>431</u>
Total assets	<u><u>20,940</u></u>	<u><u>16,823</u></u>	<u><u>4,117</u></u>
DEFERRED OUTFLOWS OF RESOURCES	2,861	3,137	(276)
LIABILITIES			
Current and other liabilities	2,166	612	1,554
Long-term liabilities	<u>13,694</u>	<u>15,646</u>	<u>(1,952)</u>
Total liabilities	<u><u>15,860</u></u>	<u><u>16,258</u></u>	<u><u>(398)</u></u>
DEFERRED INFLOWS OF RESOURCES	3,294	1,568	1,726
NET POSITON			
Net investment in capital assets	6,449	6,396	53
Restricted for:			
Debt service			-
Other purposes	71	60	11
Unrestricted	<u>(1,873)</u>	<u>(4,322)</u>	<u>2,449</u>
Total net position	<u><u>\$ 4,647</u></u>	<u><u>\$ 2,134</u></u>	<u><u>\$ 2,513</u></u>

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

	Total Business-Type Activities		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
ASSETS			
Current and other assets	\$ 1,646	\$ 1,389	\$ 257
Restricted cash and other assets	1,606	3,310	(1,704)
Capital assets	<u>11,448</u>	<u>9,527</u>	<u>1,921</u>
Total assets	<u><u>14,700</u></u>	<u><u>14,226</u></u>	<u><u>474</u></u>
DEFERRED OUTFLOWS OF RESOURCES	2,175	2,254	(79)
LIABILITIES			
Current and other liabilities	1,091	1,490	(399)
Long-term liabilities	<u>12,736</u>	<u>13,894</u>	<u>(1,158)</u>
Total liabilities	<u><u>13,827</u></u>	<u><u>15,384</u></u>	<u><u>(1,557)</u></u>
DEFERRED INFLOWS OF RESOURCES	1,777	448	1,329
NET POSITON			
Net investment in capital assets	7,169	7,044	125
Restricted for:			
Debt service	343	283	60
Other purposes	1,138	993	145
Unrestricted	<u>(7,379)</u>	<u>(7,673)</u>	<u>294</u>
Total net position	<u><u>\$ 1,271</u></u>	<u><u>\$ 647</u></u>	<u><u>\$ 624</u></u>

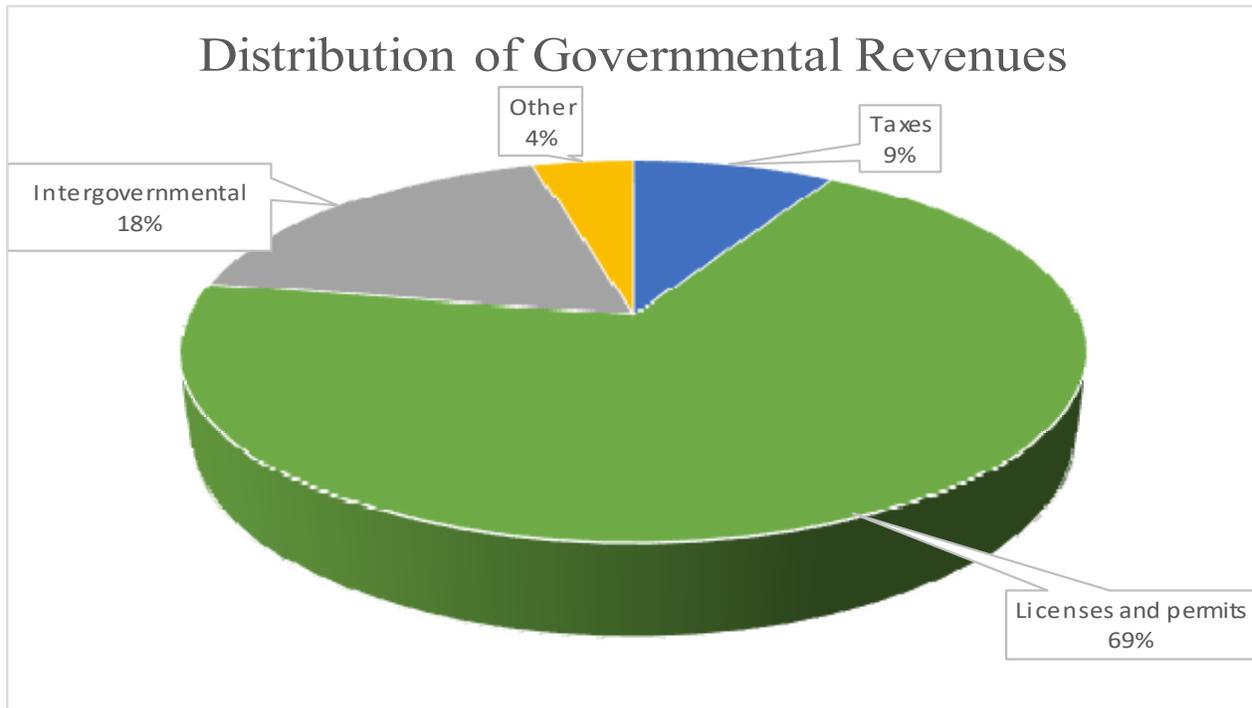
Table 3 indicates that the net position of Business-Type Activities totaled approximately \$1.27 million or 8.65% of total assets, an increase of \$623 thousand over the previous year. Of this total, \$7.17 million is invested in capital assets, minus related debt which is still outstanding and used to acquire those assets. The City uses these capital assets in the same way as the capital assets held by Governmental Activities.

Current assets exceed current liabilities by approximately \$555 thousand at the end of the fiscal year. Compared to the prior fiscal year when current liabilities exceeded current assets by approximately \$101 thousand. This resulted in an overall increase of approximately \$656 thousand compared to fiscal year ending June 30, 2021.

Governmental Activities

As indicated in Chart 1, the City funds its Governmental activities from revenue received from four significant categories. A clear majority, 69%, of the City's revenue is provided through licenses and permits. This category includes fees placed on employee withholdings, business returns, insurance premiums, and franchise fees. Property taxes comprise 9% of governmental revenues. Federal and State grant funding represents 18% of governmental revenue. The remaining other category represents miscellaneous revenues collected by the City.

Chart 1



As indicated in Chart 2, expenditures related to public safety for police and fire represent 30% and 24%, respectively, of total expenditures of the City's Governmental Activities.

Expenditures for police totaled approximately \$3.00 million (Table 4) for fiscal year 2022, an increase of \$316 thousand compared to the previous fiscal year. Expenditures for fire totaled approximately \$2.38 million (Table 4) for fiscal year 2022, an increase of \$371 thousand compared to the previous fiscal year.

Salary and wage costs, including benefits for police totaled \$2.36 million for fiscal year 2022 or approximately 80% of total police expenditures for 2022.

Salary and wage costs, including benefits for fire totaled \$1.73 million for fiscal year 2022 or approximately 74% of the total fire expenditures for 2022.

Chart 2

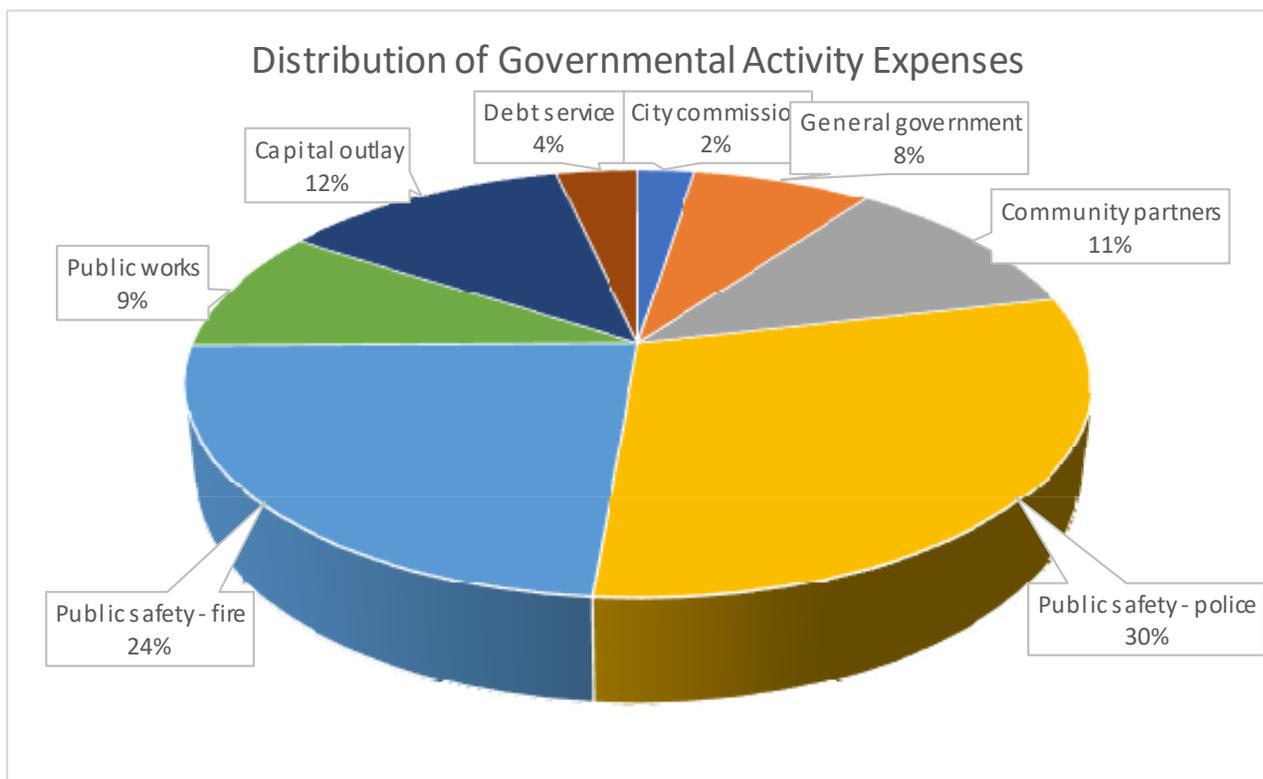


Table 4
City of Paris, Kentucky
Summary of Statement of Activities
For Years as Stated
(in thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Program Revenue:						
Charge for services	\$ 353	\$ 335	\$ 9,996	\$ 9,201	\$ 10,349	\$ 9,536
General revenues:						
Tax	981	885			981	885
Licenses	7,910	6,487			7,910	6,487
Intergovernmental	2,051	799			2,051	799
Fines and forfeitures	13	1			13	1
Other revenues	<u>258</u>	<u>123</u>	<u>1,890</u>	<u>186</u>	<u>2,148</u>	<u>309</u>
Total revenues	<u>11,566</u>	<u>8,630</u>	<u>11,886</u>	<u>9,387</u>	<u>23,452</u>	<u>18,017</u>
Program Expenses:						
City commission	243	247			243	247
General government	1,128	1,560			1,128	1,560
Community partners	1,129	1,058			1,129	1,058
Public safety - police	2,999	2,683			2,999	2,683
Public safety - fire	2,383	2,012			2,383	2,012
Public works	1,149	1,149			1,149	1,149
Interest on long-term debt	22	18			22	18
Conveyance of property					-	0
Electric			5,370	5,314	5,370	5,314
Sanitation			1,070	660	1,070	660
Water			2,481	2,174	2,481	2,174
Sewer			<u>2,342</u>	<u>1,970</u>	<u>2,342</u>	<u>1,970</u>
Total program expenses	<u>9,053</u>	<u>8,727</u>	<u>11,263</u>	<u>10,118</u>	<u>20,316</u>	<u>18,845</u>
Net change in net position	\$ <u>2,513</u>	\$ <u>(97)</u>	\$ <u>623</u>	\$ <u>(731)</u>	\$ <u>3,136</u>	\$ <u>(828)</u>

As indicated by Table 4, revenues from Governmental Activities totaled \$11.57 million, which was an increase of \$2.94 million or 34%, from the previous year. Licenses and permits totaled \$7.91 million, representing 68.4% of total revenues. As stated earlier, this category includes employee withholdings in the form of an occupational license fee (OLF). This fee is comprised of an assessment of 1.50% on the total wages received by individuals employed in the City of Paris and an assessment of 1.50% on the net profits of businesses operating in the City of Paris. Licenses and permits increased by \$1.74 million from the previous year. Property taxes increased by \$96 thousand.

As noted on Table 4, total expense of Governmental Activities was \$9.05 million, an increase of \$326 thousand from the previous fiscal year.

Business-Type Activities

Also indicated by Table 4, revenues from Business-Type Activities increased \$2.50 million from the previous fiscal year. Overall, a stabilization in overall electric costs as well as implementing new rates for water and sewer is a key factor in this increase from 2022 compared to 2021.

Total expenses for Business-Type Activities decreased when compared to fiscal year 2021, by \$1.41 million.

BUDGETARY HIGHLIGHTS

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

For fiscal year 2022, General Fund revenues totaled \$11.27 million, an increase of 33.1% from the previous fiscal year. Total revenues were \$2.10 million above the budgeted amount. The increase in actual revenue is the result of continued growth in the local and U.S. economies, which affected both business returns and franchise fees.

General fund expenditures of the City totaled \$9.35 million, an increase of \$2.11 million over the previous fiscal year. Expenditures were \$420 thousand below the final budgeted amount.

The City's financial commitment to support Emergency Medical Services within the City of Paris and Bourbon County remained the same at \$400 thousand compared to the previous fiscal year. In addition, the City's financial commitment to support Paris-Bourbon County E-911 services remained the same compared to the previous fiscal year for a total of \$222 thousand.

Table 5
City of Paris, Kentucky
General Fund Budgetary Highlights
For the Year Ended June 30, 2022

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
REVENUES			
Taxes	\$ 1,169,150	\$ 980,751	\$ (188,399)
Licenses and permits	6,031,225	7,910,292	1,879,067
Fines and forfeitures	1,000	13,417	12,417
Intergovernmental	1,850,821	1,881,849	31,028
Charges for services		352,733	352,733
Other revenues	<u>110,000</u>	<u>126,825</u>	<u>16,825</u>
Total revenues	<u>9,162,196</u>	<u>11,265,867</u>	<u>2,103,671</u>
EXPENDITURES			
Current			
City commission	287,100	243,325	(43,775)
General government	787,755	758,199	(29,556)
Community partners	1,114,095	1,129,172	15,077
Public safety - police	3,700,000	2,964,038	(735,962)
Public safety - fire	2,350,000	2,331,908	(18,092)
Public works	1,535,000	927,392	(607,608)
Capital outlay		<u>1,000,271</u>	<u>1,000,271</u>
Total expenditures	<u>9,773,950</u>	<u>9,354,305</u>	<u>(419,645)</u>
Excess (deficiency) of revenues over expenditures	(611,754)	1,911,562	2,523,316
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets		130,968	130,968
Proceeds from debt issuance	698,980	698,980	-
Transfers (out)		<u>(343,717)</u>	<u>(343,717)</u>
Total other financing sources (uses)	<u>698,980</u>	<u>486,231</u>	<u>(212,749)</u>
Net change in net position	<u>\$ 87,226</u>	<u>\$ 2,397,793</u>	<u>\$ 2,310,567</u>

CAPITAL ASSETS

The City's capital assets totaled \$19.48 million as of June 30, 2022. This investment includes land, buildings, equipment, park facilities, roads, bridges, and water and sewer systems. For Governmental Activities, capital assets totaled \$8.04 million. For Business-Type Activities, capital assets totaled \$11.45 million.

This year's major changes in capital assets included:

- Governmental Activities capital assets increased by \$430 thousand from the prior fiscal year. Depreciation expense for Governmental Activities totaled \$796 thousand for the fiscal year ended 2022.
- Business-Type Activities capital assets increased by \$1.92 million from the prior fiscal year. Depreciation expense for Business-Type Activities totaled \$887 thousand for the fiscal year ended 2022.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 1,729	\$ 1,729	\$ 573	\$ 422	\$ 2,302	\$ 2,151
Building and improvements	3,686	3,686			3,686	3,686
Equipment and vehicles	6,874	6,341	3,991	3,986	10,865	10,327
Electric lines, poles and plant			10,236	10,083	10,236	10,083
Water treatment plant and water system improvements			8,333	8,124	8,333	8,124
Sewer treatment plant and improvements			18,027	18,027	18,027	18,027
Infrastructure assets	4,676	4,451			4,676	4,451
Construction in progress	41	22	3,014	726	3,055	748
	<u>17,006</u>	<u>16,229</u>	<u>44,174</u>	<u>41,368</u>	<u>61,180</u>	<u>57,597</u>
Less accumulated depreciation	<u>8,971</u>	<u>8,625</u>	<u>32,727</u>	<u>31,841</u>	<u>41,698</u>	<u>40,466</u>
Capital assets, net	<u>\$ 8,035</u>	<u>\$ 7,604</u>	<u>\$ 11,447</u>	<u>\$ 9,527</u>	<u>\$ 19,482</u>	<u>\$ 17,131</u>

Construction in progress at June 30, 2022 includes costs of \$2.24 million for water meter replacements; \$450 thousand for water line replacements and \$329 thousand for engineering fees for water and waste water improvements.

Additional information on the City’s capital assets activity can be found in Note 5 to the financial statements.

DEBT ADMINISTRATION

As of the end of fiscal year 2022, the City had \$5.9 million in bonds and outstanding notes; Governmental Activities’ debt increased by \$377 thousand; Business-Type Activities’ debt decreased by \$238 thousand.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
General obligation bonds, notes and leases	\$ 1,585	\$ 1,208	\$ 3,828	\$ 4,026	\$ 5,413	\$ 5,234
Revenue bonds			271	276	271	276
Mortgage notes			180	215	180	215
Total debt	<u>\$ 1,585</u>	<u>\$ 1,208</u>	<u>\$ 4,279</u>	<u>\$ 4,517</u>	<u>\$ 5,864</u>	<u>\$ 5,725</u>

NEXT YEAR’S BUDGET

The City’s fiscal year 2023 budget, for all funds combined, net of interfund transfers, is \$26.5 million. In fiscal year 2023, the City took the stance that tax rates and service fees should remain virtually the same from previous fiscal years. In fiscal year 2023 and subsequent years the City is making a commitment to invest in additional infrastructure projects including a new recycling and transfer station estimated to cost \$4.2 million and improvements at the water plant estimated to cost \$3.28 million. The City continues to seek cost savings by ensuring major expenditures are vetted through competitive bid process, and ensuring employees understand management’s philosophy responsible for fiscal management as well as providing competitive and cost-effective health benefits for all participants.

REQUEST FOR INFORMATION

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City’s finances, and to show the City’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Manager at 525 High Street, Paris, Kentucky 40361 or by telephone at (859) 987-2110.

CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 10,424,997	\$ 505,384	\$ 10,930,381
Receivables, net	2,039,817	899,395	2,939,212
Lease receivable, current	-	85,005	85,005
Prepaid expense	31,952	22,513	54,465
Inventory	-	471,594	471,594
Internal balances	337,448	(337,448)	-
Total current assets	<u>12,834,214</u>	<u>1,646,443</u>	<u>14,480,657</u>
Noncurrent assets			
Restricted cash and cash equivalents	71,213	1,481,448	1,552,661
Noncurrent portion of lease receivable	-	124,923	124,923
Capital assets			
Land and improvements	1,728,917	572,552	2,301,469
Construction in progress	41,440	3,014,401	3,055,841
Depreciable infrastructure, net	2,765,617	-	2,765,617
Depreciable buildings, property, and equipment, net	3,498,832	7,860,352	11,359,184
Total noncurrent assets	<u>8,106,019</u>	<u>13,053,676</u>	<u>21,159,695</u>
Total assets	<u>20,940,233</u>	<u>14,700,119</u>	<u>35,640,352</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	1,306,862	1,173,834	2,480,696
Deferred outflows - OPEB	1,554,011	1,001,224	2,555,235
Total deferred outflows of resources	<u>2,860,873</u>	<u>2,175,058</u>	<u>5,035,931</u>
Total assets and deferred outflows of resources	<u>\$ 23,801,106</u>	<u>\$ 16,875,177</u>	<u>\$ 40,676,283</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 127,925	\$ 428,842	\$ 556,767
Accrued liabilities	388,396	206,718	595,114
Accrued interest payable	-	12,790	12,790
Customer deposits	-	275,350	275,350
Unearned revenue	1,295,961	-	1,295,961
Current portion of long-term obligations	353,567	167,824	521,391
Total current liabilities	<u>2,165,849</u>	<u>1,091,524</u>	<u>3,257,373</u>
Noncurrent liabilities			
Compensated absences	422,253	142,250	564,503
Noncurrent portion of long-term obligations	1,232,127	4,110,593	5,342,720
Net pension liability	9,013,077	6,759,068	15,772,145
Net OPEB liability	3,026,677	1,723,870	4,750,547
Total noncurrent liabilities	<u>13,694,134</u>	<u>12,735,781</u>	<u>26,429,915</u>
Total liabilities	<u>15,859,983</u>	<u>13,827,305</u>	<u>29,687,288</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	1,856,535	771,003	2,627,538
Deferred inflows - OPEB	1,437,717	796,372	2,234,089
Deferred inflows - lease	-	209,928	209,928
Total deferred inflows of resources	<u>3,294,252</u>	<u>1,777,303</u>	<u>5,071,555</u>
NET POSITION			
Net investment in capital assets	6,449,112	7,168,888	13,618,000
Restricted for:			
Debt service	-	343,221	343,221
Other purposes	71,213	1,138,227	1,209,440
Unrestricted	(1,873,454)	(7,379,767)	(9,253,221)
Total net position	<u>4,646,871</u>	<u>1,270,569</u>	<u>5,917,440</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 23,801,106</u>	<u>\$ 16,875,177</u>	<u>\$ 40,676,283</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, 2022**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
City commission	\$ 243,325	\$ -	\$ -	\$ -	\$ (243,325)	\$ -	\$ (243,325)
General administration	1,128,447	131,450	310,981	-	(686,016)	-	(686,016)
Community partners	1,129,172	-	-	-	(1,129,172)	-	(1,129,172)
Public safety-police	2,998,926	221,283	850,960	-	(1,926,683)	-	(1,926,683)
Public safety-fire	2,382,674	-	719,908	-	(1,662,766)	-	(1,662,766)
Public works	1,148,766	-	-	169,310	(979,456)	-	(979,456)
Interest on long-term debt	22,373	-	-	-	(22,373)	-	(22,373)
Total governmental activities	9,053,683	352,733	1,881,849	169,310	(6,649,791)	-	(6,649,791)
Business-type activities							
Electric	5,369,703	6,012,721	12,001	-	-	655,019	655,019
Sanitation	1,070,636	153,765	5,763	-	-	(911,109)	(911,109)
Water	2,480,535	1,902,761	1,569,195	-	-	991,420	991,420
Sewer	2,341,584	1,926,812	14,634	-	-	(400,138)	(400,138)
Total business-type activities	11,262,459	9,996,059	1,601,592	-	-	335,192	335,192
Total primary government	\$ 20,316,142	\$ 10,348,792	\$ 3,483,441	\$ 169,310	(6,649,791)	335,192	(6,314,599)
General revenues							
Taxes							
Property taxes, levied for general purposes							
					980,751	-	980,751
License fees:							
Franchise							
					396,144	-	396,144
Payroll							
					4,052,691	-	4,052,691
Insurance premiums							
					2,224,683	-	2,224,683
Net profit							
					1,202,024	-	1,202,024
Other licenses and permits							
					34,750	-	34,750
Fines and forfeits							
					13,417	-	13,417
Investment earnings							
					21,542	15,304	36,846
Miscellaneous							
					105,480	272,836	378,316
Total general revenues							
					9,031,482	288,140	9,319,622
Gain on disposal of assets							
					130,968	-	130,968
Change in net position							
					2,512,659	623,332	3,135,991
Net position-beginning							
					2,134,212	647,237	2,781,449
NET POSITION-ENDING							
					\$ 4,646,871	\$ 1,270,569	\$ 5,917,440

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

CITY OF PARIS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 10,437,626	\$ 58,584	\$ 10,496,210
Receivables, net	2,022,160	17,657	2,039,817
Prepaid expenses	31,952	-	31,952
Due from other funds	482,044	-	482,044
Total assets	<u>\$ 12,973,782</u>	<u>\$ 76,241</u>	<u>\$ 13,050,023</u>
LIABILITIES			
Accounts payable	\$ 127,925	\$ -	\$ 127,925
Accrued liabilities	388,396	-	388,396
Due to other funds	-	144,596	144,596
Unearned revenue	1,295,961	-	1,295,961
Total liabilities	<u>1,812,282</u>	<u>144,596</u>	<u>1,956,878</u>
FUND BALANCES			
Nonspendable	31,952	-	31,952
Restricted	71,213	-	71,213
Unassigned	11,058,335	(68,355)	10,989,980
Total fund balances	<u>11,161,500</u>	<u>(68,355)</u>	<u>11,093,145</u>
Total liabilities and fund balances	<u>\$ 12,973,782</u>	<u>\$ 76,241</u>	<u>\$ 13,050,023</u>

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

Fund balances per above	\$ 11,093,145
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,034,806
Long-term liabilities and related pension/OPEB deferred inflows/outflows are not due and payable in the current period and therefore are not reported in the funds.	<u>(14,481,080)</u>
Net position of governmental activities	<u>\$ 4,646,871</u>

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

CITY OF PARIS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2022

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 980,751	\$ -	\$ 980,751
Licenses and permits	7,910,292	-	7,910,292
Fees and fines	13,417	-	13,417
Intergovernmental	1,881,849	169,310	2,051,159
Charges for services	352,733	-	352,733
Other revenues	126,825	198	127,023
	<u>11,265,867</u>	<u>169,508</u>	<u>11,435,375</u>
EXPENDITURES			
Current			
City commission	243,325	-	243,325
General administration	758,199	-	758,199
Community partners	1,129,172	-	1,129,172
Public safety-police	2,964,038	-	2,964,038
Public safety-fire	2,331,908	-	2,331,908
Public works	927,392	-	927,392
Capital outlay	1,000,271	225,942	1,226,213
Debt service	-	343,717	343,717
	<u>9,354,305</u>	<u>569,659</u>	<u>9,923,964</u>
Excess (deficiency) of revenues over expenditures	<u>1,911,562</u>	<u>(400,151)</u>	<u>1,511,411</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	130,968	-	130,968
Proceeds from debt issuance	698,980	-	698,980
Transfers in (out)	(343,717)	343,717	-
	<u>486,231</u>	<u>343,717</u>	<u>829,948</u>
Net change in fund balances	2,397,793	(56,434)	2,341,359
Fund balances-beginning	<u>8,763,707</u>	<u>(11,921)</u>	<u>8,751,786</u>
Fund balances-ending	<u>\$ 11,161,500</u>	<u>\$ (68,355)</u>	<u>\$ 11,093,145</u>
Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 2,341,359
Add: capital outlay expenditures			1,226,213
Add: debt service expenditures			343,717
Add: gain on disposal of assets			130,968
Less: change in compensated absences			(4,567)
Less: proceeds from sale of assets			(130,968)
Less: proceeds from debt issuance			(698,980)
Less: depreciation on governmental activities assets			(795,764)
Less: change in net pension liability			75,225
Less: change in net OPEB liability			47,829
Less: interest on long-term debt			(22,373)
Change in net position governmental activities			<u>\$ 2,512,659</u>

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

CITY OF PARIS, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2022

	Business-Type Activities Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 505,384
Receivables, net	899,395
Lease receivable, current	85,005
Prepaid expenses	22,513
Inventory	<u>471,594</u>
Total current assets	<u>1,983,891</u>
Noncurrent assets	
Restricted cash and cash equivalents	1,481,448
Noncurrent portion of lease receivable	124,923
Land and improvements	572,552
Construction in progress	3,014,401
Depreciable buildings, property, and equipment	40,587,660
Less: accumulated depreciation	<u>(32,727,308)</u>
Total noncurrent assets	<u>13,053,676</u>
Total assets	<u>15,037,567</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	1,173,834
Deferred outflows - OPEB	<u>1,001,224</u>
Total deferred outflows of resources	<u>2,175,058</u>
Total assets and deferred outflows of resources	<u>\$ 17,212,625</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 428,842
Accrued liabilities	206,718
Accrued interest payable	12,790
Customer deposits	275,350
Due to other funds	337,448
Current portion of long-term debt	<u>167,824</u>
Total current liabilities	<u>1,428,972</u>
Noncurrent liabilities	
Compensated absences	142,250
Bonds, notes and loans payable	4,110,593
Net pension liability	6,759,068
Net OPEB liability	<u>1,723,870</u>
Total noncurrent liabilities	<u>12,735,781</u>
Total liabilities	<u>14,164,753</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	771,003
Deferred inflows - OPEB	796,372
Deferred inflows - lease	<u>209,928</u>
Total deferred inflows of resources	<u>1,777,303</u>
NET POSITION	
Net investment in capital assets	7,168,888
Restricted for:	
Debt service	343,221
Other purposes	1,138,227
Unrestricted	<u>(7,379,767)</u>
Total net position	<u>1,270,569</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 17,212,625</u>

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

CITY OF PARIS, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2022

	Business-type Activities Utility Fund
Operating revenues	
Charges for services	\$ 9,996,059
Lease/rental income	45,115
Grant income	1,601,592
Other revenues	<u>227,721</u>
Total operating revenues	<u>11,870,487</u>
Operating expenses	
Utility administration	2,551,615
Electric department	4,514,415
Water distribution	1,611,179
Sewer treatment	1,250,535
Sanitation	363,724
Depreciation	<u>886,701</u>
Total operating expenses	<u>11,178,169</u>
Operating income	<u>692,318</u>
Nonoperating revenues (expenses)	
Interest and investment income	15,304
Interest expense	<u>(84,290)</u>
Total nonoperating (expenses)	<u>(68,986)</u>
Change in net position	623,332
Total net position-beginning	<u>647,237</u>
TOTAL NET POSITION-ENDING	<u><u>\$ 1,270,569</u></u>

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

CITY OF PARIS, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2022

	<u>Business-Type Activities Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 9,852,492
Grant receipts	1,601,592
Payments to suppliers	(7,352,643)
Payments for employee services and benefits	(2,514,223)
Payments for interfund services used	(300,000)
Other receipts	<u>272,836</u>
Net cash provided by operating activities	<u>1,560,054</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(2,824,963)
Principal payments on bonds, notes, and loans payable	(238,147)
Interest paid on capital debt	<u>(81,572)</u>
Net cash (used) in capital and related financing activities	<u>(3,144,682)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments on interfund loans	<u>(415)</u>
Net cash (used) in noncapital financing activities	<u>(415)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and investment income	<u>15,304</u>
Net cash provided by investing activities	<u>15,304</u>
Net (decrease) in cash and cash equivalents	(1,569,739)
Cash and cash equivalents-beginning of the year	<u>3,556,571</u>
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 1,986,832</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 692,318
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	886,701
Change in assets and liabilities:	
Net pension liability	167,062
Net OPEB liability	33,121
Receivables, net	97,986
Prepaid expense	(2,656)
Inventory	(8,750)
Customer deposits	12,125
Unearned revenue	(253,678)
Accounts and other payables	(76,547)
Accrued expenses	<u>12,372</u>
Net cash provided by operating activities	<u>\$ 1,560,054</u>
Reconciliation of total cash and cash equivalents:	
Current assets - cash and cash equivalents	\$ 505,384
Restricted cash and cash equivalents	<u>1,481,448</u>
	<u>\$ 1,986,832</u>
Supplemental disclosure of cash flow information:	
Noncash capital and related financing activities:	
Accounts payable for capital items, net	<u>\$ -</u>

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipients 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, 2022

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, 2022

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 cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

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

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Balance (Continued)

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

For resources considered to be assigned, the City has designated the City Manager to carry the intent of the City Commission.

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

E. Budgeting

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

The City estimates the expenses the General Fund paid or incurred on behalf of the Utility Fund. Total estimated expenses reimbursed to the General Fund from the Utility Fund amounted to \$300,000 for the year ended June 30, 2022. In the fund financial statements, these reimbursements are recorded as "Intergovernmental" revenue in the General Fund and "Utility administration" expense in the Utility Fund.

F. Cash and Cash Equivalents

The City considers all cash, and certificates of deposit maturing in 90 days or less when purchased, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows.

G. Capital Assets

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

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

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. 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.

I. Postemployment Benefits Other Than Pensions (OPEB)

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

J. Compensated Absences

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

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

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

K. Interfund balances

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Other Accounting Policies

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

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

M. Change in Accounting Policy

In June 2017, the GASB issued Statement No. 87, *Leases*, which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City implemented GASB 87 during the fiscal year ending June 30, 2022. These changes were incorporated in the City's June 30, 2022, financial statements and had no effect on the beginning net position or fund balances of the City.

N. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through March 17, 2023, 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, 2022, have not been evaluated by the City.

2. CASH AND INVESTMENTS

KRS 66.480 authorizes the City to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

2. CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk beyond that specified in KRS 66.480. The City's deposits and investments at June 30, 2022 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 \$12,483,042 and the bank balances were \$12,581,264. Bank balances of \$660,525 were covered by FDIC insurance, and \$11,920,739 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 uncollectible accounts, are as follows:

<u>Governmental activities</u>	General Fund	Nonmajor Funds	Total
Licenses and permits	\$ 1,551,158	\$ -	\$ 1,551,158
Intergovernmental	453,255	17,657	470,912
Other	<u>17,747</u>	<u>-</u>	<u>17,747</u>
Total receivables	<u>\$ 2,022,160</u>	<u>\$ 17,657</u>	<u>\$ 2,039,817</u>
<u>Business-type activities</u>	Utility Fund		
Charges for service, net	\$ 841,000		
Other	<u>104,650</u>		
Gross receivable	945,650		
Less allowance for uncollectible	<u>(46,255)</u>		
Total receivables, net	<u>\$ 899,395</u>		

4. LEASE RECEIVABLE AND DEFERRED INFLOW OF RESOURCES

On September 1, 2020, the City entered into a five-year lease agreement with New Cingular Wireless PCS, LLC to lease out space on the City's water tower for the company to mount antennas and other equipment and related devices. Upon adoption of GASB 87, the City recognized both a lease receivable and a deferred inflow of resources related to the lease agreement totaling \$118,628 in the Utility Fund. The City calculated the present value of future lease payments based on a discount rate of 3.25%. The balance of both the lease receivable and the deferred inflow of resources as of June 30, 2022, totaled \$91,300.

On March 9, 2021, the City entered into a five-year lease agreement with T-Mobile Central, LLC to lease out space on the City's water for the company to mount antennas and other equipment and related devices. Upon adoption of GASB 87, the City recognized both a lease receivable and a deferred inflow of resources related to the lease agreement totaling \$118,628 in the Utility Fund. The City calculated the present value of future lease payments based on a discount rate of 3.25%. The balance of both the lease receivable and the deferred inflow of resources as of June 30, 2022, totaled \$118,628.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

4. LEASE RECEIVABLE AND DEFERRED INFLOW OF RESOURCES (CONTINUED)

The present value of expected future minimum lease payments is as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 85,005	\$ 9,790	\$ 94,795
2024	60,824	4,060	64,884
2025	<u>64,099</u>	<u>2,083</u>	<u>66,182</u>
Total	<u>\$ 209,928</u>	<u>\$ 15,933</u>	<u>\$ 225,861</u>

The deferred inflows of resources will be recognized over the term of the lease agreements as lease revenue. During 2022, the City recognized \$3,855 of interest revenue and \$45,114 of lease revenue from the lease agreements.

5. CAPITAL ASSETS

A summary of capital asset activity during the year ended June 30, 2022 is as follows:

<u>Governmental activities</u>	Balance			Balance
	July 1, 2021	Additions	Deletions	June 30, 2022
Capital assets not being depreciated:				
Land and improvements	\$ 1,728,917	\$ -	\$ -	\$ 1,728,917
Construction in progress	22,000	19,440	-	41,440
Total	<u>1,750,917</u>	<u>19,440</u>	<u>-</u>	<u>1,770,357</u>
Capital assets being depreciated:				
Building and improvements	3,685,965	-	-	3,685,965
Vehicles	5,290,712	601,180	(450,166)	5,441,726
Equipment	<u>1,050,763</u>	<u>379,651</u>	<u>-</u>	<u>1,430,414</u>
Total	<u>10,027,440</u>	<u>980,831</u>	<u>(450,166)</u>	<u>10,558,105</u>
Total non-infrastructure assets	<u>11,778,357</u>	<u>1,000,271</u>	<u>(450,166)</u>	<u>12,328,462</u>
Infrastructure assets	<u>4,450,501</u>	<u>225,942</u>	<u>-</u>	<u>4,676,443</u>
Total capital assets	<u>16,228,858</u>	<u>1,226,213</u>	<u>(450,166)</u>	<u>17,004,905</u>
Accumulated depreciation:				
Buildings and improvements	2,373,139	106,698	-	2,479,837
Vehicles	3,630,469	398,701	(450,166)	3,579,004
Equipment	929,047	71,385	-	1,000,432
Infrastructure assets	<u>1,691,846</u>	<u>218,980</u>	<u>-</u>	<u>1,910,826</u>
Total	<u>8,624,501</u>	<u>795,764</u>	<u>(450,166)</u>	<u>8,970,099</u>
Governmental activities capital assets, net	<u>\$ 7,604,357</u>	<u>\$ 430,449</u>	<u>\$ -</u>	<u>\$ 8,034,806</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. CAPITAL ASSETS (CONTINUED)

<u>Business-type activities</u>	Balance			Balance
	July 1, 2021	Additions	Deletions	June 30, 2022
Capital assets not being depreciated:				
Land and improvements	\$ 422,052	\$ 150,500	\$ -	\$ 572,552
Construction in progress	<u>725,952</u>	<u>2,288,449</u>	-	<u>3,014,401</u>
Total	<u>1,148,004</u>	<u>2,438,949</u>	-	<u>3,586,953</u>
Capital assets being depreciated:				
Equipment and vehicles	3,985,945	5,460	-	3,991,405
Electric lines, poles, and plant	10,082,214	153,643	-	10,235,857
Water treatment plant and water system improvements	8,124,415	209,159	-	8,333,574
Sewer treatment plant and improvements	<u>18,026,824</u>	-	-	<u>18,026,824</u>
Total	<u>40,219,398</u>	<u>368,262</u>	-	<u>40,587,660</u>
Total capital assets	<u>41,367,402</u>	<u>2,807,211</u>	-	<u>44,174,613</u>
Accumulated depreciation	<u>31,840,607</u>	<u>886,701</u>	-	<u>32,727,308</u>
Business-type activities capital assets, net	<u>\$ 9,526,795</u>	<u>\$ 1,920,510</u>	<u>\$ -</u>	<u>\$ 11,447,305</u>

Depreciation expense was charged to functions or departments as follows:

Governmental activities:

General administration	\$ 200,631
Public safety-police	207,205
Public safety-fire	220,394
Public works	<u>167,534</u>
Total depreciation expense	<u>\$ 795,764</u>

Business-type activities:

Electric	\$ 196,312
Water	210,380
Sewer	432,073
Sanitation	<u>47,936</u>
Total depreciation expense	<u>\$ 886,701</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2022:

Governmental activities

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022
Kentucky Bank note payable with interest at 1.28%, secured by fire trucks	\$ 1,208,058	\$ -	\$ (144,696)	\$ 1,063,362
Traditional Bank note payable with interest at 1.45%, secured by police vehicles	-	400,000	(109,576)	290,424
Kentucky Bank note payable with interest at 1.35%, secured by a street sweeper	-	298,980	(67,072)	231,908
Compensated absences	417,686	4,567	-	422,253
Net pension liability	10,557,838	-	(1,544,761)	9,013,077
Net OPEB liability	<u>3,607,339</u>	<u>-</u>	<u>(580,662)</u>	<u>3,026,677</u>
 Total governmental activities	 <u>\$ 15,790,921</u>	 <u>\$ 703,547</u>	 <u>\$ (2,446,767)</u>	 <u>\$ 14,047,791</u>

The annual debt service requirements to maturity for all governmental activity notes payable is as follows:

Year ended	Principal	Interest	Total
2023	\$ 353,567	\$ 19,185	\$ 372,752
2024	380,877	14,330	395,207
2025	226,441	9,931	236,372
2026	158,511	7,334	165,845
2027	154,176	5,340	159,516
2028-2030	<u>312,122</u>	<u>4,638</u>	<u>316,760</u>
	<u>\$ 1,585,694</u>	<u>\$ 60,758</u>	<u>\$ 1,646,452</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

6. LONG-TERM DEBT (CONTINUED)

Business-type activities

	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022	Due within one year
KBC note payable with interest at 3.29% maturing in fiscal year 2032	1,449,995	-	(122,084)	1,327,911	127,084
Series 2014 Revenue Bonds publicly issued with interest at 2.75% maturing in fiscal year 2054	276,000	-	(5,000)	271,000	5,500
Traditional Bank note payable with interest at 3.30% maturing in fiscal year 2027	214,633	-	(35,127)	179,506	35,240
Traditional Bank note payable with interest at 1.74% maturing in fiscal year 2022	75,937	-	(75,937)	-	-
US Bank bond anticipation note payable with interest at 0.79% maturing in fiscal year 2024	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>	<u>-</u>
Total bonds and notes payable	<u>4,516,565</u>	<u>-</u>	<u>(238,148)</u>	<u>4,278,417</u>	<u>167,824</u>
Compensated absences	134,066	8,184	-	142,250	-
Net pension liability	7,460,596	-	(701,528)	6,759,068	-
Net OPEB liability	<u>2,020,331</u>	<u>-</u>	<u>(296,461)</u>	<u>1,723,870</u>	<u>-</u>
Total business-type activities	<u>\$ 14,131,558</u>	<u>\$ 8,184</u>	<u>\$ (1,236,137)</u>	<u>\$ 12,903,605</u>	<u>\$ 167,824</u>

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

6. LONG-TERM DEBT (CONTINUED)

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

Year ended	Principal	Interest	Total
2023	\$ 167,824	\$ 82,250	\$ 250,074
2024	2,674,002	76,796	2,750,798
2025	180,224	51,379	231,603
2026	184,910	45,448	230,358
2027	179,385	39,205	218,590
2028-2032	682,072	105,241	787,313
2033-2037	37,000	27,291	64,291
2038-2042	43,000	21,882	64,882
2043-2047	49,000	15,675	64,675
2048-2052	56,000	8,554	64,554
2053-2054	<u>25,000</u>	<u>1,199</u>	<u>26,199</u>
	<u>\$ 4,278,417</u>	<u>\$ 474,920</u>	<u>\$ 4,753,337</u>

7. CONDUIT DEBT

The City is the issuer of certain industrial revenue bonds issued in order to promote the local construction of production facilities. The facilities, which are constructed from the bond proceeds, are leased to the industrial companies for an amount required to annually service the debt. The lessee assumes ownership of the facilities at the completion of all lease payments required to fully service the debt. The lease payments are remitted directly to the trustee (bank) with whom the facilities are mortgaged. These bonds constitute a limited obligation of the City payable solely from the revenues and receipts derived from the lease agreement. Accordingly, the assets and liabilities relating to these bonds are not recorded on the books of the City. The amount of bonds outstanding at June 30, 2022 is not readily available.

8. RETIREMENT PLAN

The City of Paris is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority website.

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended June 30, 2022, 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 are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 26.95% of each employee's wages for non-hazardous job classifications and 44.33% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 9. Plan members contributed 21.17% to the pension trust for non-hazardous job classifications and 33.86% to the pension trust for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are 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, 2022, the City contributed \$1,357,071, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$1,066,018 to the CERS pension fund and \$291,053 to the CERS insurance fund. The City contributed \$532,136, or 100% of the required contribution for hazardous job classifications, which was allocated \$406,454 to the CERS pension fund and \$125,682 to the CERS insurance fund.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

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 and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
	Reduced retirement	Not available

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2022, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 15,772,145</u>	<u>\$ 11,292,343</u>	<u>\$ 4,479,802</u>

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. 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, 2021 was as follows:

Non-hazardous	Hazardous
.1771%	.1683%

The proportionate share at June 30, 2021 increased .0100% for non-hazardous and decreased .0043% for hazardous compared to the proportionate share as of June 30, 2020.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2022, the City recognized pension expense of \$1,538,169. At June 30, 2022, the City 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	\$ 253,209	\$ 109,600
Changes of assumptions	207,509	-
Net difference between projected and actual earnings on Plan Investments	-	1,985,996
Changes in proportion and differences between City contributions and proportionate share of contributions	547,505	531,942
City contributions subsequent to the measurement date	<u>1,472,473</u>	<u>-</u>
Total	<u>\$ 2,480,696</u>	<u>\$ 2,627,538</u>

The \$1,472,473 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, 2023. 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,

2023	\$ (122,925)
2024	\$ (376,252)
2025	\$ (493,826)
2026	\$ (626,312)

Actuarial Assumptions – The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Hazardous

Inflation	2.30%
Salary increases	3.55 to 19.05%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2020. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target allocation and best estimates of arithmetic 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
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. 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 30-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, 2022

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 6.25%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) 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	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 14,482,966	5.25%	\$ 5,710,129	6.25%	\$ 4,479,802
Current discount rate	6.25%	\$ 11,292,343	6.25%	\$ 4,479,802	7.25%	\$ 3,477,090
1% increase	7.25%	\$ 8,652,178	7.25%	\$ 3,477,090		

Payable to the Pension Plan – At June 30, 2022, the City reported a payable of \$181,843 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022. The payable includes both the pension and insurance contribution allocation.

9. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 8, the City of Paris, Kentucky participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 8, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2022, the employer's contribution was 5.78% to the insurance trust for non-hazardous job classifications and 10.47% to the insurance trust 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 are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended June 30, 2022, the City contributed \$291,053, or 100% of the required contribution for non-hazardous job classifications, and \$125,682, or 100% of the required contribution for hazardous job classifications.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

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

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

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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2022, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net		
OPEB Liability	Non-hazardous	Hazardous
<u>\$ 4,750,547</u>	<u>\$ 3,389,936</u>	<u>\$ 1,360,611</u>

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2021 was as follows:

Non-hazardous	Hazardous
.1771%	.1683%

The proportionate share at June 30, 2021 increased .0100% for non-hazardous and decreased .0043% for hazardous compared to the proportionate share as of June 30, 2020.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

For the year ended June 30, 2022, the City recognized OPEB expense of \$515,635. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 575,585	\$ 1,158,502
Changes of assumptions	1,239,946	3,660
Net difference between projected and actual earnings on Plan investments	-	786,406
Changes in proportion and differences between City contributions and proportionate share of contributions	201,737	285,521
City contributions subsequent to the measurement date	<u>537,967</u>	<u>-</u>
Total	<u>\$ 2,555,235</u>	<u>\$ 2,234,089</u>

The \$537,967 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. This includes adjustments of \$111,543 for the nonhazardous implicit subsidy and \$9,690 for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending June 30,

2023	\$	5,987
2024	\$	(10,531)
2025	\$	(3,695)
2026	\$	(231,201)
2027	\$	22,619

Actuarial Assumptions – The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.30 to 10.30%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	Pre – 65: Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
	Post – 65: Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

Hazardous

Inflation	2.30%
Salary increases	3.55 to 19.05%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post – 65: Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	68.50%	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
Liquidity	11.50%	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Diversifying Strategies	20.00%	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
Total	100.00%	5.00%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		7.30%

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

Discount Rate – The discount rate used to measure the total OPEB liability was 5.20% and 5.05% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index.” However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

	Non-hazardous		Hazardous	
	City’s proportionate share of net OPEB liability		City’s proportionate share of net OPEB liability	
	Discount rate		Discount rate	
1% decrease	4.20%	\$ 4,654,356	4.05%	\$ 1,972,628
Current discount rate	5.20%	\$ 3,389,936	5.05%	\$ 1,360,611
1% increase	6.20%	\$ 2,352,269	6.05%	\$ 868,891

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

	Non-hazardous		Hazardous	
	City’s proportionate share of net OPEB liability		City’s proportionate share of net OPEB liability	
1% decrease		\$ 2,440,351		\$ 891,547
Current trend rate		\$ 3,389,936		\$ 1,360,611
1% increase		\$ 4,536,099		\$ 1,935,104

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

CITY OF PARIS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

10. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2022 were levied on the assessed valuation of property located in Bourbon County as of January 1, 2021 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.

11. 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.

12. COVID-19 PANDEMIC

Since early 2020, various restrictions have been placed on travel and business across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The City is continuously evaluating the impact of COVID-19 and related responses on the operations and finances of the City. Restrictions placed on the City could significantly impact the City's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PARIS, KENTUCKY
REQUIRED SUPPLEMENTARY
BUDGETARY INFORMATION
GENERAL FUND
for the year ended June 30, 2022**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes	\$ 1,169,150	\$ 1,169,150	\$ 980,751	\$ (188,399)
Licenses and permits	6,031,225	6,031,225	7,910,292	1,879,067
Fines and forfeits	1,000	1,000	13,417	12,417
Intergovernmental	598,625	1,850,821	1,881,849	31,028
Charges for services	-	-	352,733	352,733
Other revenues	<u>110,000</u>	<u>110,000</u>	<u>126,825</u>	<u>16,825</u>
 Total revenues	 <u>7,910,000</u>	 <u>9,162,196</u>	 <u>11,265,867</u>	 <u>2,103,671</u>
EXPENDITURES				
Current				
City commission	382,100	287,100	243,325	(43,775)
General administration	891,755	787,755	758,199	(29,556)
Community partners	1,098,845	1,114,095	1,129,172	15,077
Public safety-police	3,144,225	3,700,000	2,964,038	(735,962)
Public safety-fire	1,973,700	2,350,000	2,331,908	(18,092)
Public works	1,209,375	1,535,000	927,392	(607,608)
Capital outlay	<u>-</u>	<u>-</u>	<u>1,000,271</u>	<u>1,000,271</u>
 Total expenditures	 <u>8,700,000</u>	 <u>9,773,950</u>	 <u>9,354,305</u>	 <u>(419,645)</u>
 Excess (deficiency) of revenues over expenditures	 <u>(790,000)</u>	 <u>(611,754)</u>	 <u>1,911,562</u>	 <u>2,523,316</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	130,968	130,968
Proceeds from debt issuance	-	698,980	698,980	-
Transfers (out)	<u>-</u>	<u>-</u>	<u>(343,717)</u>	<u>(343,717)</u>
 Total other financing sources (uses)	 <u>-</u>	 <u>698,980</u>	 <u>486,231</u>	 <u>(212,749)</u>
 Net change in fund balances	 <u>(790,000)</u>	 <u>87,226</u>	 <u>2,397,793</u>	 <u>2,310,567</u>
 Fund Balance, July 1, 2021	 <u>7,414,190</u>	 <u>7,149,328</u>	 <u>8,763,707</u>	 <u>1,614,379</u>
 Fund Balance, June 30, 2022	 <u><u>\$ 6,624,190</u></u>	 <u><u>\$ 7,236,554</u></u>	 <u><u>\$ 11,161,500</u></u>	 <u><u>\$ 3,924,946</u></u>

Note: Budgeted figures by department included respective capital outlay.

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net pension liability	0.1513%	0.1513%	0.1548%	0.1565%	0.1648%	0.1606%	0.1678%	0.1671%	0.1771%
City's proportionate share of the net pension liability (asset)	\$ 5,540,969	\$ 4,908,008	\$ 6,655,841	\$ 7,707,594	\$ 9,649,119	\$ 9,779,811	\$ 11,803,770	\$ 12,814,284	\$ 11,292,343
City's covered employee payroll	\$ 3,249,210	\$ 3,464,140	\$ 3,578,212	\$ 3,731,788	\$ 4,022,672	\$ 4,068,530	\$ 4,218,674	\$ 4,299,261	\$ 4,481,156
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	170.53%	141.68%	186.01%	206.54%	239.87%	240.38%	279.80%	298.06%	252.00%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.32%	53.54%	50.54%	47.81%	57.33%

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

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net pension liability	0.3229%	0.3229%	0.3189%	0.2849%	0.2510%	0.2178%	0.2045%	0.1726%	0.1683%
City's proportionate share of the net pension liability (asset)	\$ 4,318,002	\$ 3,880,937	\$ 4,895,682	\$ 4,888,873	\$ 5,614,562	\$ 5,267,955	\$ 5,650,082	\$ 5,204,150	\$ 4,479,802
City's covered employee payroll	\$ 1,765,881	\$ 1,634,497	\$ 1,631,230	\$ 1,486,407	\$ 1,394,492	\$ 1,206,352	\$ 1,175,929	\$ 999,915	\$ 1,062,150
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	244.52%	237.44%	300.12%	328.91%	402.62%	436.68%	480.48%	520.46%	421.77%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	53.95%	49.78%	49.26%	46.63%	44.11%	52.26%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 410,050	\$ 475,973	\$ 457,406	\$ 464,886	\$ 561,163	\$ 589,123	\$ 700,576	\$ 849,644	\$ 882,445	\$ 1,066,018
Contributions relative to contractually required employer contribution	<u>410,050</u>	<u>475,973</u>	<u>457,406</u>	<u>464,886</u>	<u>561,163</u>	<u>589,123</u>	<u>700,576</u>	<u>849,644</u>	<u>882,445</u>	<u>1,066,018</u>
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered employee payroll	\$ 3,249,210	\$ 3,464,140	\$ 3,578,212	\$ 3,731,788	\$ 4,022,672	\$ 4,068,530	\$ 4,218,674	\$ 4,299,261	\$ 4,481,156	\$ 4,911,362
Employer contributions as a percentage of covered-employee payroll	12.62%	13.74%	12.78%	12.46%	13.95%	14.48%	16.61%	19.76%	19.69%	21.71%

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 354,942	\$ 374,768	\$ 342,713	\$ 306,301	\$ 311,400	\$ 267,810	\$ 292,453	\$ 300,575	\$ 319,282	\$ 406,454
Contributions relative to contractually required employer contribution	<u>354,942</u>	<u>374,768</u>	<u>342,713</u>	<u>306,301</u>	<u>311,400</u>	<u>267,810</u>	<u>292,453</u>	<u>300,575</u>	<u>319,282</u>	<u>406,454</u>
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered employee payroll	\$ 1,765,881	\$ 1,634,497	\$ 1,631,230	\$ 1,486,407	\$ 1,394,492	\$ 1,206,352	\$ 1,175,929	\$ 999,915	\$ 1,062,150	\$ 1,200,398
Employer contributions as a percentage of covered-employee payroll	20.10%	22.93%	21.01%	20.61%	22.33%	22.20%	24.87%	30.06%	30.06%	33.86%

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

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net OPEB liability	0.1648%	0.1648%	0.1606%	0.1678%	0.1670%	0.1771%
City's proportionate share of the net OPEB liability (asset)	\$ 2,599,425	\$ 3,314,029	\$ 2,850,960	\$ 2,822,154	\$ 4,033,098	\$ 3,389,936
City's covered employee payroll	\$ 3,731,788	\$ 4,022,672	\$ 4,068,530	\$ 4,218,674	\$ 4,299,261	\$ 4,481,156
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	69.66%	82.38%	70.07%	66.90%	93.81%	75.65%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%

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

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

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)
City's proportion of the net OPEB liability	0.2510%	0.2510%	0.2178%	0.2045%	0.1726%	0.1683%
City's proportionate share of the net OPEB liability (asset)	\$ 1,239,634	\$ 2,074,574	\$ 1,553,075	\$ 1,513,035	\$ 1,594,572	\$ 1,360,611
City's covered employee payroll	\$ 1,486,407	\$ 1,394,492	\$ 1,206,352	\$ 1,175,929	\$ 999,915	\$ 1,062,150
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	83.40%	148.77%	128.74%	128.67%	159.47%	128.10%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%	66.81%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 225,170	\$ 178,403	\$ 176,239	\$ 173,575	\$ 190,272	\$ 191,221	\$ 227,191	\$ 209,549	\$ 217,639	\$ 291,053
Contributions relative to contractually required employer contribution	<u>225,170</u>	<u>178,403</u>	<u>176,239</u>	<u>173,575</u>	<u>190,272</u>	<u>191,221</u>	<u>227,191</u>	<u>209,549</u>	<u>217,639</u>	<u>291,053</u>
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered employee payroll	\$ 3,249,210	\$ 3,464,140	\$ 3,578,212	\$ 3,731,788	\$ 4,022,672	\$ 4,068,530	\$ 4,218,674	\$ 4,299,261	\$ 4,481,156	\$ 4,911,362
Employer contributions as a percentage of covered-employee payroll	6.93%	5.15%	4.93%	4.65%	4.73%	4.70%	5.39%	4.87%	4.86%	5.93%

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 309,029	\$ 239,803	\$ 224,508	\$ 192,068	\$ 134,113	\$ 112,794	\$ 123,155	\$ 95,192	\$ 101,117	\$ 125,682
Contributions relative to contractually required employer contribution	<u>309,029</u>	<u>239,803</u>	<u>224,508</u>	<u>192,068</u>	<u>134,113</u>	<u>112,794</u>	<u>123,155</u>	<u>95,192</u>	<u>101,117</u>	<u>125,682</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	\$ 1,394,492	\$ 1,206,352	\$ 1,175,929	\$ 999,915	\$ 1,062,150	\$ 1,200,398
Employer contributions as a percentage of covered-employee payroll	17.50%	14.67%	13.76%	12.92%	9.62%	9.35%	10.47%	9.52%	9.52%	10.47%

CITY OF PARIS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

June 30, 2021 – Pension and OPEB – Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for pension.

June 30, 2020 – Pension and OPEB – Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years..

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

June 30, 2019 – Pension and OPEB – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for either pension or OPEB.

CITY OF PARIS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2017 – Pension and OPEB – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017, for both pension and OPEB:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed 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 reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

June 30, 2013 – Pension – Hazardous and Nonhazardous

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

SUPPLEMENTARY INFORMATION

**CITY OF PARIS, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2022**

	Municipal Road Aid Fund	Debt Service	Total
ASSETS			
Cash	\$ 58,584	\$ -	\$ 58,584
Accounts receivable	17,657	-	17,657
Total assets	\$ 76,241	\$ -	\$ 76,241
LIABILITIES			
Due to other funds	\$ 144,596	\$ -	\$ 144,596
Total liabilities	144,596	-	144,596
FUND BALANCES			
Unassigned	(68,355)	-	(68,355)
Total liabilities and fund balances	\$ 76,241	\$ -	\$ 76,241

CITY OF PARIS, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2022

	Municipal Road Aid Fund	Debt Service	Total
REVENUES			
Intergovernmental revenue	\$ 169,310	\$ -	\$ 169,310
Other revenues	198	-	198
Total revenues	169,508	-	169,508
EXPENDITURES			
Capital outlay	225,942	-	225,942
Debt service	-	343,717	343,717
Total expenditures	225,942	343,717	569,659
(Deficiency) of revenues over expenditures	(56,434)	(343,717)	(400,151)
OTHER FINANCING SOURCES			
Transfers in	-	343,717	343,717
Total other financing sources	-	343,717	343,717
Net change in fund balances	(56,434)	-	(56,434)
Fund balances-beginning	(11,921)	-	(11,921)
Fund balances-ending	\$ (68,355)	\$ -	\$ (68,355)

CITY OF PARIS, KENTUCKY
SCHEDULE OF OPERATING EXPENSES
UTILITY FUND
for the year ended June 30, 2022

UTILITY ADMINISTRATION

Personnel services	\$ 403,380
Contractual services	197,847
Materials and supplies	61,340
Other expenses	1,589,048
Payment in lieu of taxes	<u>300,000</u>
Total utility administration	<u>2,551,615</u>

ELECTRIC DEPARTMENT

Personnel services	795,299
Electric purchases	3,358,321
Contractual services	161,984
Materials and supplies	<u>198,811</u>
Total electric department	<u>4,514,415</u>

WATER DISTRIBUTION

Personnel services	980,162
Contractual services	127,537
Materials and supplies	497,155
Other expenses	<u>6,325</u>
Total water distribution	<u>1,611,179</u>

SEWER TREATMENT

Personnel services	710,390
Contractual services	344,659
Materials and supplies	<u>195,486</u>
Total sewer treatment	<u>1,250,535</u>

SANITATION

Personnel services	137,547
Contractual services	221,709
Materials and supplies	4,170
Recycling center	<u>298</u>
Total sanitation	<u>363,724</u>

DEPRECIATION

	<u>886,701</u>
Total operating expenses	<u>\$ 11,178,169</u>



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

To the Mayor and Commissioners
City of Paris, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paris, Kentucky, as of and for the year ended June 30, 2022, 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 March 17, 2023.

Report on 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) as a basis for designing 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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002, that we consider to be material weaknesses.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Paris, Kentucky's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Paris, Kentucky's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Paris, Kentucky's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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
March 17, 2023



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and Commissioners
City of Paris, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Paris, Kentucky's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Paris, Kentucky's major federal programs for the year ended June 30, 2022. The City of Paris, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Paris, Kentucky complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Paris, Kentucky and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Paris, Kentucky's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Paris, Kentucky's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Paris, Kentucky's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Paris, Kentucky's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Paris, Kentucky's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Paris, Kentucky's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Paris, Kentucky's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
March 17, 2023

CITY OF PARIS, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2022

GRANTOR/PROGRAM TITLE	Federal AL Number	Pass/Through Contract Number	Grant Contract Period	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of the Treasury (TREAS)					
Passed through Kentucky Department of Local Government					
COVID-19 - Coronavirus Relief Fund	21.019	C3-132 PON2 112 220000663	7/1/21-6/30/22	\$ -	\$ 73,531
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	KY0227	7/1/21-6/30/22	-	1,252,196
Total U.S. Department of the Treasury				<u>\$ -</u>	<u>\$ 1,325,727</u>
U.S. Department of Transportation (DOT)					
Passed through Kentucky Transportation Cabinet					
Highway Planning and Construction	20.205	FD52 009 87688 01U	7/1/21-6/30/22	\$ -	\$ 1,551,357
Total U.S. Department of Transportation				<u>\$ -</u>	<u>\$ 1,551,357</u>
Total federal awards expended				<u>\$ -</u>	<u>\$ 2,877,084</u>

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Paris, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in, or used in the preparation of, the basic financials statements may differ from these numbers.

Indirect Cost Rates

The City did not elect to use the 10 percent *de minimis* cost rate as allowed under the Uniform Guidance.

**CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

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

Internal control over major programs:

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

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

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Major Programs:

AL Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2022-001 – Material Weakness – Audit Adjustments (Recurring)

Criteria:

Management of the City of Paris (the City) is responsible for establishing and maintaining effective internal controls over the financial reporting process of the City.

Condition:

During the course of our audit, we identified misstatements that were not identified by the City's internal controls over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in operation exists when a properly designed control does not operate as designed. In this case, the internal controls over the preparation and review of the City's financial statements did not operate as designed, and we consider this a material weakness.

Cause:

The City did not have properly operating internal controls in place over the monthly reconciliation process for accounts payable and accrued liabilities and did not reconcile year-end balances until the audit had commenced. The City also did not have properly operating internal controls in place over the financial reporting process and did not prepare year-end adjustments related to receivables, inventory, fixed assets, and interfund activity until the audit was already underway.

Effect:

Field work on the audit began on October 31, 2022, and it was evident year-end account balances had not been fully adjusted at that point. The City's CPA was able to provide adjustments throughout the audit to correct account balances. However, between the commencement of the audit field work and completion, there were a total of 45 adjustments posted to get to the final figures presented in the audited financials. Management has a listing of these adjustments and has approved all adjustments.

Recommendation:

We recommend that the City continue to work towards strengthening its internal controls over financial reporting throughout the year and prior to the commencement of audit work. We recommend that the City continue to enhance its internal controls over financial reporting with steps such as management review of monthly account reconciliations and listings, improved analysis of the financials compared to prior years, and improved internal communication, particularly as it relates to tracking and recording of payables and the financial closeout process. We recommend specifically that accounts payable and accrued liabilities be reconciled each month to the financial database. An individual other than the preparer of these reconciliations should review all reconciliations to ensure these are completed within 30 days after month end. Upon completion, the reviewer should initial and date the reconciliation.

Response:

The City concurs with this finding and further agrees that in the future, period-end financial reconciliations and reporting along with review procedures will be more in-depth prior to the actual performance of the audit. Internal communications as well as staff training will be conducted more frequently related to the receivables, payables and accrued liabilities to improve internal controls within the City's monthly financial closing process. Subsequent to June 30, 2022, certain checklists have been developed and more input from department heads related to expenditures have been implemented and additional reconciliation procedures are being developed to enhance the monthly and year end close process.

CITY OF PARIS, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022

II. FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

2022-002 – Material Weakness – Controls over Utility Billing (Recurring)

Criteria:

The City should have effective internal controls, including appropriate segregation of duties with independent checks and secondary reviews, over the utility billing process.

Condition:

In the prior year, due to an incorrect rate in the system, customers were overcharged on their June 2021 electric bills. The total overbilling exceeded \$250,000. Due to miscalculations, customers were once again overcharged after the close of the fiscal year under audit, in December 2022/January 2023.

Cause:

The City does not have effective internal controls in place over the utility billing process to permit billing errors to be caught prior to the bills being sent to customers.

Effect:

After the error in the prior year was caught, the City had to adjust customers' bills and issue credits to customers who had already paid. Additional oversight over the billing process was not implemented resulting in this occurring again in December 2022.

Recommendation:

We recommend the City work to strengthen its internal controls over the utility billing process by improving segregation of duties, specifically by implementing a secondary review of utility bills prior to mailing to customers.

Response:

This finding relates to a specific base rate adjustment the City began implementing in 2021. The City agreed with this finding back in 2021, however, with the 2022 base rate adjustments numerous schedules and testing procedures were implemented to make sure this error would not recur.

The City agrees that additional segregation of duties along with independent checks and secondary reviews related to the billing process need to be enhanced. The City has developed new review procedures and checklist subsequent to June 30, 2022 to monitor that the utility billing process is accurate and completed timely. Internal communications as well as staff training will be conducted more frequently related to the monthly billing process to improve internal controls within the City's monthly financial closing process related to the utility billing process.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE REPORTED

IV. PRIOR AUDIT FINDINGS

2021-001 – Material Weakness related to Material Audit Adjustments

2021-002 – Material Weakness related to Electric Utility Overbilling