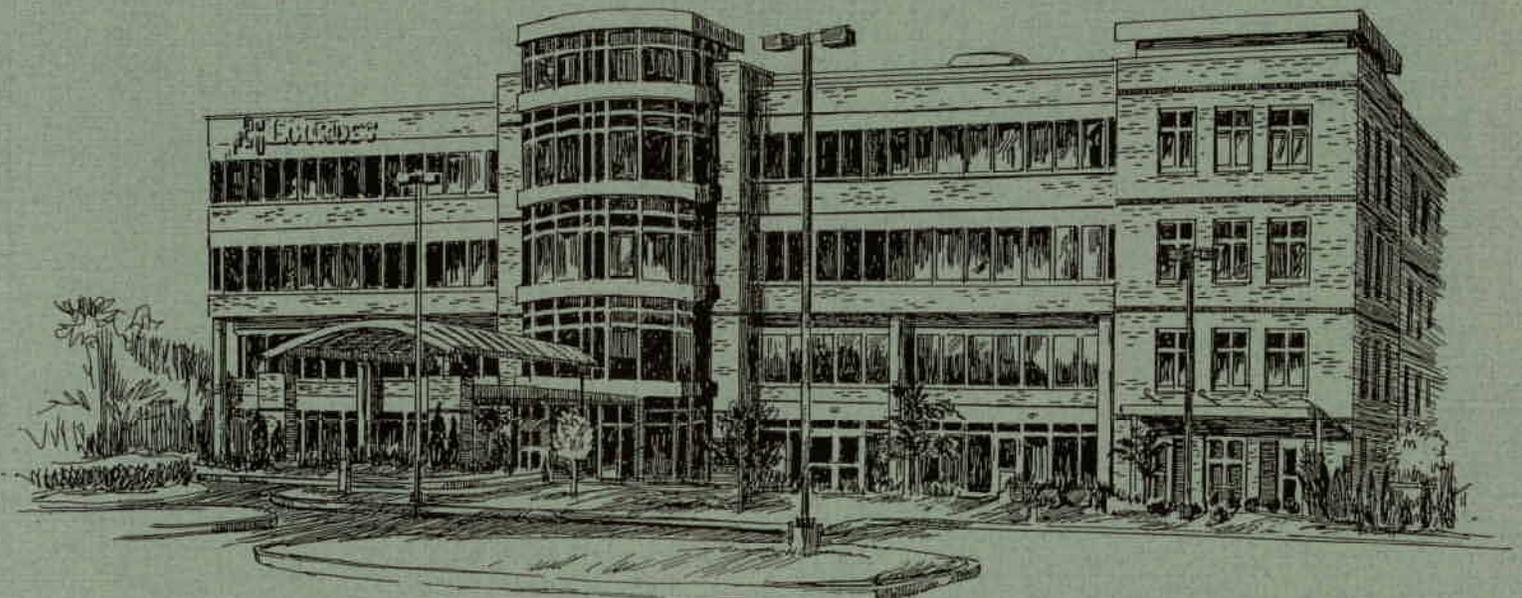


**CITY OF PADUCAH,
KENTUCKY**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2005

**FINANCE DEPARTMENT
CITY OF PADUCAH,
KENTUCKY**



pen and ink the marshall nimmer pavilion january 2005

City of Paducah
Paducah, Kentucky
Comprehensive Annual Financial Report
Year Ended June 30, 2005



**Issued by the
Finance Department**

CITY OF PADUCAH, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

	<u>Exhibit No.</u>	<u>Page No.</u>
Introductory Section:		
Letter of Transmittal		1 - 9
Organizational Chart		10
Principal Officials		11
GFOA Certificate of Achievement		12
Financial Section:		
Independent Auditor's Report		13-14
Required Supplementary Information:		
Management's Discussion and Analysis		15-26
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	27-28
Statement of Activities	2	29-30
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	3	31-32
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	4	33-34
Statement of Revenues, Expenditures and Changes in Fund Balances	5	35-36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	37-38
Proprietary Funds:		
Statement of Net Assets	7	39
Statement of Revenues, Expenses and Changes in Fund Net Assets	8	40
Statement of Cash Flows	9	41
Fiduciary Funds:		
Statement of Net Assets	10	42
Statement of Changes in Net Assets	11	43
Component Units Financial Statements:		
Statement of Net Assets	12	44-45
Statement of Activities	13	46-47
Notes to Financial Statements		48-80
Required Supplementary Information:		
Pension Trust Fund Schedules	A-1	81
Budgetary Comparison Schedule (Budgetary Basis) – General Fund	A-2	82-85
Budgetary Comparison Schedule – Note to RSI	A-3	86
Supplementary Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	B-1	87-88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	B-2	89-90

Exhibit No. **Page No.**

Supplementary Information:

Detail Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:		
Municipal Aid Program Fund	B-3	91
Emergency Communication Service Fund	B-4	92
Court Awards Fund	B-5	93
Small Grant Fund	B-6	94
CDBG Fund	B-7	95
Hope 3 Implementation Grant Fund	B-8	96
Home Grant Fund	B-9	97
HUD Revolving Grant Fund	B-10	98
Paducah Housing Authority Police Grant Fund	B-11	99
Debt Service Fund	B-12	100
Nonmajor Proprietary Funds:		
Combining Statement of Net Assets	C-1	101
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	C-2	102
Combining Statement of Cash Flows	C-3	103
Internal Service Funds:		
Combining Statement of Net Assets	D-1	104
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	D-2	105
Combining Statement of Cash Flows	D-3	106
Fiduciary Funds:		
Combining Statement of Net Assets – Pension Trust Funds	E-1	107
Combining Statement of Changes in Net Assets – Pension Trust Funds	E-2	108
Combining Statement of Net Assets – Private-purpose Trust Funds	E-3	109
Combining Statement of Changes in Net Assets – Private-purpose Trust Funds	E-4	110
Statement of Changes in Assets and Liabilities – Agency Funds	E-5	111

Table No. **Page No.**

Statistical Section:

General Government Expenditures by Function	1	112
General Revenue By Source	2	113
Tax Revenue by Source	3	114
Secured Tax Levies and Collections	4	115
Assessed and Estimated Actual Value of Taxable Property	5	116
Property Tax Rates - Direct and Overlapping Governments	6	117
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	7	118
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures	8	119
Computation of Legal Debt Margin	9	120
Property Value, Construction and Bank Deposits	10	121
Schedule of Sewer Revenue Bond Coverage	11	122

	<u>Table No.</u>	<u>Page No.</u>
Statistical Section:		
Demographic Statistics	12	123
Miscellaneous Statistical Data	13	124-125
Principal Taxpayers	14	126
Computation of Direct and Overlapping Debt	15	127
Summary of Insurance in Force	18	128
 Single Audit Section:		
Schedule of Expenditures of Federal Awards		129-130
Notes to the Schedule of Expenditures of Federal Awards		131
Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		132
Report on Compliance with Requirements Applicable to Each Major Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133		133-134
Schedule of Findings and Questioned Costs		135

CITY OF PADUCAH, KENTUCKY

INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005



CITY OF PADUCAH

Finance Department
P.O. Box 2267
Paducah, KY 42002-2267
270-444-8512

October 28, 2005

Honorable Mayor and Commissioners
City of Paducah
Paducah, Kentucky

We are pleased to submit Paducah's Comprehensive Annual Financial Report for the year ended June 30, 2005. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The major objective of this report is to describe the City's financial condition and the financial results of its operation in a format designed to be useful to the general public, elected officials, investors and creditors. We believe the data, as presented, is accurate in all material aspects; that it is reported in a manner designed to present fairly the financial position and results of operations of the various funds. All disclosures necessary to enable the reader to gain maximum understanding of the City's financial activities have been included.

This Comprehensive Annual Financial Report consists of four sections as follows:

Introductory Section - Contains a list of principal officials, an organizational chart for Paducah and this transmittal letter from the Finance Director.

Financial Section - Includes the Management's Discussion and Analysis (MD&A), basic financial statements, required supplementary information, and combining and individual fund statements and schedules, as well as the independent auditor's report on the basic financial statements. The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditors.

Statistical Section - Includes a number of statistical tables that present various financial, economic, social and demographic data about Paducah for the last ten years.

Single Audit Section - Includes required data in accordance with the Single Audit Act Amendments of 1996.

THE CITY

Paducah was established in 1827 by explorer General William Clark and was named after local legendary Chickasaw Indian Chief "Paduke". The City of Paducah is situated on the southern bank of the Ohio River in the north central portion of McCracken County. Paducah is the largest city both in the county and in the Jackson Purchase eight county region. The City has established itself as the cultural, economic, medical and transportation center for not only the Jackson Purchase region but for a large portion of Southern Illinois and portions of Western Tennessee and Southeastern Missouri.

Industry

The Paducah area has moved from the traditional “manufacturing industry” to a “service industry” economy. Multi-state computer services, significant banking corporations, wholesale and retail trade, river-related services, the health care industry and related services are the major employment centers. Traditional manufacturing employment is heavily concentrated in the categories of chemicals, petroleum, coal and rubber, and enriched uranium.

Economic Development Activities

The Greater Paducah Economic Development Council (GPEDC) coordinates the City’s efforts in strengthening and building economic development activities. Representatives of financial institutions, utilities, local government, education and the business community serve as the Board of Directors. In existence since 1987, GPEDC assumes and carries out the responsibility of working with existing industry and business, as well as identifying and recruiting new companies to the City of Paducah. Additionally, GPEDC is responsible for development of long-term strategy for economic development activities and coordinates local entities in the accomplishment of those strategies.

Several years ago, the City of Paducah, the State of Kentucky and several federal agencies, in conjunction with business, developed a 650-acre ‘Information Age’ Park. This park is designed to appeal to firms needing advanced telecommunications and computing capabilities. The Info Park’s focal point is centered on the Resource Center, which was designed to coordinate resources of government, business and education.

In 1997, the City of Paducah jointly with the County of McCracken acquired the ‘Industrial Park West of Paducah and McCracken County’. This park contains 218 acres with immediate access to two major railroad lines, Paducah and Louisville and Paducah and Illinois (formerly Illinois Central). The park is located within the southwest quadrant of the I-24/Cairo Road interchange.

In FY2004, the Keiler family donated the Columbia and Arcade Theatre buildings valued at \$740,000, and a donation of infrastructure for Industrial Park West valued at \$1.1 million was received, totaling \$1.84 million. Union Planters Bank donated its former main bank building, valued at \$675,000, to the City, which was converted into the City’s ‘Commerce Center’. The theater buildings are being marketed for resale to further enhance the downtown.

In FY2005, as the following table indicates, there were over 1,100 jobs created and retained, \$69 million capital invested and an added fiscal impact estimated to exceed \$128 million from the jobs created and capital invested. Additionally, Gander Mountain, Kohl’s, Best Buy and Old Navy opened, creating several hundred more service industry jobs, further strengthening Paducah’s retail market.

Summary of Capital Investment and New/Retained Jobs FY2005			
Company	Capital Investment In Millions	New & Retained Jobs	Impact of New Jobs In Millions
Infiniti Plastic Technologies	\$47.0	100	\$23.6
Ulrich Medical Concepts	\$2.2	25	\$3.5
Coca-Cola Enterprises	\$4.7	105	\$3.0
AAA Fabricators	\$1.5	25	\$5.9
BellSouth	N/A	45	\$6.3
Millwork Products	\$1.0	57	\$1.7
AlumaKraft	\$1.7	473	\$53.1
American Justice School of Law	\$11.0	300	\$31.4
Total	\$69.1	1,130	\$128.5

Source: GPEDC 2004-2005 Annual Report

Churches And Schools

A relatively strong religious base is evident in the community, as demonstrated by the many churches in Paducah. Numerous churches, representing many of the major denominations, are located within the City. Several area churches offer televised activities as a convenience to those who do not attend church.

Elementary and secondary education in Paducah is provided by the Paducah Independent School System, the McCracken County School System, Community Christian Academy, and by the St. Mary's Parochial School System. Higher education is available locally from West Kentucky Community and Technical College (WKCTC), formerly known as Paducah Community College, a two-year institution affiliated with the University of Kentucky's community college system. WKCTC also serves as a site for the University of Kentucky extended campus graduate programs, in addition to a four-year engineering college in conjunction with the University of Kentucky.

Medical Facilities

Paducah serves as the regional medical center for much of the Jackson Purchase Area of Western Kentucky, a large portion of Southern Illinois, and Northwestern Tennessee. Paducah's medical industry has almost every major medical specialty represented in the physician population. The medical industry, represented by Lourdes Hospital and Western Baptist Hospital, provides over 640 beds for medical needs. The two largest hospitals, together, employ approximately 2,900 persons.

Recreation And Culture

Citizens have available a wide range of recreational and cultural activities which cater to diverse tastes. Area residents may choose from fishing on nearby Kentucky and Barkley Lakes to enjoying the performing arts. City parks provide areas for baseball, softball, golf, football, tennis, soccer and picnicking. The Parks Services Department offers a substantial number of activities for people of all ages.

The 'Dogwood Festival', held in April, highlights the coming of spring in Paducah. Residents are encouraged to spotlight their trees to illuminate a driving tour to celebrate an abundance of dogwood trees.

Paducah is the site of the American Quilter Society's National Museum. The museum, dedicated in 1991, is the centerpiece for the quilters' annual convention held in April. The convention attracts an estimated 30,000 visitors to Paducah annually.

The 'After Dinner Downtown Program', began in May 1997, started out as an experiment to draw people to Paducah's downtown district. From May to September, businesses remain open late on Saturday night, while street corner musicians of all types entertain.

The 'Paducah Summer Festival', started in 1967, is an annual celebration held during the last week in July. Some of the Festival's activities include skydiving, hot air balloon races, a variety of music concerts, and usually concludes with a spectacular riverfront fireworks display.

One of Paducah's oldest celebrations is the '8th of August Emancipation Celebration', which features African American family reunions, or a homecoming. It is a time for African Americans to pay tribute to their heritage and roots, and a time of reconciliation.

The 'Barbecue on the River' event was started in 1995, as a way for local charities to raise funds. It attracts in excess of 20,000 participants to Paducah's riverfront during the last weekend in September. Over time, this annual event has grown to incorporate other events, including 'Arts in Action', 'LowerTown Fine Arts Festival', 'Marine Industry Day' and 'Old Market Days'.

The 'Festival of Lights', started in 1992, is another annual event. This festival marks the beginning of the winter holiday season, with the official lighting of the trees and buildings in downtown Paducah. The season includes a 'Holiday Parade' and features a 'Candle Light Christmas Trail'.

Paducah has an active symphony and several theater groups. The Paducah Symphony Orchestra stages concerts during the winter season, with the Market House Theater presenting several productions during the same time period. The Paducah Live Corporation annually schedules a series of concerts, which brings some of the finest artists to the Paducah stage. In addition, West Kentucky Community and Technical College's 'Arts in Focus' series sponsors a variety of professional productions.

The most recent addition to the City's cultural lineup is the 'Luther F. Carson Four Rivers Center for the Performing Arts'. The Center opened in February 2004, as a regional, multiple-purpose facility, with a 1,800-seat main hall designed to accommodate a wide variety of cultural and educational programs.

The McCracken County Public Library offers a large selection of literature, special collections and programs. The West Kentucky Community and Technical College Library supplements this community resource. The combined inventories of the two libraries yield nearly 121,000 titles, not counting numerous periodicals and newspapers.

THE GOVERNMENT

Paducah operates under a City Manager form of government. The Paducah Board of Commissioners is made up of a Mayor and four Commissioners elected at large by the citizens on a non-partisan basis. The Mayor is elected for a four-year term and Commissioners for a two-year term. The Mayor and Commissioners have equal voting powers.

The Board of Commissioners sets the policies that govern the City. It appoints advisory citizens groups that help in the decision-making process. The City Manager is appointed by the Board and assists it in formulating objectives, policies and programs. The City Manager is responsible for the day-to-day operation of the City's 325 full-time employees as of June 30, 2005. Department managers are responsible for their respective departments and report directly to the City Manager.

REPORTING ENTITY AND ITS SERVICES

For financial statement purposes, as required by generally accepted accounting principles, the City's Comprehensive Annual Financial Report includes all City of Paducah financial statements (primary government) and its component units. Component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City of Paducah.

The following component units have been presented as blended units because the units' governing bodies substantially the same as the governing body of the City, or provide services almost entirely to the City of Paducah: the Paducah Public Improvement Corporation, whose sole purpose is to finance long-term debt; and Police and Firefighters' Pension Fund, which was established for the benefit of police and firemen of the City.

The following component units have been presented as discrete units, to emphasize that they are legally separate from the City. Paducah Water Works, Paducah Power System, and Transit Authority of the City of Paducah are all included in the City's financial statements because of their financial relationship with the City.

The City provides a full range of municipal services, including police and fire protection; maintenance of streets and infrastructure; sanitation services; storm sewer services; cultural events and recreation activities.

Accounting System

The City's accounting system is organized on the basis of separate funds, each of which is considered to be a separate accounting entity. The financial activities of each fund generate a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Municipal resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City's accounting records for the governmental funds and agency funds are maintained on a modified accrual basis, with revenues being recorded when "measurable and available" and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's proprietary funds and trust funds are maintained on the accrual basis, with revenues recognized when earned and expenses recorded when the liability is incurred or economic asset used.

Internal Control

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal controls. Internal controls were designed for Paducah's accounting system to reasonably safeguard its assets against loss from unauthorized use or disposition, check the accuracy of accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.

Budgetary Control

Paducah's budget process provides for input from department managers, top management, elected officials and the public to determine what programs and services will be provided for during the upcoming year. Budgetary control is maintained at the departmental level by comparing budgeted expenditures with actual expenditures on a periodic and year-to-date basis. An expenditure, which would result in an overrun of department appropriation, cannot be made until additional funds are appropriated and a budget amendment is approved. Purchase orders which result in an overrun of department appropriations cannot be honored until additional appropriations are made available. Open encumbrances at fiscal year-end, if any, are reported as reservations of fund balance. Unencumbered funds at year-end roll into the fund balance.

GENERAL GOVERNMENT FUNCTIONS

General Fund Revenue (Based on Fund Financial Statements)

Revenue for General Government functions (General Fund) totaled \$26,862,189 in fiscal year 2005, a decrease of 2.2% over fiscal year 2004. The amount of revenue from various sources, percent of total, and the increase or decrease from last year in dollars and as a percentage are shown in the following tabulation:

Revenue Sources:	FY 2005 Amount	Percent of Total	Increase (Decrease) From FY 2004	
			Dollar Amount	Percent
Taxes	\$ 5,346,389	19.9%	\$ 140,967	2.7 %
Licenses and permits	19,368,765	72.1%	945,521	5.1 %
Charges for services	515,192	1.9%	(54,128)	(9.5)%
Grants	667,062	2.5%	31,537	5.0%
Interest	190,901	0.7%	72,335	61.0%
Miscellaneous	<u>773,880</u>	<u>2.9%</u>	<u>(1,747,853)</u>	<u>(69.3)%</u>
TOTAL REVENUE	<u>\$26,862,189</u>	<u>100.0%</u>	<u>\$ (611,621)</u>	<u>(2.2) %</u>

The most substantial change in the revenue categories above in actual dollars is in 'Miscellaneous', which amounted to \$1,747,853. The vast majority of the decrease was caused by a 'one-time' donation of \$1.84 million for a building and infrastructure donated to the City in FY2004. Net of the donations in FY2004, revenues in the 'Miscellaneous' category increased \$92,147 in FY2005. See 'Economic Development Activities' section on page 2 for additional details regarding the donations.

The most substantial increase in the revenue categories was 'Licenses and Permits', which amounted to \$945,521. Payroll taxes increased \$566,934 or about 5.3 percent, while business license collections increased \$146,764 or 4.2 percent over last year. In fiscal year 1995, \$7.3 million was received in payroll tax revenues, while fiscal year 2005 revenue was \$11.1 million, an average growth rate of 4.4 percent. Payroll tax revenue rate of growth was 3.4 percent for a more recent five-year period, fiscal 2000 to fiscal 2005. The FY2005 payroll tax revenue growth rate of 5.3 percent exceeds the five-year growth rate.

Insurance premium tax collections increased 5.0 percent or \$189,425 over last year. In fiscal year 1992, \$2.3 million was received, and in fiscal year 1999, the revenue hit \$3.4 million, giving an average compounded growth rate of 5.7 percent a year. While insurance premium tax revenue was \$3.4 million in 1999, it subsequently hit a 7-year low in 2000 at \$3.0 million. In fiscal years 2001 and 2002, the insurance premium tax sustained positive growth but declined 1.1 percent in fiscal 2003. The average growth rate for the insurance premium tax over the past 4 years was 3.8 percent.

While overall, 'License and Permits' revenue dollars grew the most, the 'Interest' category increased the most dramatically as a percentage of change, 61 percent or \$72,335. The interest revenue increase can be attributed to the general increase in interest rate environment.

General Fund Expenditures (Based on Fund Financial Statements)

Expenditures for General Fund functions totaled \$24,331,520, a decrease of 1.1% over fiscal year 2004. Increases and decreases in levels of expenditures by major functions compared to the preceding year are shown in the following tabulation:

Expenditures:	FY 2005 Amount	Percent of Total	Increase (Decrease) From FY 2004	
			Dollar Amount	Percent
General government	\$ 4,171,662	17.2%	\$ 280,411	7.2%
Public safety	12,998,049	53.4%	1,248,031	10.6%
Public service	5,654,686	23.2%	72,680	1.3%
Recreation	1,045,024	4.3%	18,727	1.8 %
Other	462,099	1.9%	(1,881,745)	(80.3)%
TOTAL EXPENDITURES	\$24,331,520	100.0%	\$(261,896)	(1.1) %

Expenditures decreased 1.1 percent or \$261,896 between fiscal year 2004 and fiscal year 2005. Spending between fiscal year 2003 and fiscal year 2004 increased \$693,178 or 3.1 percent (net of 'one-time' donation of \$1.84 million for a building and infrastructure donated to the City in FY2004). The fiscal year 1995 expenditure per capita was \$595 and changed to \$728 and \$839 in fiscal year 2000 and fiscal year 2003, respectively. Per capita expenditures have increased on average 4.7 percent annually since fiscal year 1995. Fiscal year 2005 General Fund expenditures decreased \$10 per citizen from the fiscal year 2004 amount of \$935.

The most substantial increase in the expenditures categories above, in actual dollars, is in 'Public Safety', which amounted to \$1,248,031. Over 72% of the increase is attributed to wages and related benefits, specifically wage increases (\$470,800) and related pension expenses (\$364,200). FOP and IAFF wage contracts provided for a 3% cost of living adjustment in fiscal year 2005. The State of Kentucky increased the City's pension expense for hazardous-duty employees by 3.57% (a 19.3% increase) to a 22.08% contribution rate on all wages paid.

The largest change in the expenditure categories above, in actual dollars, is in 'Other', which amounted to a decrease of \$1,881,745. The vast majority of the change was caused by a 'one-time' donation of \$1.84 million for a building and infrastructure donated to the City in fiscal year 2004. Net of the donations, expenditures in the 'Other' category actually decreased in FY2005 \$41,745. See 'Economic Development Activities' section on page 2 for additional details regarding the donations.

The next most significant change, in terms of dollars, was in the 'General Government' category for \$280,411, or 7.2% over last year. General Government operation expenditures include operations not involved with public safety, recreation, or public service. The most substantial increases, in terms of dollars, were in the 'Legal', 'Contributions' and 'Inspections' divisions, amounting to nearly \$169,000.

The fiscal year 2005 budget process played a significant role in identifying spending trends, and that process should be carried over into fiscal year 2006. The fiscal year 2005 expenditures more accurately reflect all costs associated with the departments that benefit from the expenditure.

ECONOMIC CONDITION

The City continues to be aggressive in promoting economic development, since new developmental job growth is necessary to ensure the continued stability of the City's tax base. Economic indicators and trends reflect that the area's economy has remained steady in recent years and is expected to continue to be steady over the near-term. Area employment remains stable with 29,698 persons employed (McCracken County) as of June 30, 2005.

The June 2005 unemployment rate was 6.1% (McCracken County), somewhat higher than the federal rate of 5.0%. The number of active electric and water meters was nearly the same as the prior year. The number of residential construction permits obtained was 204 units of single and multi-family dwellings, down 24% and valued at \$16.6 million. The value of commercial construction permits was \$41.4 million, up sharply 75% from the prior year.

CASH MANAGEMENT

Idle cash in the City's various funds, except for pension funds, is invested for terms ranging from overnight to 23 months to maturity, depending upon liquidity needs. Independent money managers handle Police and Firefighters' Pension Funds. City deposits/investments are protected by FDIC insurance and pledged U.S Government securities. The amount of interest earned in fiscal year 2005 in the General Fund was \$190,901, on rates varying from 1.65% to 3.45%.

RISK MANAGEMENT

In recent years, attention has been focused on safety in the workplace. Working with the Kentucky League of Cities (KLC) has produced numerous enhancements in worker safety. In fiscal year 2005, a risk manager was hired in order to more aggressively address risk issues. The City has selected various insurance coverage to mitigate potential risk, with premiums costing more than \$1,015,000 and \$904,500 in fiscal year 2005 and fiscal year 2004, respectively, for general liability, public officials liability, auto, law enforcement and workers compensation.

PENSION FUND MANAGEMENT

The City of Paducah employees are covered by one of three retirement systems: (1) Police and Firefighters' Pension Fund (PFPF); (2) County Employees' Retirement System (CERS); and (3) Appointive Employees' Pension Fund (AEPF).

The **PFPF** is a single-employer contributory defined benefit plan established by local ordinance under State Statutes. Members contribute 8% of their gross earnings. The investments of this fund are managed by a six-member board of trustees, which utilizes BB&T as money managers. Monthly reports are received, and monthly meetings are held with the money managers to review investment progress and strategy.

In the past year, the PFPF had a net asset decrease of \$201,438, with net assets valued at \$9,150,861 on June 30, 2005. There were 5 active members and 95 retirees and/or beneficiaries in this fund as of June 30, 2005. The most recent actuarial report prepared for the PFPF was as of July 1, 2005.

The **CERS** is a multiple employer cost sharing defined benefit plan administered by Kentucky Retirement System. Effective August 1, 1988, all but 21 active police and firefighters opted to transfer from the present plan to the County Employees' Retirement System.

Non-hazardous duty employees contribute 5%, while hazardous duty employees contributed 7% until August 1, 1998. Hazardous duty employees contribute 8% effective August 1, 1998, due to a change in state pension law. The City contributed 8.48% for non-hazardous and 22.08% for hazardous duty employees in fiscal year 2005.

The **AEPF** is a single-employer contributory defined benefit plan created by local ordinance under State Statute. While there are no active members in the plan, there are 11 retirees and/or beneficiaries receiving benefits from the fund as of June 30, 2005. Retirees are former non-hazardous duty municipal employees who retired prior to the statewide CERS plan. Funding was formerly provided by a special ad valorem tax, with any shortfall to be covered by a transfer from the City's General Fund. The AEPF had a net asset increase of \$5,269 in fiscal year 2005, with net assets valued as of June 30, 2005, of \$328,889.

SPECIAL REVENUE FUNDS

Special revenue funds (Nonmajor Governmental Funds) included in this report are the Municipal Aid Program, Emergency Communication Service Fund, Court Awards Fund, and various Federal and State Grants. Revenues accounted for in these funds are restricted to specific purposes.

PROPRIETARY FUNDS

The City maintains eight proprietary funds which are: Solid Waste, Civic Center, Telecommunication Information System Authority (TISA) (Business-type Activities); and Fleet Maintenance, Fleet Lease Trust, Insurance and Health Insurance Funds (Internal Service Funds).

In fiscal year 1990, the Solid Waste Fund and the Wastewater/Stormwater Fund were reclassified from General Government and established as proprietary funds. The City's fleet operation was broken out as a proprietary fund in fiscal year 1992, in order to more accurately reflect the true cost of the City's vehicle and equipment fleet maintenance program. The Civic Center's operation was converted into a proprietary fund in fiscal year 1993. In fiscal year 1999, the City set up two new funds called Fleet Lease Trust and Health Insurance Funds in order to more accurately monitor the City's fleet lease program and health, dental and flexible benefits programs, respectively. All these changes were made to better account for the cost of operations. The Wastewater/Stormwater Fund was closed out in fiscal year 2004, since accounts are settled with the Paducah-McCracken County Joint Sewer Authority (JSA). This agency has taken over the planning, financing, operation and maintenance of all county and city sewer systems.

DEBT SERVICE FUND

This fund is used to account for payment of general obligation indebtedness, which includes the following debt issues.

In fiscal year 2001, the City issued \$9.29 million in notes payable to fund the Julian Carroll Convention Center expansion (\$6.0 million) and to assist in the financing of the Luther F. Carson Four Rivers Center (FRC) for the Performing Arts (\$3.0 million). According to an interlocal agreement between the City, McCracken County and the Tourism and Convention Commission, principal and interest payments on the bonds are to be made from a 2% transient room tax collected by the County. Any excess principal and interest payments on the bonds are split equally between the City, County and the Tourism and Convention Commission.

In fiscal year 2004, the City issued \$3.5 million in bonds to fund a variety of capital projects, including park improvements (\$1.0 million), downtown infrastructure improvements in conjunction with the FRC (\$1.5 million), and City Hall, Police and other City-owned facility improvements (\$1.0 million). In fiscal year 2004, the City sold \$5.0 million in bonds to construct the Infiniti Media Building in the Paducah Industrial Park West, an economic development project. By interlocal agreement, McCracken County is obligated to an amount equal to 50% of the principal amount of the bonds. After the third year of the life of the bond, the Infiniti Media Company is obligated to make monthly lease payments to the City in an amount nearly equal to the debt service obligation.

The total cash outlay requirements for debt service retirement; principal and interest, in fiscal year 2005 were \$1,298,614.

INDEPENDENT AUDIT

Kentucky Revised Statute 91 A-040 requires an annual audit of each fund of the City by an auditor of public accounts or a certified public accountant. The independent certified public accounting firm of Kemper CPA Group, LLP has conducted this audit and their opinion has been included in this report. The City is also subject to the Single Audit Act Amendments of 1996 reporting requirements. The Single Audit Report is included within this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Paducah, Kentucky for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the fourteenth consecutive year that the City achieved this prestigious award.

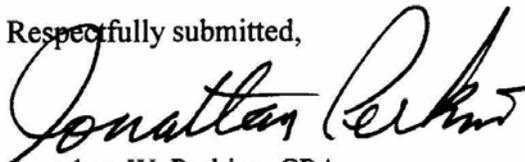
In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

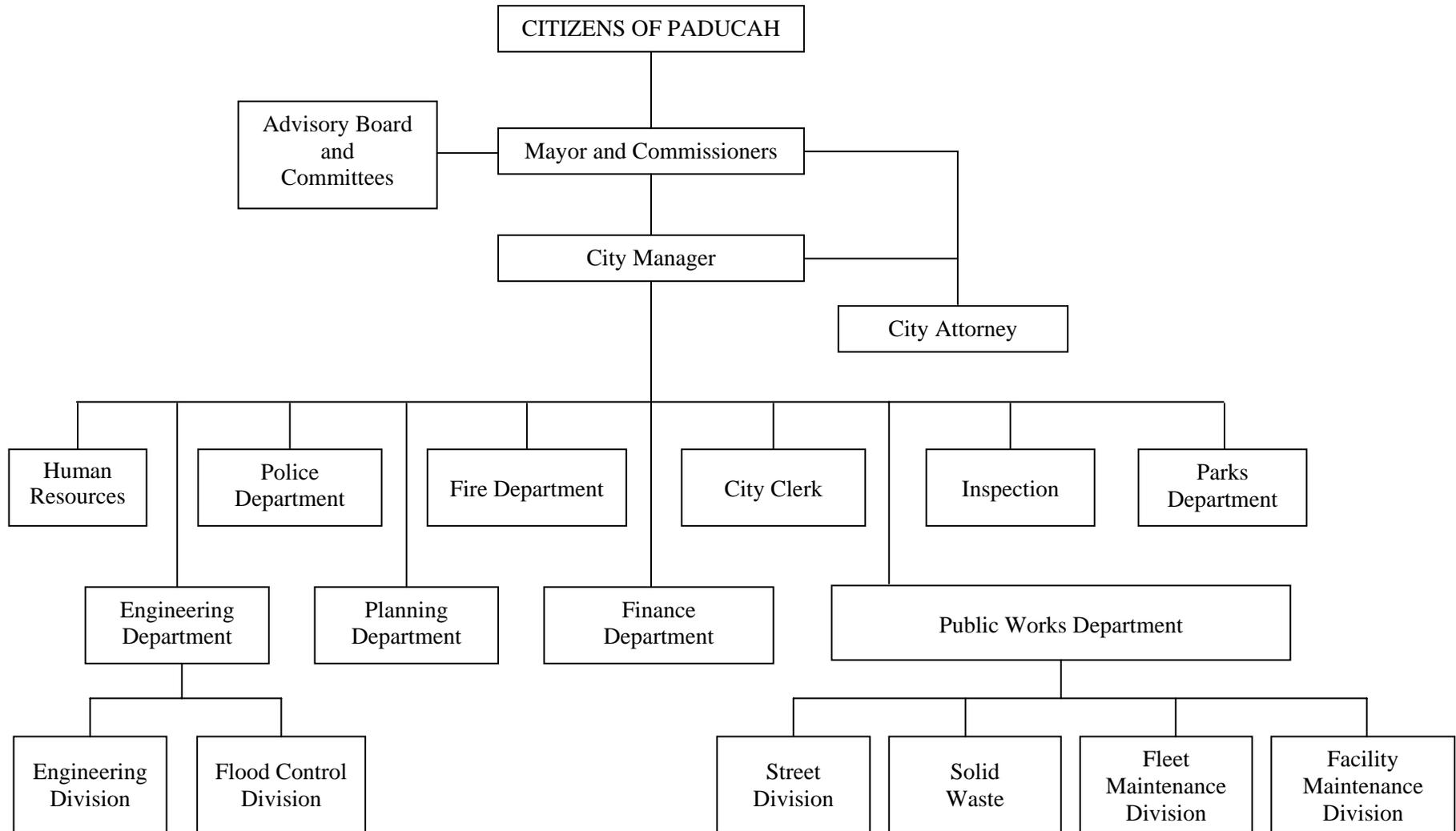
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We wish to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation, and special thanks to Kemper CPA Group, LLP. We also thank the Mayor and City Commission for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Jonathan W. Perkins, CPA
Finance Director/Treasurer

**CITY OF PADUCAH, KENTUCKY
ORGANIZATIONAL CHART**



**CITY OF PADUCAH, KENTUCKY
PRINCIPAL OFFICIALS**

BOARD OF COMMISSIONERS

Mayor	William F. Paxton
Mayor Pro tem	Buz Smith
Commissioner	George Sirk
Commissioner	Robert Coleman
Commissioner	David Guess

CITY MANAGER

James Zumwalt

Human Resources	Herschel Dungey
Finance	Jonathan Perkins, C.P.A.
Police Chief	Randy Bratton
Fire Chief	Redell Benton
City Engineer	Richard Murphy
Planning	Thomas Barnett
Parks Services	Mark Thompson
Inspections	Joel Scarbrough
Public Works	Earnie Via
Information Services	Greg Mueller
City Clerk	Tammy Brock
Risk Manager	Cindy Medford

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Paducah,
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

CITY OF PADUCAH, KENTUCKY

FINANCIAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

Independent Auditor's Report

Honorable William F. Paxton, Mayor
Members of the Board of Commissioners
City of Paducah
Paducah, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Paducah, Kentucky (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Paducah, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Paducah Water Works, Paducah Power System, and Transit Authority of the City of Paducah, which represent 100 percent of the assets and revenues of the Component Units column. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for Paducah Water Works, Paducah Power System, and Transit Authority of the City of Paducah, discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Paducah, Kentucky as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, Pension Trust Fund Schedules, and budgetary comparison information on pages 15 through 26 and 82 through 87, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Paducah, Kentucky's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Paducah, Kentucky. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kemper CPA Group LLP

Certified Public Accountants and Consultants
October 28, 2005

CITY OF PADUCAH, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

CITY OF PADUCAH, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005

The City of Paducah ("City") offers Management's Discussion and Analysis to provide a narrative overview and analysis of City financial activities for fiscal year ended June 30, 2005. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the letter of transmittal (pages 1-9) and the basic financial statements (pages 27-80) provided in this document.

The City first implemented Government Accounting Standards Board Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for fiscal year 2003.

I. Financial Highlights

- Assets exceeded liabilities by \$40.0 million at the close of the 2004-2005 fiscal year. Of this amount, \$7.4 million (unrestricted net assets) may be used to meet City government's ongoing obligations to citizens and creditors.
- Total net assets decreased \$712,625.
- At fiscal year end, City governmental funds reported a combined ending fund balance of \$10.8 million. Approximately 87% of this total amount, \$9.4 million, is unreserved and available for spending at the City's discretion. Of the \$9.4 million, \$1,049,659 is in various special funds, which are earmarked for specific purposes.
- At the end of the current fiscal year, unreserved general fund balance was \$8.3 million, of which cash makes up approximately \$4.4 million. When compared to total appropriations, the general fund cash balance is 16.4%.

II. Overview of Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component unit financial statements, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

A. Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of City finances in a manner similar to private-sector business.

The Statement of Net Assets presents information on all City assets and liabilities, with the difference between assets and liabilities reported as net assets. Monitoring increases and/or decreases in net assets over time may serve as a useful indicator of whether the financial position of the City is improving, stagnating, or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All net asset changes are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows. Revenues and expenses are reported in the Statement of Activities for some items that will only result in cash flows in the future (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish City functions that are primarily supported by taxes and intergovernmental revenues (governmental activities) from other City functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). City governmental activities include general government, public safety, public service, park and recreation, planning and development, and interest on long-term debt. Business-type activities of the City include Solid Waste, Civic Center and Telecommunication Information System Authority (TISA).

Government-wide financial statements include not only the City (the primary government), but also a legally separate Paducah Water Works, Paducah Power System and Transit Authority of the City of Paducah (component units) for which the City is financially accountable. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 27-30 of this report.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over segregated resources for specific activities or objectives. The City of Paducah, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds can be divided into three categories:

1) Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike government-wide financial statements, however, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a city's near-term financing requirements.

The City maintains fourteen (14) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, General Capital Improvements, and Downtown Capital Improvements Funds, all of which are considered to be major funds. Data from the other eleven (11) funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining and individual fund statements elsewhere in this report on pages 87-100.

Readers may better understand the long-term impact of the City's near-term financing decisions by comparing the narrow-focus governmental funds financial statements with governmental activities in the government-wide financial statements. Exhibit 4 (pages 33-34) and Exhibit 6 (pages 37-38) provide a reconciliation to ease comparison between the fund financial statements and the government-wide statements.

The basic governmental fund financial statements can be found on pages 31-38 of this report.

2) Proprietary Funds. The City maintains two types of proprietary funds:

a. Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements and are used to account for operations:

- That are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- Where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City uses three enterprise funds to account for Solid Waste, Civic Center and TISA, as well as certain component units that provide electric, water, and public transit. TISA and Civic Center receive subsidy from the General Fund.

The City's component unit enterprises include the Paducah Water Works, Paducah Power System and Paducah Transit Authority, which provide water, electric, light and power systems, and public transportation. These component units, each of which has their own board of directors, are also enterprise funds and are shown on pages 44-47.

- b. Internal Service Funds** are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for fleet services, fleet replacement, risk management (insurance) and employee health programs. Internal Service Funds have been allocated between governmental activities and business-type activities in the government-wide financial statements based on revenue earned.

Proprietary funds provide the same kind of information as government-wide financial statements, but in greater detail. Individual data for the nonmajor proprietary funds is presented in the form of combining statements on pages 101-103 of this report. Individual data for the internal service funds is likewise presented in the form of combining statements on pages 99-101 of this report.

- 3) **Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are not reflected in government-wide financial statements because those resources are not available to support City programs. Individual data for the City's five (5) fiduciary funds (Appointive Employees' Pension, Police and Firefighters' Retirement, Oak Grove Cemetery Trust, Maintenance and Rehabilitation Trust and Payroll Agency) are presented in the form of combining statements on pages 107-111 of this report.

C. Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 48-80 of this report.

D. Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning City funding of its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general and major special revenue funds.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor proprietary funds, internal service funds and fiduciary funds are presented immediately following the required supplementary information on pensions and budgetary comparisons. Combining fund statements and schedules can be found on pages 82-106 of this report.

III. Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. City assets exceeded liabilities by \$40.0 million as of June 30, 2005.

The largest portion of the City's net assets (77%) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide service to citizens and, as a result, these assets are not available for future spending. The City's capital assets investment is reported net of related debt, but the resources to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

An additional portion of City net assets (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$7.4 million) may be used to meet the City's ongoing obligations to citizens and creditors.

As of June 30, 2005, the City reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

In this third year of implementation of GASB Statement 34, the City is presenting comparative columns in the various comparisons and analyses for the prior year.

City of Paducah, Kentucky

Net Assets

June 30

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u> <u>(Restated)</u>	<u>2005</u>	<u>2004</u> <u>(Restated)</u>	<u>2005</u>	<u>2004</u> <u>(Restated)</u>
Current assets	\$21,724,001	\$24,183,921	\$2,361,097	\$2,205,856	\$24,085,098	\$26,389,777
Capital assets	<u>42,479,913</u>	<u>41,840,849</u>	<u>1,463,118</u>	<u>1,463,669</u>	<u>43,943,031</u>	<u>43,304,518</u>
Total assets	<u>64,203,914</u>	<u>66,024,770</u>	<u>3,824,215</u>	<u>3,669,525</u>	<u>68,028,129</u>	<u>69,694,295</u>
Long-term liabilities	17,502,282	17,889,770	2,084,531	2,076,502	19,586,813	19,966,272
Other liabilities	<u>8,122,376</u>	<u>8,788,311</u>	<u>304,214</u>	<u>212,361</u>	<u>8,426,590</u>	<u>9,000,672</u>
Total liabilities	<u>25,624,658</u>	<u>26,678,081</u>	<u>2,388,745</u>	<u>2,288,863</u>	<u>28,013,403</u>	<u>28,966,944</u>
Net assets:						
Invested in capital assets, net of related debt	29,492,197	30,902,513	1,463,118	1,463,668	30,955,315	32,366,181
Restricted	1,668,022	4,746,340	-	-	1,668,022	4,746,340
Unrestricted	<u>7,419,037</u>	<u>3,697,836</u>	<u>(27,648)</u>	<u>(83,006)</u>	<u>7,391,389</u>	<u>3,614,830</u>
TOTAL NET ASSETS	<u>\$38,579,256</u>	<u>\$39,346,689</u>	<u>\$1,435,470</u>	<u>\$1,380,662</u>	<u>\$40,014,726</u>	<u>\$40,727,351</u>

A. Analysis of the City's Operations

The following table provides a summary of the City's operations for the years ended June 30, 2005 and 2004. The City first implemented GASB Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* in fiscal year 2003. Governmental activities decreased the City's net assets by \$767,433. Business-type activities increased the City's net assets by \$54,808.

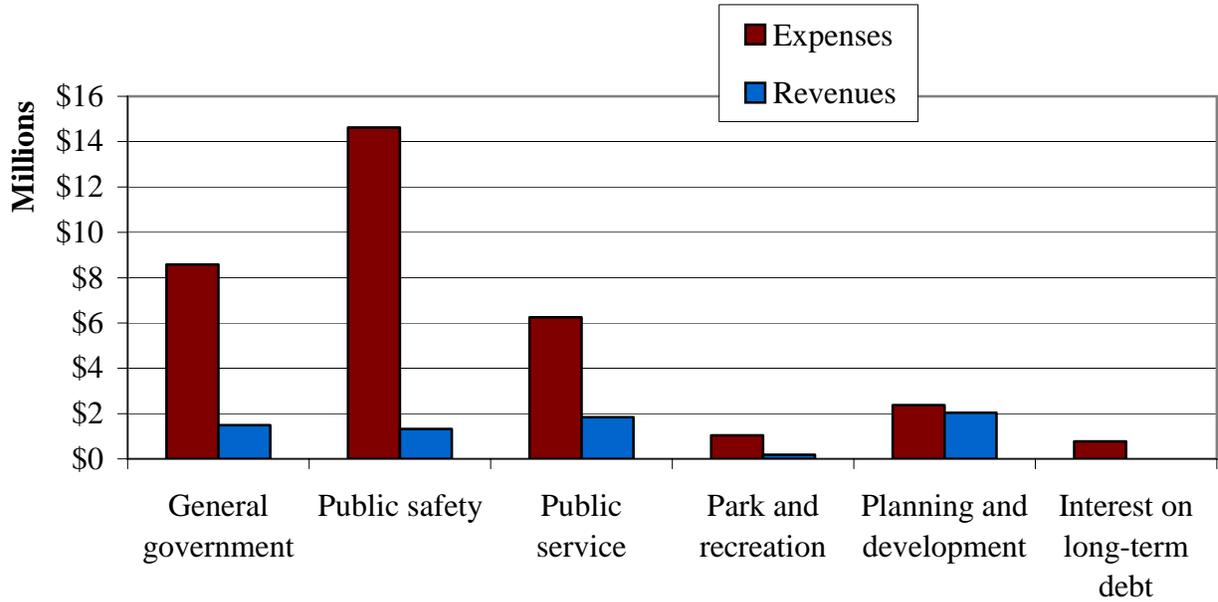
The following table provides a summary of the City's operations for the years ended June 30, 2005 and June 30, 2004:

City of Paducah, Kentucky
Changes in Net Assets
For the Years Ended June 30

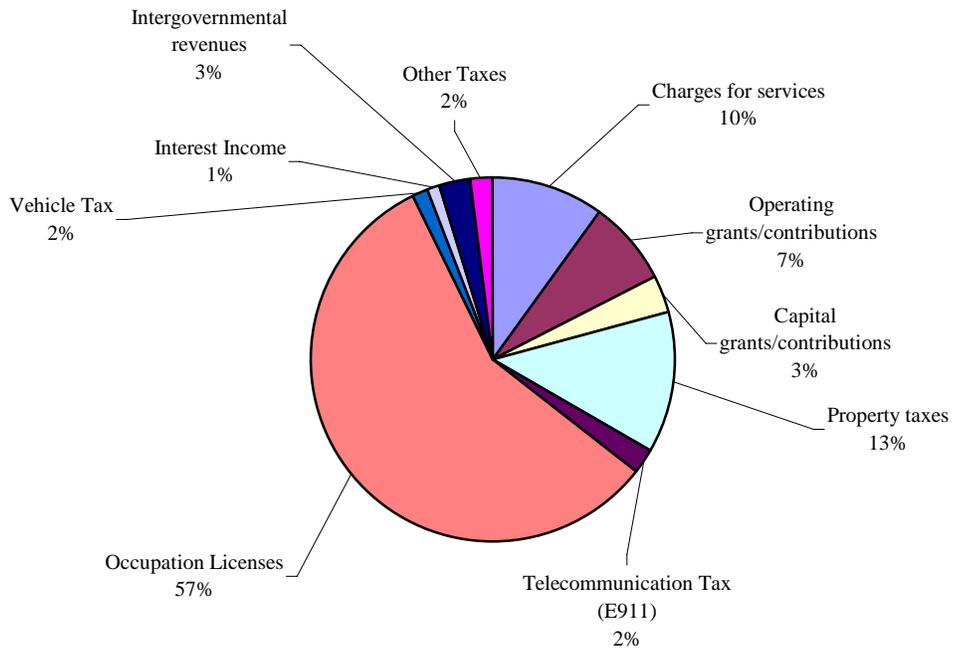
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004 (Restated)	2005	2004 (Restated)	2005	2004 (Restated)
Revenues:						
Program revenues:						
Charges for services	\$ 3,305,792	\$ 3,867,699	\$ 3,720,332	\$ 3,927,365	\$ 7,026,124	\$ 7,795,064
Operating grants/ contributions	2,452,694	3,290,134	-	-	2,452,694	3,290,134
Capital grants/ contributions	1,100,064	3,874,137	14,735	24,990	1,114,799	3,899,127
General revenues						
Property taxes	3,919,113	4,012,168	-	-	3,919,113	4,012,168
Franchise tax	269,407	244,877	-	-	269,407	244,877
Telecommunication tax	670,181	665,807	-	-	670,181	665,807
Insurance premium tax	3,957,289	3,794,320	-	-	3,957,289	3,794,320
Vehicle tax	540,470	493,800	-	-	540,470	493,800
Bank tax	157,771	161,550	-	-	157,771	161,550
Gross receipts license tax	3,720,784	3,817,662	-	-	3,720,784	3,817,662
Employee licenses tax	11,192,445	10,805,119	-	-	11,192,445	10,805,119
Other taxes	478,574	198,106	-	-	478,574	198,106
Intergovernment revenue	955,645	871,273	-	-	955,645	871,273
Unrestricted investment earnings	290,647	220,992	51,508	32,826	342,155	253,818
Gain on sale of capital assets	-	(1,972)	27,500	34,975	27,500	33,003
Total revenues	<u>33,010,876</u>	<u>36,315,672</u>	<u>3,814,075</u>	<u>4,020,156</u>	<u>36,824,951</u>	<u>40,335,828</u>
Expenses:						
General						
government	8,431,994	7,969,027	-	-	8,581,994	7,969,027
Public safety	14,620,938	13,243,912	-	-	14,620,938	13,243,912
Public service	6,249,860	6,195,005	-	-	6,249,860	6,195,005
Parks and recreation	1,045,024	1,026,293	-	-	1,045,024	1,026,293
Planning and development	2,521,412	5,330,393	-	-	2,371,412	5,330,393
Interest on long-term debt	775,122	496,049	-	-	775,122	496,049
Solid Waste	-	-	3,683,954	3,419,464	3,683,954	3,419,464
Civic Center	-	-	39,008	33,181	39,008	33,181
TISA	-	-	170,264	184,166	170,264	184,166
Total expenses	<u>\$33,644,350</u>	<u>34,260,679</u>	<u>3,893,226</u>	<u>3,636,811</u>	<u>37,537,576</u>	<u>37,897,490</u>
Increase (decrease) in net assets before transfers	(633,474)	2,054,993	(79,151)	383,345	(712,625)	2,438,338
Transfer	<u>(133,959)</u>	<u>(68,964)</u>	<u>133,959</u>	<u>68,964</u>	-	-
Change in net assets	(767,433)	1,986,029	54,808	452,309	(712,625)	2,438,338
Net assets, July 1, restated	<u>39,346,689</u>	<u>37,360,660</u>	<u>1,380,662</u>	<u>928,353</u>	<u>40,727,351</u>	<u>38,289,013</u>
NET ASSETS, JUNE 30	<u>\$38,579,256</u>	<u>\$39,346,689</u>	<u>\$ 1,435,470</u>	<u>\$ 1,380,662</u>	<u>\$40,014,726</u>	<u>\$40,727,351</u>

B. Governmental Activities

**Governmental Activities
Expenses and Program Revenues**



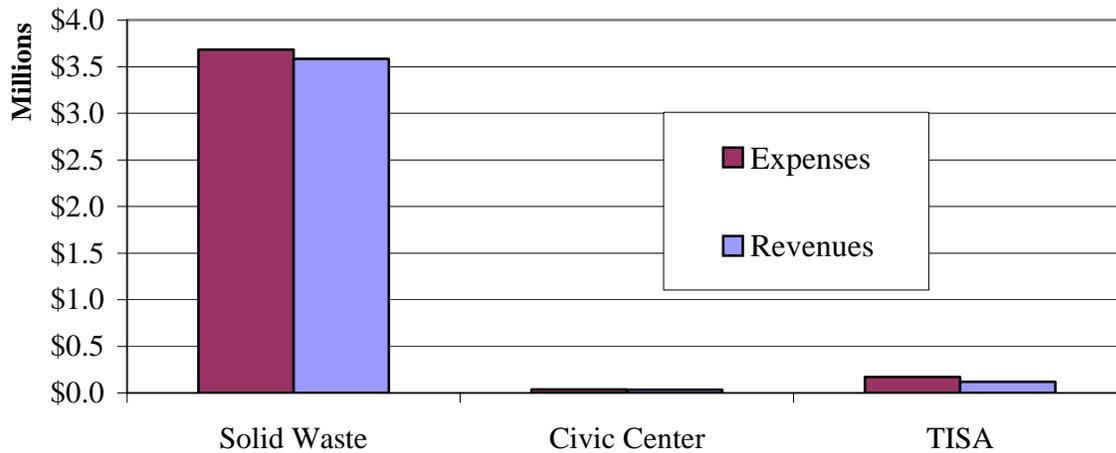
**Governmental Activities
Revenue by Source**



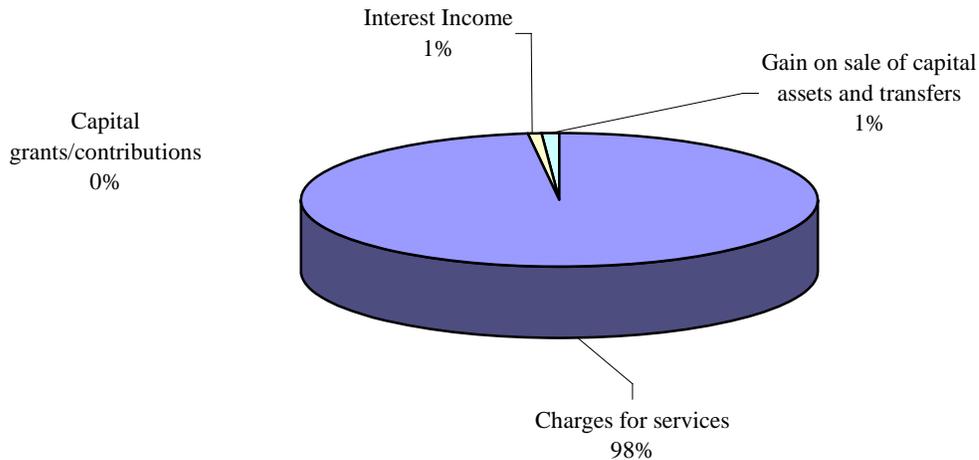
C. Business-Type Activities

Business-type activities increased the City’s net assets by \$54,808, in contrast to the negative position in net assets for Governmental Activities for the year.

**Business-Type Activities
Expenses and Revenues**



**Business-Type Activities
Revenue by Source**

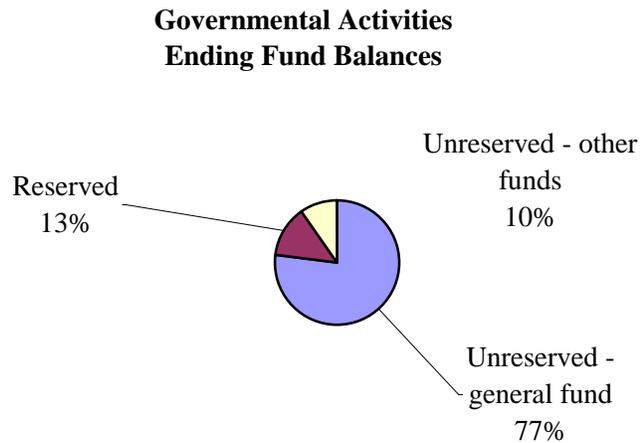


IV. Financial Analysis of the City's Funds

A. Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in determining the City's financing requirements. Unreserved fund balance serves as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$10.8 million (see Exhibit 3). Approximately 87% of this total amount, \$9.4 million, is unreserved fund balance, which is available for spending at the government's discretion but only up to the amount represented by cash. Of the \$9.4 million, \$1.1 million is in the debt service fund and various grant funds. The remaining \$1.4 million of fund balance is reserved for specific future uses.



The general fund is the chief operating fund of the City. At the end of the 2004-2005 fiscal year, the general fund unreserved fund balance was \$8.3 million. City fiscal policy (ordinance 2004-6-6827) required that an amount not less than 12.5% of the General Fund's budgeted expenditures remain undesignated in the fund balance, or \$3.4 million, which leaves \$4.9 million as unreserved for fiscal year 2005. While \$4.9 million represents unreserved fund balance, it is worth noting here that at year-end there was only \$4.4 million available as cash, the balance is tied up in other assets including accounts receivable and property taxes collectible. As a measure of general fund liquidity, readers may compare both unreserved fund balance and total fund balance to total general fund expenditures. Unreserved General Fund fund balance represents approximately 30.7% of expenditures and transfers out (\$27.1 million). When compared to total appropriations, the general fund cash balance (\$4.4 million) is 16.4%.

The General Fund fund balance decreased by \$209 thousand during the 2004-2005 fiscal year and was the result of expenditures increasing at a more rapid rate than revenues. Key factors contributing to this decrease are:

- o Economic development incentives, and
- o State pension plan cost increases.

The General Capital Improvements Fund had a fund balance of \$953 thousand all of which is reserved. The General Capital Improvements fund balance increased \$216 thousand over last year.

The Downtown Capital Improvements Fund had a deficit fund balance of \$13,389 all of which is unreimbursed expenditures for economic development projects. The Downtown Capital Improvements fund balance decreased \$3.1 million. Final construction payouts for the Infiniti Media project made up \$1.8 million of the change, the balance of the decrease was payouts for various infrastructure projects including the Police Building and Park facility improvements.

B. Proprietary Funds

The City’s proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the respective proprietary funds are:

Solid Waste	\$ (222,094)
Civic Center	22,359
TISA	157,146

Combined net asset change for the three funds was \$34 thousand less than last year, broken down as follows: Solid Waste (\$43 thousand), Civic Center (\$6 thousand), and TISA \$83 thousand. Other factors concerning the proprietary enterprise funds have been addressed in the discussion of City business-type activities.

V. General Fund Budgetary Highlights

Differences between the original budget and the final actual amounts resulted in a \$723 thousand decrease in appropriations and can be briefly summarized as follows:

<u>Department</u>	<u>Appropriations</u>	
	<u>Increase</u>	<u>Decrease</u>
General administration	\$ -	\$272,114
Finance	-	12,663
Planning	-	182,703
Human rights	-	10,544
Human resources	-	19,440
Inspection	-	36,546
Information systems	-	29,236
Risk management	3,938	-
Police	-	102,269
Fire	73,033	-
Public works	-	232,568
Engineering services	-	74,446
Recreation	-	110,421
Other	282,869	-

Transfers out were increased \$722 thousand. The net decrease to appropriations and transfers out was \$1,000 for the year. Overall, since expenditures and transfers out were slightly less than budgetary estimates, fund balance was affected positively.

The budget is a ‘living and breathing’ plan document, which requires adjustments throughout the year. In order to meet the continuing challenge to fund the cost of economic development and infrastructure needs (\$436 thousand), neighborhood redevelopment (\$150 thousand) and the cost of the Police and Firefighter’s Pension plan (\$122 thousand) it was necessary to reduce the cost of operations by \$723 thousand and increase the transfers out appropriation by \$722 thousand.

VI. Capital Asset and Debt Administration

A. Capital Assets

The City’s investment in capital assets for governmental and business-type activities as of June 30, 2005, is \$37.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles and equipment, park facilities, roads, highways, and bridges, and construction in progress.

Capital improvements are included in each department budget until improvements are completed. At the end of the fiscal year, completed projects are capitalized in the Government-wide Statements. During fiscal year 2005, projects and equipment expenditures totaled nearly \$7.4 million. The largest capital-type projects, in terms of dollars in fiscal year 2005, are shown in the following table:

Infiniti Media building project	\$1,773,000
City Hall and Police Building – HVAC	814,830
Pecan Drive improvements project (row, bridges)	602,000
Park improvements (including recreation trails)	506,000
AlumaKraft/Infiniti economic development projects	440,000
Four Rivers Center parking lot and related infrastructure	233,000
AJLS land acquisition	222,000
GIS and Fire FEMA projects	172,000

In the upcoming years, several street, economic development, riverfront development, quality of life and drainage projects will continue and are estimated to cost several million dollars. Capital improvement projects including infrastructure, the continuing airport expansion, recreational facility improvements, continued neighborhood revitalization, and street and sidewalk rehabilitation are among the projects to be addressed.

City of Paducah, Kentucky
Capital Assets
(Net of Accumulated Depreciation)
June 30

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2005</u>	<u>2004</u> <u>(Restated)</u>	<u>2005</u>	<u>2004</u> <u>(Restated)</u>	<u>2005</u>	<u>2004</u> <u>(Restated)</u>
Land	\$ 5,420,685	\$ 5,420,685	\$ 65,908	\$ 65,908	\$ 5,486,593	\$ 5,486,593
Land improvements	983,401	53,502	-	-	983,401	53,502
Construction in progress	3,641,595	4,143,259	-	-	3,641,595	4,143,259
Buildings and improvements	6,612,805	4,298,217	186,542	194,339	6,799,347	4,492,556
Infrastructure	16,867,122	18,604,571	-	-	16,867,122	18,604,571
Equipment	698,168	825,402	220,417	288,321	918,585	1,113,723
Furnishings and fixtures	8,379	1,755	-	-	8,379	1,755
Vehicles	<u>1,694,880</u>	<u>1,666,547</u>	<u>990,251</u>	<u>915,101</u>	<u>2,685,131</u>	<u>2,581,648</u>
TOTALS	<u>\$35,927,035</u>	<u>\$35,013,938</u>	<u>\$1,463,118</u>	<u>\$1,463,669</u>	<u>\$37,390,153</u>	<u>\$36,477,607</u>

Additional information on City capital assets can be found in Note 3 in the notes to financial statements on pages 62-63.

B. Long-Term Debt

At year-end, the City had \$18,506,727 in outstanding bonds, accrued compensated absences and notes payable, compared to \$18,793,259 at June 30, 2004 with maturities extending through 2026. During the year, the City's total debt decreased by \$286,532, as shown in the following table:

General Obligation Bonds:	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Convention and Performing Arts Center – 2001	\$ 8,380,000	\$ 8,620,000
Kentucky League of Cities – 2003	3,247,853	3,381,211
Infiniti Media Building – 2004	4,840,000	5,000,000
General Fund accrued compensated absences	1,783,453	1,744,404
KACO – 2005	255,421	-
Paducah Bank – Lowertown property	-	47,644
TOTALS	<u>\$18,506,727</u>	<u>\$18,793,259</u>

In June 2001, a \$9.29 million general obligation bond was added to the City's debt obligation to finance construction of the Luther F. Carson Four Rivers Center for the Performing Arts (approximately \$3.0 million) and the expansion of the Julian Carroll Convention Center (approximately \$6.0 million). These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City. While the City issued these bonds, 50% of the principal amount of the bonds is being issued on behalf of the County of McCracken, Kentucky. McCracken County has issued the City a general obligation note in a principal amount equal to 50% of the principal amount of the bonds.

In fiscal year 2004, the City borrowed \$3.5 million to fund a variety of capital projects, including park improvements (\$1.0 million), downtown infrastructure improvements in conjunction with the FRC (\$1.5 million), and City Hall, Police and other City-owned facility improvements (\$1.0 million).

In fiscal year 2004, the City sold \$5.0 million in bonds to construct the Infiniti Media Building in the Paducah Industrial Park West, an economic development project. By interlocal agreement, McCracken County is obligated to an amount equal to 50% of the principal amount of the bonds. After the third year of the life of the bond, the Infiniti Media Company is obligated to make monthly lease payments to the City in an amount nearly equal to the debt service obligation.

In fiscal year 2005, the County of McCracken entered into two separate agreements totaling \$550,000, with the Kentucky Association of Counties (KACO) for purchase of a rail spur and construction of a speculative building in the Industrial Park West. Both notes are required to be fully paid within 5 years from date of issue and are backed jointly by the full faith and credit of the City and County. While the County issued both notes, 50% of the principal amount of both was issued on behalf of the City, which intends to participate on an equal basis with the County in accordance with an interlocal agreement.

The City's legal debt limit under §158 of the Kentucky Constitution is 10% of total assessed value of taxable property in Paducah; therefore, the debt limit is \$152,230,137. The City's latest bond rating by Moody is A2. The City has a low amount of general obligation debt, which explains our large legal debt margin.

The City of Paducah, Kentucky, issues and incurs debt in order to fund capital improvement projects, purchase major capital equipment and facilities, and respond to other special funding needs. Less than 4.8% of the General Fund budget is expended for debt service, and thus has minimal impact on current and future operations.

Additional information on the City's long-term debt can be found in Note 3 in the notes to financial statements on pages 65-68.

VII. Economic Factors and Next Year's Budgets and Rates.

- A. General Comments.** Paducah continued to experience steady-slow-growth in the local economy as compared to the national economy in fiscal year 2005. It is estimated that over 1,100 jobs were created or retained in fiscal year 2005 along with \$69 million in private capital investments. Paducah continues to experience retail growth in the Kentucky Oaks Mall area and the City's Southside in addition to job expansions in the Information Age Park and the Industrial Park West. The downtown area continues to be enhanced with the addition of new retail establishments, further expanding the property tax value base as well as the payroll tax base. Downtown was improved with the opening of the Luther F. Carson Four Rivers Center for the Performing Arts (FRC). The FRC opened in early 2004 at a cost in excess of \$35 million. The State of Kentucky contributed \$20 million toward the project, with the balance of the cost funded locally by government, tourism taxes and private donations. Four Rivers Behavioral Health Systems Corporate offices moving into the former J C Penney building, in 2004, which had been vacant for years, further enhanced downtown. These major additions to the downtown area will significantly increase the flow of commerce and traffic flow.

- B. Unemployment Rate.** The unemployment rate for the City of Paducah (McCracken County) as of June 2005 was 6.1%. This rate is somewhat higher than the federal and state rates of 5.0% and 5.7%, respectively.
- C. Inflationary Trends.** Inflationary trends in the City compare favorably to state and national trends.
- D. Annexation Policy.** The City's major long-term concern is revenue for capital projects. Incentive investments in annexation and economic development should enable revenue to increase over the next 5-8 years. Paducah will continue to pursue its annexation efforts as these efforts will insure long-term financial stability for the City in terms of increased property taxes, payroll taxes, and business gross receipts fees through further commercial, industrial, and residential development. City policy will continue to provide annexation incentives that should pay for themselves in the long-term and serve as incentive investments in future revenues to offset the cost of providing services to the newly annexed areas. The policy of balanced and controlled growth will be one of the City's greatest challenges in the next five to ten years.
- E. Strategic Fleet Acquisition Plan.** The City's effort to limit expenditure growth and seek cost savings opportunities assists our effort to insure that funds are available for future capital projects. Paducah implemented the Strategic Fleet Acquisition Plan fiscal year 1998-1999 in an effort to systematically review the City's fleet of vehicles. This plan allows the City to make long-range plans for replacing vehicles at the optimal time to avoid high maintenance costs and take advantage of a higher resale value.
- F. Enterprise Zone.** Since its inception, the Paducah Enterprise Zone Program has produced 325 qualified businesses, which have pledged expenditures of \$91 million in addition to creating 322-targeted jobs.

All the above factors, in addition to current and future needs of the City, were considered when the 2005-2006 Budget for the City of Paducah was prepared. The beginning general fund balance for fiscal year 2005-2006 is \$8,303,702 (cash balance was \$4,433,000). The City has estimated an ending fund balance of \$6,700,000 (cash balance \$2,843,000, or 10% of projected general fund expenditures). An increase in employee payroll withholding tax will go into effect October 2005 in fiscal year 2005-2006. The increase is expected to gross \$1.9 million during the first year of implementation. At the present time, the City is in good financial condition.

VIII. Requests for Information

This financial report is designed to provide a general financial overview for those interested in the City of Paducah government finances. Questions or requests for additional financial information may be addressed to Jonathan Perkins, Finance Director, City of Paducah, 500 South 5th Street, Paducah, KY 42001.

CITY OF PADUCAH, KENTUCKY

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2005

<u>ASSETS</u>	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Current Assets:				
Cash and cash equivalents	\$ 6,760,578	\$ 824,919	\$ 7,585,497	\$ 1,360,513
Investments	3,635,000	1,440,000	5,075,000	-
Receivables, net:				
Note	254,000	-	254,000	-
Accounts	4,666,542	30,468	4,697,010	2,385,321
Grants	258,041	-	258,041	164,501
Interest	71,196	19,625	90,821	-
Property tax	4,419,087	-	4,419,087	-
Other	-	-	-	1,945,922
Internal balances	(14,941)	14,941	-	-
Inventory	229,276	-	229,276	1,324,794
Prepaid pension obligation	246,269	-	246,269	-
Prepaid expenses	1,198,953	31,144	1,230,097	44,585
Other current assets	-	-	-	706,854
Total current assets	21,724,001	2,361,097	24,085,098	7,932,490
Noncurrent Assets:				
Investments, restricted	-	-	-	4,671,716
Notes receivable	6,405,000	-	6,405,000	-
Bond issuance costs, net	147,878	-	147,878	-
Net capital assets:				
Land and construction in progress	9,062,280	65,908	9,128,188	2,988,567
Depreciable capital assets	26,864,755	1,397,210	28,261,965	74,351,384
Restricted assets	-	-	-	56,702
Other assets	-	-	-	728,090
Total noncurrent assets	42,479,913	1,463,118	43,943,031	82,796,459
Total assets	\$64,203,914	\$3,824,215	\$68,028,129	\$90,728,949

LIABILITIES

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Current Liabilities:				
Voucher and accounts payable	\$ 1,438,039	\$ 199,234	\$ 1,637,273	\$ 3,794,180
Line of credit	-	-	-	1,690,679
Accrued payables	1,021,198	48,227	1,069,425	564,568
Due to other taxing agencies	124,823	-	124,823	-
Unearned revenue	4,533,871	-	4,533,871	811,117
Accrued compensated absences	410,398	56,753	467,151	-
Accrued interest	-	-	-	151,400
Notes payable due within one year	184,047	-	184,047	193,680
Bonds payable due within one year	410,000	-	410,000	1,260,000
Other current liabilities	-	-	-	1,354,041
Total current liabilities	8,122,376	304,214	8,426,590	9,819,665
Noncurrent Liabilities:				
Accrued compensated absences	1,373,055	22,031	1,395,086	-
Landfill post-closure costs	-	2,062,500	2,062,500	-
Other liabilities	-	-	-	571,964
Notes payable	3,319,227	-	3,319,227	515,866
Bonds payable	12,810,000	-	12,810,000	7,532,096
Total noncurrent liabilities	17,502,282	2,084,531	19,586,813	8,619,926
Total liabilities	25,624,658	2,388,745	28,013,403	18,439,591
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	29,492,197	1,463,118	30,955,315	67,915,964
Restricted for:				
Program purposes	727,699	-	727,699	-
Capital projects	940,323	-	940,323	245,474
Debt service	-	-	-	3,465,750
Unrestricted	7,419,037	(27,648)	7,391,389	662,170
TOTAL NET ASSETS	\$38,579,256	\$1,435,470	\$40,014,726	\$72,289,358

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 8,431,994	\$ 1,485,005	\$ -	\$ -
Public safety	14,620,938	794,814	67,587	457,458
Public service	6,249,860	895,155	301,058	642,606
Parks and recreation	1,045,024	117,317	59,227	-
Planning and development	2,521,412	13,501	2,024,822	-
Interest on long-term debt	775,122	-	-	-
Total governmental activities (See Note 1)	<u>33,644,350</u>	<u>3,305,792</u>	<u>2,452,694</u>	<u>1,100,064</u>
Business-type activities:				
Solid Waste	3,683,954	3,583,417	-	-
Civic Center	39,008	32,828	-	-
TISA	170,264	104,087	-	14,735
Total business-type activities	<u>3,893,226</u>	<u>3,720,332</u>	<u>-</u>	<u>14,735</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$37,537,576</u></u>	<u><u>\$ 7,026,124</u></u>	<u><u>\$2,452,694</u></u>	<u><u>\$1,114,799</u></u>
Component Units:				
Authorities:				
Paducah Water Works	\$ 5,906,750	\$ 6,547,473	\$ -	\$ 553,404
Paducah Power System	40,486,148	41,052,123	-	-
Paducah Transit Authority	5,322,710	3,190,616	1,310,341	1,020,865
TOTAL COMPONENT UNITS	<u><u>\$51,715,608</u></u>	<u><u>\$50,790,212</u></u>	<u><u>\$1,310,341</u></u>	<u><u>\$1,574,269</u></u>

General revenues:

Taxes and licenses:

- Property taxes, levied for general purposes
- Franchise tax
- Telecommunications tax
- Insurance premium tax
- Vehicle tax
- Bank tax
- Gross receipts license tax
- Employee license tax
- Other taxes
- Intergovernmental revenue
- Unrestricted investment earnings
- Gain on sale of capital assets
- Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets, July 1, 2004, as previously reported

Adjustment to beginning net assets (See Note 10)

NET ASSETS, JUNE 30, 2005

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (6,946,989)	-	\$ (6,946,989)	-
(13,301,079)	-	(13,301,079)	-
(4,411,041)	-	(4,411,041)	-
(868,480)	-	(868,480)	-
(483,089)	-	(483,089)	-
(775,122)	-	(775,122)	-
(26,785,800)	-	(26,785,800)	-
-	(100,537)	(100,537)	-
-	(6,180)	(6,180)	-
-	(51,442)	(51,442)	-
-	(158,159)	(158,159)	-
(26,785,800)	(158,159)	(26,943,959)	-
-	-	-	1,194,127
-	-	-	565,975
-	-	-	199,112
-	-	-	1,959,214
3,919,113	-	3,919,113	-
269,407	-	269,407	-
670,181	-	670,181	-
3,957,289	-	3,957,289	-
540,470	-	540,470	-
157,771	-	157,771	-
3,720,784	-	3,720,784	-
11,192,445	-	11,192,445	-
478,574	-	478,574	-
955,645	-	955,645	-
290,647	51,508	342,155	128,245
-	27,500	27,500	3,725
-	-	-	43,245
26,152,326	79,008	26,231,334	175,215
(133,959)	133,959	-	-
26,018,367	212,967	26,231,334	175,215
(767,433)	54,808	(712,625)	2,134,429
32,166,415	3,443,162	35,609,577	70,154,929
7,180,274	(2,062,500)	5,117,774	-
\$ 38,579,256	\$1,435,470	\$ 40,014,726	\$72,289,358

CITY OF PADUCAH, KENTUCKY

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

CITY OF PADUCAH, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

<u>ASSETS</u>	<u>General Fund</u>	<u>General Capital Improvements</u>	<u>Downtown Capital Improvements</u>
Cash and cash equivalents	\$ 2,473,285	\$1,280,375	\$ -
Investments	1,960,000	-	-
Accounts receivable:			
Accounts	4,365,225	-	-
Grants	66,920	108,818	-
Interest	23,629	-	1,975
Property taxes (net of allowances for uncollectibles)	4,271,460	-	-
Prepaid items	-	-	-
Due from other funds	1,279,923	50,000	-
TOTAL ASSETS	\$ 14,440,442	\$1,439,193	\$ 1,975
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Voucher and accounts payable	\$ 271,988	\$ 227,703	\$ -
Accrued payroll and payroll taxes	945,114	-	-
Due to other funds	50,000	-	15,364
Due to other taxing agencies	124,823	-	-
Unearned revenue	4,361,443	257,778	-
Accrued compensated absences	383,372	-	-
Total liabilities	6,136,740	485,481	15,364
Fund Balances:			
Reserved for:			
Program purposes	-	-	-
Capital improvements	-	953,712	(13,389)
Unreserved:			
General Fund	8,303,702	-	-
Special Revenue Funds	-	-	-
Debt Service Fund	-	-	-
Total fund balances	8,303,702	953,712	(13,389)
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,440,442	\$1,439,193	\$ 1,975

See accompanying notes to the basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$1,875,543	\$ 5,629,203
230,000	2,190,000
141,725	4,506,950
82,303	258,041
3,604	29,208
-	4,271,460
31,178	31,178
-	1,329,923
<u>\$2,364,353</u>	<u>\$18,245,963</u>

\$ 412,698	\$ 912,389
61,476	1,006,590
132,125	197,489
-	124,823
209,972	4,829,193
-	383,372
<u>816,271</u>	<u>7,453,856</u>

498,423	498,423
-	940,323
-	8,303,702
1,039,854	1,039,854
9,805	9,805
<u>1,548,082</u>	<u>10,792,107</u>
<u>\$2,364,353</u>	<u>\$18,245,963</u>

CITY OF PADUCAH, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balance - total governmental funds		\$ 10,792,107
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Other account receivables are not available to pay current expenditures and, therefore, are deferred in the funds.		319,756
Delinquent property taxes receivable are not reported in the governmental funds balance sheet since they are not considered "available" revenues.		147,627
The long-term notes receivable are not reported in the governmental funds balance sheet since they are not available to pay current period expenditures.		6,610,000
Interest receivable on the long-term notes receivable is not reported on the governmental funds balance sheet since neither the note receivable nor the interest is available to pay current period expenditures.		21,732
Inventory is not a current financial resource and, therefore, is not reported in the governmental funds balance sheet.		160,599
A prepaid pension obligation is not a current financial resource, and therefore, is not reported in the governmental funds balance sheet.		246,269
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. This amount includes capital assets of Internal Service Funds.		35,927,035
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. This amount includes Internal Service Funds' non-current liabilities. The long-term liabilities are:		
Due within one year	\$ 594,047	
Due after one year	<u>17,502,282</u>	(18,096,329)

(Continued)

CITY OF PADUCAH, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2005

Bond issuance costs used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		\$ 147,878
Accrued interest payments on debt are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.		(54,371)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the Internal Service Funds (net of amount allocated to business-type activities) not included in other reconciling items are:		
Current assets	\$ 4,040,250	
Current liabilities	(1,668,356)	
Net amount allocated to business-type activities	(14,941)	2,356,953
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ 38,579,256

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>General Capital Improvements</u>	<u>Downtown Capital Improvements</u>
Revenues:			
Taxes	\$ 5,346,389	\$ -	\$ -
Licenses	19,368,765	-	-
Charges for services	515,192	-	-
Intergovernmental	-	19,579	-
Grants	667,062	834,348	148,936
Interest	190,901	-	31,407
Miscellaneous	773,880	198,860	-
Total revenues	<u>26,862,189</u>	<u>1,052,787</u>	<u>180,343</u>
Expenditures:			
Current operations:			
General government	4,171,662	-	-
Public safety	12,998,049	-	-
Public service	5,654,686	-	-
Parks and recreation	1,045,024	-	-
Planning and development	-	-	-
Other	462,099	-	-
Capital outlay	-	2,916,803	1,953,333
Debt service:			
Principal requirement	-	-	-
Interest and fiscal requirement	-	-	-
Total expenditures	<u>24,331,520</u>	<u>2,916,803</u>	<u>1,953,333</u>
Excess (deficiency) of revenues over expenditures	<u>2,530,669</u>	<u>(1,864,016)</u>	<u>(1,772,990)</u>
Other Financing Sources (Uses):			
Long-term debt issued	-	-	275,000
Transfers in	-	2,348,777	39,300
Transfers out	<u>(2,740,032)</u>	<u>(269,209)</u>	<u>(1,702,930)</u>
Total other financing sources (uses)	<u>(2,740,032)</u>	<u>2,079,568</u>	<u>(1,388,630)</u>
Net change in fund balances	(209,363)	215,552	(3,161,620)
Fund balances, July 1, 2004, as previously reported	4,642,073	738,160	3,148,231
Adjustment to beginning fund balance (See Note 10)	<u>3,870,992</u>	<u>-</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2005	<u>\$ 8,303,702</u>	<u>\$ 953,712</u>	<u>\$ (13,389)</u>

See accompanying notes to the basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 670,181	\$ 6,016,570
-	19,368,765
110,089	625,281
1,173,145	1,192,724
2,107,695	3,758,041
28,994	251,302
404,435	1,377,175
<u>4,494,539</u>	<u>32,589,858</u>
-	4,171,662
1,378,112	14,376,161
292,419	5,947,105
-	1,045,024
2,267,774	2,267,774
-	462,099
-	4,870,136
552,938	552,938
745,676	745,676
<u>5,236,919</u>	<u>34,438,575</u>
<u>(742,380)</u>	<u>(1,848,717)</u>
-	275,000
1,006,343	3,394,420
-	(4,712,171)
<u>1,006,343</u>	<u>(1,042,751)</u>
263,963	(2,891,468)
1,284,119	9,812,583
-	3,870,992
<u>\$1,548,082</u>	<u>\$10,792,107</u>

CITY OF PADUCAH, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$(2,891,468)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>	
Inventory purchases require the use of current financial resources and, therefore, are reported as expenditures in governmental funds.	145,980
Inventory sales provide current financial resources and are reported as revenues in governmental funds.	(264,141)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in the current period.	3,981,143
Contributions for debt service received from other governments are reported as current year revenue in the governmental funds. However, receipts for long-term receivables are not considered revenue in the Statement of Activities.	(217,500)
Interest revenue on the long-term note receivable is not reported on the governmental funds since neither the note receivable nor the interest is available to pay current period expenditures.	9,281
Delinquent property taxes receivable are not considered "available" revenues in the governmental funds.	18,946
Tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	86,870
The prepayment of a pension obligation requires the use of current financial resources and, therefore, is reported as an expenditure in governmental funds. However, the prepayment does not affect net assets in the government-wide Statement of Activities.	34,214

(Continued)

CITY OF PADUCAH, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. This amount includes Internal Service Funds' depreciation expense of \$460,105. \$(3,053,435)

Principal payments of debt require the use of current financial resources and, therefore, are reported as expenditures in governmental funds. However, principal payments of debt do not affect net assets in the government-wide Statement of Activities. 600,583

Accrued interest payments on debt do not require the use of current financial resources. Accrued interest is reported as an expenditure in the government-wide statement of activities. (29,572)

Long-term accrued compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 2,134

Governmental funds report the effect of bond issuance costs when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. (7,951)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of the amount allocated to business-type activities and depreciation expense. These amounts are as follows:

Change in net assets	\$ 378,323	
Net of amount allocated to business-type activities	(20,945)	
Depreciation expense	460,105	817,483

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (767,433)

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

<u>ASSETS</u>	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Solid</u>	<u>Nonmajor</u>	<u>Totals</u>	<u>Internal</u>
	<u>Waste</u>	<u>Enterprise</u>		<u>Service</u>
		<u>Funds</u>		<u>Funds</u>
Current Assets:				
Cash and cash equivalents	\$ 686,988	\$137,931	\$ 824,919	\$ 1,131,376
Investments	1,440,000	-	1,440,000	1,445,000
Accounts receivable	16,920	13,548	30,468	-
Interest receivable	19,625	-	19,625	228,848
Prepaid expenses	-	31,144	31,144	1,167,768
Inventory	-	-	-	68,678
Total current assets	<u>2,163,533</u>	<u>182,623</u>	<u>2,346,156</u>	<u>4,041,670</u>
Noncurrent Assets:				
Net capital assets:				
Land	65,908	-	65,908	-
Depreciable capital assets	1,091,127	306,083	1,397,210	1,689,710
Total noncurrent assets	<u>1,157,035</u>	<u>306,083</u>	<u>1,463,118</u>	<u>1,689,710</u>
Total assets	<u>3,320,568</u>	<u>488,706</u>	<u>3,809,274</u>	<u>5,731,380</u>
	<u>LIABILITIES</u>			
Current Liabilities:				
Voucher and accounts payable	196,116	3,118	199,234	471,278
Accrued payroll and payroll taxes	48,227	-	48,227	14,609
Accrued compensated absences	56,753	-	56,753	27,025
Unearned revenue	-	-	-	24,434
Due to other funds	-	-	-	1,132,433
Total current liabilities	<u>301,096</u>	<u>3,118</u>	<u>304,214</u>	<u>1,669,779</u>
Noncurrent Liabilities:				
Landfill post-closure costs	2,062,500	-	2,062,500	-
Accrued compensated absences	22,031	-	22,031	38,517
Total liabilities	<u>2,385,627</u>	<u>3,118</u>	<u>2,388,745</u>	<u>1,708,296</u>
	<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,157,035	306,083	1,463,118	1,689,710
Unrestricted	(222,094)	179,505	(42,589)	2,333,374
TOTAL NET ASSETS	<u>\$ 934,941</u>	<u>\$485,588</u>	1,420,529	<u>\$ 4,023,084</u>
Reconciliation to government-wide statements of net assets:				
Adjustment to reflect the consolidation of Internal Service Funds' activities related to Enterprise Funds			<u>14,941</u>	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES			<u>\$ 1,435,470</u>	

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business-type Activities			Governmental
	Solid Waste	Nonmajor Enterprise Funds	Totals	Internal Service Funds
Operating Revenues:				
Charges for services - internal	\$3,545,787	\$136,915	\$3,682,702	\$5,013,120
Charges for services - external	-	-	-	501,801
Miscellaneous	16,685	-	16,685	-
Total operating revenues	<u>3,562,472</u>	<u>136,915</u>	<u>3,699,387</u>	<u>5,514,921</u>
Operating Expenses:				
Cost of sales and service	3,392,724	118,996	3,511,720	5,033,522
Depreciation and amortization	291,230	90,275	381,505	460,105
Total operating expenses	<u>3,683,954</u>	<u>209,271</u>	<u>3,893,225</u>	<u>5,493,627</u>
Operating income (loss)	<u>(121,482)</u>	<u>(72,356)</u>	<u>(193,838)</u>	<u>21,294</u>
Nonoperating Revenues (Expenses):				
Interest and investment income	50,973	534	51,507	33,029
Gain (loss) on disposal of property and equipment	27,500	-	27,500	-
Total nonoperating revenues (expenses)	<u>78,473</u>	<u>534</u>	<u>79,007</u>	<u>33,029</u>
Income (loss) before contributions and transfers	<u>(43,009)</u>	<u>(71,822)</u>	<u>(114,831)</u>	<u>54,323</u>
Contributions and Transfers:				
Capital contributions	-	14,735	14,735	-
Transfers in	-	133,959	133,959	324,000
Total contributions and transfers	<u>-</u>	<u>148,694</u>	<u>148,694</u>	<u>324,000</u>
Change in net assets	(43,009)	76,872	33,863	378,323
Total net assets, July 1, 2004, as previously reported	3,040,450	408,716		3,644,761
Adjustment to beginning net assets (See Note 10)	<u>(2,062,500)</u>	<u>-</u>		<u>-</u>
TOTAL NET ASSETS - JUNE 30, 2005	<u><u>\$ 934,941</u></u>	<u><u>\$485,588</u></u>		<u><u>\$4,023,084</u></u>
Reconciliation to government-wide statements of net assets:				
Adjustment to reflect the consolidation of Internal Service Funds' activities related to Enterprise Funds			<u>20,945</u>	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES			<u><u>\$ 54,808</u></u>	

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Solid</u>	<u>Nonmajor</u>	<u>Totals</u>	<u>Internal</u>
	<u>Waste</u>	<u>Enterprise</u>		<u>Service</u>
		<u>Funds</u>		<u>Funds</u>
Cash Flows from Operating Activities:				
Cash received from customers	\$ 3,557,397	\$ 150,373	\$ 3,707,770	\$ 5,470,386
Payments to suppliers	(2,204,442)	-	(3,053,401)	(146,619)
Payments to employees	(848,959)	-	-	(279,351)
Claims paid	-	-	-	(3,406,351)
Payments to internal service funds	(240,201)	(4,416)	(244,617)	-
Other receipts (payments)	16,685	(137,970)	(121,285)	(1,074,528)
Net cash provided (used) by operating activities	<u>280,480</u>	<u>7,987</u>	<u>288,467</u>	<u>563,537</u>
Cash Flows from Noncapital Financing Activities:				
Transfers (to) from other funds	-	133,959	133,959	324,000
Cash Flows from Capital and Related Financing Activities:				
Capital contributions	-	14,735	14,735	-
Purchase of capital assets	(322,783)	(58,172)	(380,955)	(501,446)
Proceeds from sale of capital assets	27,500	-	27,500	-
Net cash provided (used) by capital and related financing activities	<u>(295,283)</u>	<u>(43,437)</u>	<u>(338,720)</u>	<u>(501,446)</u>
Cash Flows from Investing Activities:				
Proceeds from sale of investment securities	1,200,000	-	1,200,000	1,300,000
Interest on cash and investments	36,917	534	37,451	19,383
Purchase of investments	(1,440,000)	-	(1,440,000)	(1,445,000)
Net cash provided (used) by investing activities	<u>(203,083)</u>	<u>534</u>	<u>(202,549)</u>	<u>(125,617)</u>
Net increase (decrease) in cash and cash equivalents	(217,886)	99,043	(118,843)	260,474
Cash and cash equivalents, July 1, 2004	904,874	38,888	943,762	870,902
CASH AND CASH EQUIVALENTS, JUNE 30, 2005	<u>\$ 686,988</u>	<u>\$ 137,931</u>	<u>\$ 824,919</u>	<u>\$ 1,131,376</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ (121,482)	\$ (72,356)	\$ (193,838)	\$ 21,294
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	291,230	90,275	381,505	460,105
Change in assets and liabilities:				
Receivables	11,610	13,458	25,068	(68,969)
Prepaid expenses	-	(24,148)	(24,148)	(152,625)
Inventories	-	-	-	29,437
Accounts payable	99,122	758	99,880	274,295
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 280,480</u>	<u>\$ 7,987</u>	<u>\$ 288,467</u>	<u>\$ 563,537</u>

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

<u>ASSETS</u>	Primary Government		
	Pension Funds	Private- purpose Trusts	Agency Funds
Cash and cash equivalents	\$ 130,077	\$ 4,734	\$323,227
Receivables:			
Interest	56,894	-	-
Prepaid expenses	59,919	-	-
Investments at fair value	9,234,911	83,524	-
Total assets	9,481,801	88,258	323,227
<u>LIABILITIES</u>			
Voucher and accounts payable	2,051	-	-
Payroll taxes and withholdings payable	-	-	323,227
Total liabilities	2,051	-	\$323,227
<u>NET ASSETS</u>			
Held in trust for pension benefits and other purposes	\$9,479,750	\$88,258	\$ -

See accompanying notes to the basic financial statements

CITY OF PADUCAH, KENTUCKY
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Pension Funds</u>	<u>Private- purpose Trusts</u>
Additions:		
Contributions:		
Employer	\$1,028,044	\$ -
Plan members	23,487	-
Intergovernmental revenues	-	9,250
	<u>1,051,531</u>	<u>9,250</u>
Investment income:		
Net increase (decrease) in fair value of investments	401,519	(2,845)
Interest and dividends	293,405	5,845
	<u>694,924</u>	<u>3,000</u>
Total additions	<u>1,746,455</u>	<u>12,250</u>
Deductions:		
Benefits	1,871,189	-
Capital outlay	-	100
Administrative expenses	71,435	4,368
	<u>1,942,624</u>	<u>4,468</u>
Change in net assets	(196,169)	7,782
Net assets, July 1, 2004	<u>9,675,919</u>	<u>80,476</u>
NET ASSETS, JUNE 30, 2005	<u><u>\$9,479,750</u></u>	<u><u>\$ 88,258</u></u>

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY

BASIC FINANCIAL STATEMENTS

COMPONENT UNITS FINANCIAL STATEMENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005

<u>ASSETS</u>	<u>Paducah Water Works</u>	<u>Paducah Power System</u>	<u>Paducah Transit Authority</u>	<u>All Component Unit Totals</u>
Current Assets:				
Cash and cash equivalents	\$ 780,767	\$ 142,743	\$ 437,003	\$ 1,360,513
Receivables, net:				
Accounts	333,216	2,000,026	52,079	2,385,321
Grants	-	-	164,501	164,501
Other	660,617	1,264,622	20,683	1,945,922
Inventories	395,446	885,302	44,046	1,324,794
Prepaid expenses	-	44,585	-	44,585
Other current assets	706,854	-	-	706,854
Total current assets	2,876,900	4,337,278	718,312	7,932,490
Noncurrent Assets:				
Investments, restricted	2,598,884	2,072,832	-	4,671,716
Net capital assets:				
Land and construction in progress	586,409	1,929,632	472,526	2,988,567
Depreciable capital assets	30,356,099	39,555,507	4,439,778	74,351,384
Restricted assets	56,702	-	-	56,702
Other assets	85,585	642,505	-	728,090
Total noncurrent assets	33,683,679	44,200,476	4,912,304	82,796,459
Total assets	36,560,579	48,537,754	5,630,616	90,728,949

<u>LIABILITIES</u>	Paducah Water Works	Paducah Power System	Paducah Transit Authority	All Component Unit Totals
Current Liabilities:				
Voucher and accounts payable	\$ 142,045	\$ 3,451,644	\$ 200,491	\$ 3,794,180
Line of credit	-	1,690,679	-	1,690,679
Accrued payables	-	421,715	142,853	564,568
Unearned revenue	-	811,117	-	811,117
Accrued interest	-	151,400	-	151,400
Notes payable due within one year	25,000	-	168,680	193,680
Bonds payable due within one year	905,000	355,000	-	1,260,000
Other current liabilities	845,487	505,495	3,059	1,354,041
Total current liabilities	<u>1,917,532</u>	<u>7,387,050</u>	<u>515,083</u>	<u>9,819,665</u>
Noncurrent Liabilities:				
Bonds payable	2,733,158	4,798,938	-	7,532,096
Notes payable	190,000	-	325,866	515,866
Other liabilities	-	567,093	4,871	571,964
Total noncurrent liabilities	<u>2,923,158</u>	<u>5,366,031</u>	<u>330,737</u>	<u>8,619,926</u>
Total liabilities	<u>4,840,690</u>	<u>12,753,081</u>	<u>845,820</u>	<u>18,439,591</u>
<u>NET ASSETS</u>				
Net Assets:				
Invested in capital assets, net of related debt	27,174,935	36,331,201	4,409,828	67,915,964
Restricted for:				
Capital projects	-	245,474	-	245,474
Debt service	1,638,392	1,827,358	-	3,465,750
Unrestricted	2,906,562	(2,619,360)	374,968	662,170
TOTAL NET ASSETS	<u><u>\$31,719,889</u></u>	<u><u>\$35,784,673</u></u>	<u><u>\$4,784,796</u></u>	<u><u>\$72,289,358</u></u>

See accompanying notes to the basic financial statements

CITY OF PADUCAH, KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Authorities:				
Business-type activities:				
Paducah Water Works	\$ 5,906,750	\$ 6,547,473	\$ -	\$ 553,404
Paducah Power System	40,486,148	41,052,123	-	-
Paducah Transit Authority	<u>5,322,710</u>	<u>3,190,616</u>	<u>1,310,341</u>	<u>1,020,865</u>
TOTAL COMPONENT UNITS	<u><u>\$51,715,608</u></u>	<u><u>\$50,790,212</u></u>	<u><u>\$1,310,341</u></u>	<u><u>\$1,574,269</u></u>
General Revenues:				
Unrestricted investment earnings				
Gain on disposal of assets				
Miscellaneous general				
Total general revenues and transfers				
Change in net assets				
Net assets, July 1, 2004				
NET ASSETS, JUNE 30, 2005				

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets

Paducah Water Works	Paducah Power System	Paducah Transit Authority	Totals
\$ 1,194,127	\$ -	\$ -	\$ 1,194,127
-	565,975	-	565,975
-	-	199,112	199,112
<u>1,194,127</u>	<u>565,975</u>	<u>199,112</u>	<u>1,959,214</u>
81,342	42,061	4,842	128,245
-	-	3,725	3,725
-	24,088	19,157	43,245
<u>81,342</u>	<u>66,149</u>	<u>27,724</u>	<u>175,215</u>
1,275,469	632,124	226,836	2,134,429
30,444,420	35,152,549	4,557,960	70,154,929
<u>\$31,719,889</u>	<u>\$35,784,673</u>	<u>\$4,784,796</u>	<u>\$72,289,358</u>

CITY OF PADUCAH, KENTUCKY

NOTES TO THE FINANCIAL STATEMENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

General Statement

The City of Paducah (City) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The financial reporting entity, basis of accounting, and other significant policies employed by the City are summarized as follows:

Financial Reporting Entity

The City operates under a City Manager form of government. The Board of Commissioners consists of a Mayor and four Commissioners elected at large by the citizens on a non-partisan basis. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Paducah (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended Component Units

The following component units have been presented as blended component units because the component unit's governing body is substantially the same as the governing body of the City, or the component unit provides services almost entirely to the primary government.

Paducah Public Improvement Corporation - The Mayor and Commissioners serve as the governing body for the Corporation. Although it is legally separate from the City, the Paducah Public Improvement Corporation is reported as if it were part of the primary government because its sole purpose is to finance long-term debt since the City may not legally obligate itself beyond one year.

Police and Firefighters' Pension Fund - This retirement fund was established for the benefit of the police and firemen of the City. It is administered by a Board of Trustees consisting of the Mayor, City Finance Director and representatives of the Police and Fire Departments. The Board is authorized to establish benefit levels and to approve actuarial assumptions used in the determination of contribution levels.

Discretely Presented Component Units

The component unit column in the basic financial statements includes the financial data of the City's other component units. They are reported in a separate column to emphasize that they are legally separate from the City. The following component units are included in the reporting entity because of their financial relationship with the City.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

Paducah Water Works - The City of Paducah Water Works Commission is appointed by the Mayor. The rates for user charges and bond issuance authorizations are subject to approval by the City Commission of the City of Paducah.

Paducah Power System - The members of the Electric Plant Board are appointed by the Mayor. The system provides a financial benefit to the City through a payment in lieu of taxes.

Transit Authority of the City of Paducah - The Transit Authority's governing board is appointed by the Mayor of the City of Paducah. The City is the grantee agency receiving, on behalf of the Transit Authority, its principal revenues. The City also contributes substantially to the operation of the Authority by providing cash subsidies and facilities.

Complete financial statements of the individual component units can be obtained from their respective administrative offices in the following locations:

Paducah Water Works 401 Washington Street Paducah, Kentucky 42003	Paducah Power System 1500 Broadway Paducah, Kentucky 42001	Transit Authority of the City of Paducah 850 Harrison Street Paducah, Kentucky 42001
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Related Organizations

City officials are also responsible for appointing the members of boards of other organizations, but the City's accountability for these organizations do not extend beyond appointing authority. The organizations listed below are notable related organizations which have not been included in the City's report.

Paducah Housing Authority – The Paducah Housing Authority (PHA) is a legally separate entity that provides for construction, operation and management of low income housing projects within the City. PHA is a legally separate entity and is not financially accountable to the City. This organization is not included as a component unit of the City.

Joint Sewer Agency – As of July 1, 1999, the assets and liabilities of the Wastewater/Stormwater Fund were transferred to the Paducah-McCracken County Joint Sewer Agency pursuant to a municipal order dated June 29, 1999. The Paducah-McCracken County Joint Sewer Agency is a legally separate entity and is not financially accountable to the City. This organization is not included as a component unit of the City.

Forest Hills Village, Inc. – The Corporation's purpose is to manage City of Paducah properties known as "Forest Hills Housing Development". The City and Corporation have a lease agreement detailing the terms and conditions of operations. Forest Hills Village, Inc. is a legally separate entity and is not financially accountable to the City. This organization is not included as a component unit of the City.

Paducah Junior College, Incorporated (PJC) – The College is a part of the University of Kentucky Community College System which is now administered by the Kentucky Community and Technical College System. Under this system, the University of Kentucky receives the monies from student tuition, fees and other related income and provides the financing for the operational budget of the College. A tax levied and collected by the City is a primary revenue source for the College. These funds, as well as gifts and grants made to the College, may be used for the acquisition or improvement of property or to finance programs beyond the level of those normally provided by community colleges in the University of Kentucky system. PJC is a legally separate entity and is not financially accountable to the City. This organization is not included as a component unit of the City.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Account Policies:

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund - To account for resources traditionally associated with governments which are not required to be accounted for in another fund.

General Capital Improvements – To account for the acquisition or construction of major capital projects other than those financed by proprietary fund operations and special assessments.

Downtown Capital Improvements – To account for the acquisition or construction of major capital facilities related to the development of downtown Paducah.

The City has presented the following major proprietary fund:

Solid Waste Fund – To account for the provision of refuse services to the residents of the City.

Additionally, the City reports the internal service funds which are used to account for the fleet management services, self funded property and casualty self insurance and self funded health and disability insurance provided to departments of the city.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Account Policies:

Fiduciary funds, which are not included in government-wide statements, include Police and Firefighters' Retirement Fund, Appointive Employees' Pension Fund, two private-purpose trusts, and two agency funds.

Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. Agency funds are presented using the accrual basis of accounting.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Account Policies:

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include employee license taxes, property taxes, grants, entitlements and donations. The City considers property taxes as available if they are collected within sixty days after year end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The revenues susceptible to accrual are taxes, intergovernmental, employer and employees' contributions to trust funds, interest revenue and charges for services. Permit revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Unearned revenue

The City reports unearned revenue on its statement of net assets. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net assets and revenue is recognized.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to July, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing those.
2. Public hearings are conducted by the City to obtain taxpayer comments.
3. Prior to July, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between department line items; however, any revisions that alter the total expenditures of any department must be approved by the City Commission.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

5. Formal budgetary integration is employed as a management control device during the year and the budget is legally adopted. Budget amendments are also legally adopted.
6. The budget is adopted on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis).

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 employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds. In accordance with generally accepted accounting principles (GAAP), encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. There are no encumbrances at June 30, 2005.

Cash and Investments

The City Council updated and adopted formal deposit and investment policies in January 2001. These policies apply to all City funds not contained in public trusts. Pension trust fund has investment policies separately approved by their oversight board. The private purpose trust has no adopted deposit and investment policy.

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand and savings accounts of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the pension and private purpose trust funds not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits and certificates of deposits are reported at carrying amount which reasonably estimates fair value. Additional cash and investment disclosures are presented in Note 3.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. Major receivable balances for the governmental activities include property taxes, employee earnings taxes, business licenses, insurance premiums taxes, franchise taxes and grant revenue. Business-type activities report utilities and interest earnings as their major receivables. The government-wide statements also include general obligation notes receivable related to the general obligation bonds outstanding as described in Note 3.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as franchise tax, employee earnings taxes, business licenses, insurance premiums taxes, grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within sixty days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details of interfund transactions, including receivables and payables at year end.

Inventories

Inventories are stated at cost on a first-in, first-out basis.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2004.

Assets capitalized have an original cost of \$500 or more prior to July 1, 1999, and \$2,500 or more after July 1, 1999. Prior to July 1, 2002, governmental funds’ infrastructure assets were not capitalized. These assets have been valued at estimated historical cost.

Capital assets of the primary government are depreciated over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	10-20 Years
Buildings	30-60 Years
Building improvements	3- 7 Years
Infrastructure	15-20 Years
Equipment	5-25 Years
Furnishings and fixtures	3-10 Years
Vehicles	3- 9 Years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited to applicable bond covenants.

Compensated Absences

Accumulated unpaid vacation, sick pay, and other employee benefit amounts are recorded as long-term debt in the government-wide statements. The current portion of accrued compensated absences is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Accumulations for vacation pay are restricted to a maximum of 50 days and provide vesting rights upon completion of six months service. Accumulations for sick pay are restricted to a maximum of 150 days and provide payment to employees or beneficiaries for accumulations in excess of 50 days and up to 120 days upon death or retirement from City service.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Operating and Non-Operating Revenues and Expenses – Proprietary Funds

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Operating expenses for the enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - by character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund - by operating and nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Statement of Cash Flows

In September, 1989, the Governmental Accounting Standards Board issued Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. The City adopted the provisions of the Statement in its 1991 financial statements. For purposes of the statement of cash flows, the City considers all certificates of deposit and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, Compliance, and Accountability

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds.

Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include.

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Kentucky Police Incentive Grant	Salaries
Kentucky Fire Incentive Grant	Salaries
HOME Investment Partnerships Grant	Construction of Low-income Rental Units
Emergency Communication Revenue	E-911 Emergency Services
County Bed Tax	Debt Obligations
Kentucky Transportation Cabinet	Street Repairs and Maintenance
Kentucky Housing Corporation	Façade Loans
Other Grants	Grant Program Expenditures

For the year ended June 30, 2005, the City complied, in all material respects, with these revenue restrictions.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Summary of Significant Accounting Policies:

Debt Restrictions and Covenants

The City may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue without first obtaining voter approval. For the year ended June 30, 2005, the City incurred no such indebtedness.

Note 2 – Property Taxes:

The City bills and collects its own property taxes. The City elects to use the annual property assessment prepared by McCracken County as its base to apply the property tax rate. According to Kentucky Revised Statutes, the assessment date for the City must conform to the assessment date of McCracken County, and the annual increase in the property tax levy cannot exceed 4%. City property tax revenues are recorded as a receivable when assessed because the City has an enforceable legal claim to the resources. At this time, the receivable is offset by unearned revenue. Property tax revenues are recognized during the period for which they are levied.

The due dates and collection period for all property taxes, exclusive of vehicle taxes, for the fiscal year ended June 30, 2005, are as follows:

<u>Description</u>	<u>Date</u>
Assessment and enforceable lien	January 1, 2004
Levy	September 28, 2004
Face value amount payment dates	1 st half by November 1, 2004 2 nd half by February 1, 2005
Delinquent date - 10% penalty plus 1/2% per month	1 st half - November 30, 2004 2 nd half - February 28, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety. Accordingly, the City maintains collateral agreements with its financial institutions. Deposits are 101% secured with collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). The City Council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of an evaluation committee and/or Finance Director.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Deposits of the City's reporting entity are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of City. During the year ended June 30, 2005, the City's only cash and cash equivalents were demand deposits. At year end, the carrying amount and the bank balance of the City's cash and cash equivalents was \$7,716,043 and \$9,144,320, respectively.

Investments

As of June 30, 2005, the City's reporting entity had the following investments:

Types of Investments	Fair Value/ Carrying Amount	Average Credit Quality/ Rating (1)	Investment Maturities (In Years) (2)			
			Less Than 1	1-5	6-10	Greater Than 10
Primary Government						
Certificates of Deposits (3)	\$ 5,075,000	NA	\$5,075,000	\$ -	\$ -	\$ -
Component Units (4)						
Money Market Funds	895,215	AAA	895,215	-	-	-
Certificates of Deposits	<u>3,531,027</u>	NA	2,951,751	579,276	-	-
	<u>4,426,242</u>					
Total Primary Government And Component Units	<u>\$ 9,501,242</u>					
Fiduciary and Private Purpose Trust Funds						
Money Market Funds	\$ 106,432	AAA	\$ 106,432	\$ -	\$ -	\$ -
Certificates of Deposits (3)	325,000	NA	325,000	-	-	-
Common Stock	3,064,342	NA	NA	NA	NA	NA
Corporate Bonds	1521,451	AAA/BB	201,214	1,109,845	210,392	-
U.S. Agencies	104,499	AAA	-	104,499	-	-
Mortgage Backed Securities (5)	2,644,664	AAA	449,485	898,155	1,297,024	-
Mutual Funds						
Equity	14,442	NA	NA	NA	NA	NA
Bonds	10,009	AAA	10,009	-	-	-
Fixed	55,383	NA	NA	NA	NA	NA
Index	<u>1,472,213</u>	NA	NA	NA	NA	NA
Total Fiduciary and Private Purpose Trust Funds	<u>\$ 9,318,435</u>					

- (1) Ratings are provided where applicable to indicate associated Credit Risk. NA indicates not applicable. NR indicates that instrument is not rated.
- (2) Maturities are provided for debt instruments with maturity dates. NA indicates not applicable.
- (3) \$225,000 of the fiduciary's certificates of deposits is pooled with the primary government's certificates of deposits.
- (4) Investments reported on Statement of Net Assets include \$245,474 demand deposits restricted for capital projects.
- (5) Includes \$515,266 of securities callable from 6/30/05 through 6/12/06.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Investment Policies

City Policy

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City's Finance Director. Investing is performed in accordance with investment policies adopted by the City Council complying with State Statutes. In accordance with the City's investment policy and the State Statutes, the City may invest funds temporarily in excess of operating needs in the following:

Kentucky Revised Statutes (KRS 66.480) authorize the City to invest in:

1. Obligations of the U.S. Treasury, agencies, and instrumentalities, including obligations subject to repurchase agreements, provided delivery of obligations subject to repurchase agreements are held by the City or through an authorized agent;
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United State government agency;
3. Obligations of any corporation of the United States government;
4. Bonds or certificates of indebtedness of the state of Kentucky and of its agencies and instrumentalities;
5. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by section 41.240(4) of the Kentucky Revised Statutes;
6. Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a national recognized rating agency.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. Unless matched to a specific cash flow, investments are not, in general, made in securities maturing more than five years from the date of purchase. Surplus cash may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the investment. **Concentration of credit risk** is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City policy does not specifically address concentration of credit risk.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Pension Trust Policy

The City's pension trust is the Police and Firefighters' Pension Fund (PFPF). Investment policy provide for investment manager(s) who have full discretion of assets allocated to them subject to the overall investment guidelines set out in the policy. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, and cash equivalents. **Custodial credit risk** is addressed by the policy providing for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the pension board.

Asset allocation guideline for the plan is as follows:

	<u>PFPF Retirement Plan</u>		
	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Equities	35%	50%	65%
Fixed Income	35%	50%	65%

The retirement plan addresses **credit risk** and **concentration of credit risk** with a policy that prohibits investment of more than 5% of its assets in the securities of any one issuer with the exception of U.S. government. Policy further prohibits investment of more than 20% in any one market sector. No more than 10% of corporate debt securities in the fixed income portfolio may be rated below-investment grade. Commercial paper must be rated A1, P1.

Interest rate risk is addressed by the policy requiring the plan manager(s) to maintain both diversification and a predictable and dependent source of current income. Fixed income investments are flexibly allocated among maturities of different lengths.

Private Purpose Trust

The private purpose trust does not have a formal investment policy. The City established the trust in accordance with Kentucky Revised Statutes. The trust provides for an investment manager who has full discretion of assets allocated to him subject to the provisions of the trust agreement. The trust invests in domestic and international mutual funds, fixed income securities, U.S. treasury securities, and cash and equivalents.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2004 restated</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 5,420,685	\$ -	\$ -	\$ 5,420,685
Construction in Progress	<u>4,143,259</u>	<u>2,516,238</u>	<u>3,017,902</u>	<u>3,641,595</u>
Total capital assets, not being depreciated:	<u>9,563,944</u>	<u>2,516,238</u>	<u>3,017,902</u>	<u>9,062,280</u>
<u>Capital assets, being depreciated:</u>				
Land improvements	1,005,955	948,998	-	1,954,953
Building and improvements	14,546,357	2,611,492	-	17,157,849
Infrastructure	27,946,332	216,741	-	28,163,073
Equipment	5,883,540	185,695	63,610	6,005,625
Furnishings and fixtures	232,985	8,870	-	241,855
Vehicles	<u>6,373,537</u>	<u>496,400</u>	<u>84,678</u>	<u>6,785,259</u>
Totals at historical cost	<u>55,988,706</u>	<u>4,468,196</u>	<u>148,288</u>	<u>60,308,614</u>
Less: Accumulated depreciation				
Land improvements	952,453	19,099	-	971,552
Buildings and improvements	10,248,139	296,905	-	10,545,044
Infrastructure	9,341,762	1,954,189	-	11,295,951
Equipment	5,058,138	312,929	63,610	5,307,457
Furnishings and fixtures	231,230	2,246	-	233,476
Vehicles	<u>4,706,990</u>	<u>468,067</u>	<u>84,678</u>	<u>5,090,379</u>
Total accumulated depreciation	<u>30,538,712</u>	<u>3,053,435</u>	<u>148,288</u>	<u>33,443,859</u>
Total capital assets, being depreciated, net:	<u>\$25,449,994</u>	<u>\$ 1,414,761</u>	<u>\$ -</u>	<u>\$26,864,755</u>
Primary Government Activities Capital Assets – Net	<u>\$35,013,938</u>	<u>\$ 3,930,999</u>	<u>\$ 3,017,902</u>	<u>\$35,927,035</u>
<u>Business-type Activities:</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
<u>Capital assets, not being depreciated:</u>				
Land	<u>\$ 65,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,908</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

<u>Business-type Activities:</u>	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>Capital assets, being depreciated:</u>				
Building and improvements	345,783	2,629	11,585	336,827
Equipment	2,060,242	65,511	-	2,125,753
Vehicles	<u>1,997,636</u>	<u>312,814</u>	<u>86,633</u>	<u>2,223,817</u>
Totals at historical cost	<u>4,403,661</u>	<u>380,954</u>	<u>98,218</u>	<u>4,686,397</u>
<u>Less: Accumulated depreciation</u>				
Buildings and improvements	151,444	10,426	11,585	150,285
Equipment	1,771,921	133,415	-	1,905,336
Vehicles	<u>1,082,535</u>	<u>237,664</u>	<u>86,633</u>	<u>1,233,566</u>
Total accumulated depreciation	<u>3,005,900</u>	<u>381,505</u>	<u>98,218</u>	<u>3,289,187</u>
Total capital assets, being depreciated, net:	<u>\$ 1,397,761</u>	<u>\$ (551)</u>	<u>\$ -</u>	<u>\$ 1,397,210</u>
Business - Type Activities Capital Assets – Net	<u>\$ 1,463,669</u>	<u>\$ (551)</u>	<u>\$ -</u>	<u>\$ 1,463,118</u>

Depreciation expense was charged to governmental activities as follows:

<u>General government:</u>		
General administration		\$ 161,187
Finance		4,120
Planning		12,476
Human rights		845
Personnel		1,188
Information systems		13,664
Fleet maintenance		<u>12,006</u>
 Total general government		 <u>205,486</u>
 <u>Public safety:</u>		
Police		68,183
Fire		35,105
Grants		149,670
Emergency 911		21,040
Court awards		23,541
Fleet Lease Trust		<u>448,099</u>
 Total public safety		 <u>745,638</u>
 <u>Public service:</u>		
Public works		70,800
Engineering		<u>13,879</u>
 Total public service		 <u>84,679</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Parks and recreation	<u>\$ 54,174</u>
Planning and development:	
Infrastructure	1,954,189
Grants	<u>9,269</u>
Total planning and development	<u>1,963,458</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 3,053,435</u>

Depreciation expense was charged to business-type activities as follows:

Solid Waste Fund	\$ 291,230
Civic Center	9,518
TISA Fund	<u>80,757</u>
Total Depreciation Expense – Business-Type Activities	<u>\$ 381,505</u>

Discretely Presented Component Units:	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 1,890,879	\$ -	\$ 12,783	\$ 1,878,096
Construction-in-progress	<u>1,737,329</u>	<u>586,409</u>	<u>1,213,267</u>	<u>1,110,471</u>
Total capital assets, not being depreciated	<u>3,628,208</u>	<u>586,409</u>	<u>1,226,050</u>	<u>2,988,567</u>
Capital assets, being depreciated:				
Buildings and improvements	1,668,226	-	-	1,668,226
Equipment	4,303,694	881,386	63,370	5,121,710
Utility plant	<u>112,733,972</u>	<u>6,281,503</u>	<u>784,944</u>	<u>118,230,531</u>
Total capital assets, being depreciated	<u>118,705,892</u>	<u>7,162,889</u>	<u>848,314</u>	<u>125,020,467</u>
Less accumulated depreciation:				
Buildings and improvements	219,146	106,465	-	325,611
Equipment	1,547,069	536,222	58,744	2,024,547
Utility plant	<u>45,787,671</u>	<u>3,434,800</u>	<u>903,546</u>	<u>48,318,925</u>
Total accumulated depreciation	<u>47,553,886</u>	<u>4,077,487</u>	<u>962,290</u>	<u>50,669,083</u>
Total capital assets, being depreciated, net	<u>71,152,006</u>	<u>3,085,402</u>	<u>(113,976)</u>	<u>74,351,384</u>
COMPONENT UNIT				
CAPITAL ASSETS, NET	<u>\$ 74,780,214</u>	<u>\$3,671,811</u>	<u>\$ 1,112,074</u>	<u>\$ 77,339,951</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Depreciation expense, charged to functions/programs of discretely presented major component units as follows:

Paducah Water Works	\$ 1,233,250
Paducah Power System	2,201,550
Paducah Transit Authority	<u>642,687</u>
 TOTAL DEPRECIATION EXPENSE BY ACTIVITY	 <u>\$ 4,077,487</u>

Accounts Payable

Payables in the governmental and proprietary funds are composed of payables to vendors and accrued salaries and benefits.

Long-Term Debt

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

As of June 30, 2005, the governmental long-term debt consisted of the following:

General obligation bonds:	
Current portion	\$ 410,000
Noncurrent portion	<u>12,810,000</u>
 TOTAL GENERAL OBLIGATION BOND COSTS	 <u>\$13,220,000</u>
Note payable:	
Current portion	\$ 184,047
Noncurrent portion	<u>3,319,227</u>
 TOTAL NOTE PAYABLE PAYMENTS	 <u>\$ 3,503,274</u>
Accrued compensated absences:	
Current portion	\$ 410,398
Noncurrent portion	<u>1,373,055</u>
 TOTAL ACCRUED COMPENSATED ABSENCES	 <u>\$ 1,783,453</u>

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Business-type Activities

As of June 30, 2005, the long-term debt payable from proprietary fund resources consisted of the following:

Accrued compensated absences:	
Current portion	\$56,753
Noncurrent portion	<u>22,031</u>
TOTAL ACCRUED COMPENSATED ABSENCES	<u>\$78,784</u>

General Obligation Bonds

Series 2001 Bond Issue - The City of Paducah issued general obligation bonds of \$9,290,000 in June, 2001, to finance construction of the new Luther F. Carson Four Rivers Center for the Performing Arts and the expansion of the Julian Carroll Convention Center. Interest rates range from 3.5% to 5%. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City. While these bonds are issued by the City, 50% of the principal amount of the bonds was issued on behalf of the County of McCracken, Kentucky which intends to participate on an equal basis with the City in financing the projects and has issued the City a general obligation note in a principal amount equal to 50% of the principal amount of the bonds and bearing interest at the same rates as the City's bonds in order to secure the County's obligations to the City. This note receivable is reflected in the government-wide Statement of Net Assets. In accordance with an Interlocal Cooperation Agreement between the City, McCracken County, Kentucky (the County), and the Paducah-McCracken County Tourist and Convention Commission (the Bureau), principal and interest payments on the bonds are being made from an additional 2% transient room tax collected by the County with the remaining payments split evenly between the City, the County, and the Bureau.

Series 2004 Bond Issue - The City of Paducah issued general obligation bonds of \$5,000,000 in June, 2004, to finance construction of the new Infiniti Media Building. Interest rates range from 2.25% to 6%. These bonds are required to be fully paid within 20 years from the date of issue and are backed by the full faith and credit of the City. While these bonds are issued by the City, 50% of the principal amount of the bonds was issued on behalf of the County of McCracken, Kentucky which intends to participate on an equal basis with the City in financing the projects and has issued the City a general obligation note in a principal amount equal to 50% of the principal amount of the bonds and bearing interest at the same rates as the City's bonds in order to secure the County's obligations to the City. This note receivable is reflected in the government-wide Statement of Net Assets. In accordance with a Capital Sublease Agreement between McCracken County, Kentucky (the County) and Infiniti Plastic Technologies, Inc., principal and interest payments prior to June 1, 2007, on the bonds are being split evenly between the City and the County. After June 1, 2007, The County will pay 2.031% of the bond payments with the remaining amount being made from Infiniti's lease payments.

Notes Payable

Kentucky League of Cities - On July 1, 2003, the City entered into an agreement in the amount of \$3,500,000 with the Kentucky League of Cities to finance the acquisition and installation of various public projects. Interest is charged at a rate of approximately 2.98%. The note is required to be fully paid within 20 years from the date of issue and is backed by the full faith and credit of the City.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Paducah Bank - On April 1, 2003, the City entered into a note for up to \$70,000 with Paducah Bank & Trust Company to help finance the purchase of property located at 233 North 6th Street, which is part of the LowerTown property acquired for resell. Interest is charged at a rate of 3.25% with the full amount of the note due to be paid in a lump sum on April 1, 2006. The City retired the note during the current fiscal year.

Kentucky Association of Counties - The County of McCracken, Kentucky entered into an agreement in the amount of \$300,000 in May, 2005, with the Kentucky Association of Counties for purchase of a rail spur in the Industrial Park West. Interest rates range from 2.175% to 4.250%. This note is required to be fully paid within 5 years from the date of issue and is backed jointly by the full faith and credit of the City and the County. While this note is issued by the County, 50% of the principal amount of the note was issued on behalf of the City which intends to participate on an equal basis with the County in accordance with an Interlocal Cooperation Agreement between the City and McCracken County, Kentucky on June 1, 2004.

Kentucky Association of Counties - The County of McCracken, Kentucky entered into an agreement in the amount of \$250,000 in August, 2004, with the Kentucky Association of Counties to assist the Paducah-McCracken County Industrial Development Authority finance construction of the new speculative building in Industrial Park West. Interest rate is 4.250%. This note is required to be fully paid within 5 years from the date of issue and is backed jointly by the full faith and credit of the City and the County. While this note is issued by the County, 50% of the principal amount of the note was issued on behalf of the City which intends to participate on an equal basis with the County in accordance with an Interlocal Cooperation Agreement between the City and McCracken County, Kentucky on June 1, 2004.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

Type of Debt:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental activities:					
General obligation bonds:					
Convention and Arts Center	\$ 8,620,000	\$ -	\$ 240,000	\$ 8,380,000	\$ 250,000
Infiniti Media Building	5,000,000	-	160,000	4,840,000	160,000
Notes payable:					
Kentucky League of Cities	3,381,211	-	133,358	3,247,853	137,411
Paducah Bank	47,644	-	47,644	-	-
Kentucky Association of Counties	-	125,000	19,579	105,421	24,136
Kentucky Association of Counties	-	150,000	-	150,000	22,500
Accrued compensated absences	<u>1,744,404</u>	<u>409,177</u>	<u>370,128</u>	<u>1,783,453</u>	<u>410,398</u>
TOTAL GENERAL LONG- TERM DEBT	<u>\$18,793,259</u>	<u>\$ 684,177</u>	<u>\$ 970,709</u>	<u>\$18,506,727</u>	<u>\$ 1,004,445</u>
Business-type activities:					
Accrued compensated absences	<u>\$ 65,187</u>	<u>\$ 64,782</u>	<u>\$ 51,185</u>	<u>\$ 78,784</u>	<u>\$ 56,753</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Annual Debt Service Requirements

The annual debt service requirements to maturity, excluding obligations associated with compensated absences, for long-term debt as of June 30, 2005, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 594,047	\$ 719,609
2007	613,942	700,436
2008	641,485	679,457
2009	661,680	656,479
2010	661,856	632,504
2011-2015	3,625,443	2,755,424
2016-2020	4,504,821	1,918,419
2021-2025	4,805,000	809,471
2026-2030	<u>615,000</u>	<u>30,750</u>
TOTALS	<u>\$16,723,274</u>	<u>\$ 8,902,549</u>

Accrued Compensated Absences

Compensated absence obligations arise from amounts due to City employees for vested amounts of vacation pay and sick pay which will be payable in the future. Amounts accrued at June 30, 2005, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accrued sick leave	\$ 772,691	\$22,112
Accrued vacation leave	885,480	51,074
Applicable payroll taxes	<u>125,282</u>	<u>5,598</u>
Totals	1,783,453	78,784
Less current portion	<u>410,398</u>	<u>56,753</u>
LONG-TERM PORTION	<u>\$1,373,055</u>	<u>\$22,031</u>

Landfill Closure and Post-Closure Costs

The County of McCracken, Kentucky (County) closed the local landfill to the public on June 30, 1995. The County must comply with established state and federal landfill closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. The 30-year period will begin upon approval from the Commonwealth of Kentucky regarding the environmental condition of the landfill site. As of June 30, 2005, approval had not yet been granted. The County estimated post-closure care costs totaling \$4,125,000 or \$125,000 per year plus 10% for inflation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. In the year ending June 30, 2001, the City entered into an inter-local agreement to share equally the costs for post-closure costs and accordingly, has recorded a long-term liability for 50% of the estimated closure expense (See Note 10). The City reimburses the County annually for its share of closure costs incurred during the fiscal year. It is anticipated that post-closure costs will be paid out of the Solid Waste Fund to the extent that funds are available with any excess costs being funded using long-term borrowing.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Detail Notes on Transaction Classes/Accounts:

Interfund Transactions and Balances

Interfund transfers during the year ended June 30, 2005, were as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
Governmental Funds:		
General Fund	\$ -	\$2,740,032
Capital Project Fund	2,348,777	269,209
Downtown Capital Project Fund	39,300	1,702,930
Nonmajor Governmental Funds	1,006,343	-
Internal Service Funds	324,000	-
Fiduciary Funds:		
Appointive Employee Pension Fund	75,000	-
Police and Firefighters' Pension Fund	784,792	-
Proprietary Funds:		
Nonmajor Proprietary Funds	<u>133,959</u>	<u>-</u>
TOTALS	<u>\$4,712,171</u>	<u>\$4,712,171</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Due To/From Balances

Due to/from balances used to cover current operating expenses were as follows as of June 30, 2005:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$1,279,923	\$ 50,000
General Capital Improvement Fund	50,000	-
Downtown Capital Improvement Fund	-	15,364
Nonmajor Governmental Funds	-	132,125
Internal Service Funds	<u>-</u>	<u>1,132,434</u>
TOTALS	<u>\$1,329,923</u>	<u>\$1,329,923</u>

Note 4 - Pension Plans - City of Paducah:

The City provides retirement benefits to its employees through three pension funds. Two of these funds are single-employer defined benefit funds and are administered by the City. These funds are Police and Firefighters' Pension Fund (PFPF) and Appointive Employee' Pension Fund (AEPF). The other pension is a multi-employer public employee retirement fund administered by the Kentucky County Employees Retirement System (CERS). The City also participates in two deferred compensation plans. Information regarding these plans follows:

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 4 - Pension Plans - City of Paducah:

Single Employer Defined Benefit Funds

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Funding - The Appointive Employee's Pension Fund Board and the City of Paducah Police and Firefighter's Pension Fund Board are responsible for establishing or amending contribution rates and requirements for their respective plans.

Valuation of Investments - Investments are reported at fair value. Investments are composed of securities valued at current market prices.

Police and Firefighters' Pension Fund

Plan Description: PFPF is a single-employer defined benefit plan. On August 1, 1988, the plan was closed to new entrants and current active duty police and firemen of the City were given a choice of remaining in this plan or transferring into the CERS. Effective August 1, 1988, the PFPF covered 21 active duty members; all other active duty members elected coverage under CERS. PFPF provides retirement, disability and death benefits to plan members and their beneficiaries. These benefits are determined by Kentucky Revised Statutes (KRS) sections 95.851 to 95.884. The plan financial statements are included in this audit report.

Contributions: Plan members are required to contribute 8% of their annual covered salary. A member reserve is established for member contributions, less amounts transferred to reserves for retirement and disability and amounts refunded to terminated employees.

Components of annual pension cost for PFPF are as follows:

Component	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>
Beginning NPO balance	\$ -	\$ -	\$ -
ARC	<u>953,044</u>	<u>811,401</u>	<u>645,773</u>
Pension cost	953,044	811,401	645,773
Less actual contribution	<u>953,044</u>	<u>811,401</u>	<u>645,773</u>
Net change in NPO	<u>-</u>	<u>-</u>	<u>-</u>
ENDING NPO BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PERCENTAGE OF PENSION COST CONTRIBUTED	<u>100%</u>	<u>100%</u>	<u>100%</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 4 - Pension Plans - City of Paducah:

The financial statements for the Police and Firefighters' Pension Fund are as follows:

Statement of Fiduciary Net Assets
Police and Firefighters' Retirement Fund
June 30, 2005

Assets:	
Cash and cash equivalents	\$ 32,563
Receivables	54,363
Prepaid expenses	58,117
Investment at fair value	<u>9,007,869</u>
Total assets	9,152,912
Liabilities:	
Voucher and accounts payable	<u>2,051</u>
Net Assets:	
Held in trust for pension benefits and other purposes	<u>\$9,150,861</u>

Statement of Changes in Net Assets
Police and Firefighters' Retirement Fund
For the Year Ended June 30, 2005

Additions:	
Employer contributions	\$ 953,044
Plan members' contributions	<u>23,487</u>
Total contributions	<u>976,531</u>
Investment earnings:	
Net increase in fair value of investments	401,519
Interest and dividends	<u>285,918</u>
Net investment earnings	<u>687,437</u>
Total additions	<u>1,663,968</u>
Deductions:	
Benefits	1,801,913
Administrative expenses	<u>63,493</u>
Total deductions	<u>1,865,406</u>
Change in net assets	(201,438)
Net assets, July 1, 2004	<u>9,352,299</u>
NET ASSETS, JUNE 30, 2005	<u>\$9,150,861</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 4 - Pension Plans - City of Paducah:

Appointive Employees' Pension Fund

Plan Description: AEPF is a single-employer defined benefit plan which covers past appointed employees of the City. In 1975, the City froze admission of new entrants into the plan. There are no active participants in the plan at June 30, 2005. The plan financial statements are included in this audit report.

Contributions: Since there are only retired employees and beneficiaries receiving benefits, the City expects little or no additional pension obligation. The City has pledged to maintain benefits and the financial soundness of the plan by appropriations from the General Fund, as necessary.

Components of annual pension cost for AEPF are as follows:

Component	Year Ended June 30, 2005	Year Ended June 30, 2004	Year Ended June 30, 2003
Beginning NPO balance	<u>\$(212,055)</u>	<u>\$(198,365)</u>	<u>\$(186,170)</u>
ARC	26,328	48,339	50,112
Interest on NPO	(12,723)	(11,902)	(11,170)
Unfunded ARC adjustment	<u>27,181</u>	<u>25,426</u>	<u>23,863</u>
Pension cost	40,786	61,863	62,805
Less actual contribution	<u>75,000</u>	<u>75,553</u>	<u>75,000</u>
Net change in NPO	<u>(34,214)</u>	<u>(13,690)</u>	<u>(12,195)</u>
ENDING NPO BALANCE	<u>\$(246,269)</u>	<u>\$(212,055)</u>	<u>\$(198,365)</u>
PERCENTAGE OF PENSION COST CONTRIBUTED	<u>184%</u>	<u>122%</u>	<u>120%</u>

Statement of Fiduciary Net Assets
Appointive Employees' Pension Fund
June 30, 2005

Assets:

Cash and cash equivalents	\$ 97,514
Receivables	2,531
Prepaid expenses	1,802
Investment at fair value	<u>227,042</u>

Total assets 328,889

Liabilities:

Voucher and accounts payable	<u> -</u>
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Net Assets:

Held in trust for pension benefits and other purposes	<u>\$328,889</u>
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(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 4 - Pension Plans - City of Paducah:

Statement of Changes in Net Assets
Appointive Employees' Pension Fund
For the Year Ended June 30, 2005

Additions:

Interest and dividends	\$ 7,487
Employer contributions	<u>75,000</u>
 Total additions	 <u>82,487</u>

Deductions:

Benefits	69,276
Administrative expenses	<u>7,942</u>
 Total deductions	 <u>77,218</u>

Change in net assets	5,269
Net assets, July 1, 2004	<u>323,620</u>
 NET ASSETS, JUNE 30, 2005	 <u>\$328,889</u>

Contribution Information

A summary of actuarial assumptions at June 30, 2005, the date of the latest actuarial valuation is as follows:

	PFPF	AEPF
Valuation date	7/1/05	7/1/05
Actuarial cost method	Entry age normal	Aggregate (1)
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	27 Years	10 Years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.75%	6.0%
Projected salary increases	4.00%	(2)
Inflation rates adjustments	3.00%	(2)

- (1) The Aggregate Method does not identify or separately amortize the unfunded actuarial liabilities.
- (2) The plan has no active participants. The pension cost for each year is determined as an amortization of the unfunded actuarial accrued liability over the lesser of 10 years or the weighted average of expected term of payment of plan benefits.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 4 - Pension Plans - City of Paducah:

Membership Information

Membership of each plan consisted of the following at June 30, 2005:

	<u>PFPF</u>	<u>AEPF</u>
Active participants	5	-
Beneficiaries	41	8
Retired participants	<u>54</u>	<u>3</u>
TOTAL PARTICIPANTS	<u>100</u>	<u>11</u>

Cost-Sharing Multiple-Employer Defined Benefit Plan

County Employees' Retirement System

Plan Description: The City is a participant in the County Employees Retirement System (CERS), a cost sharing, multi-employer public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling 1-502-564-4646.

Funding Policy: Hazardous position employees are required to contribute 8% to the plan and nonhazardous position employees are required to contribute 5% of their creditable compensation by State statute. The City is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. For the years ended June 30, 2005, 2004 and 2003, the City contributed 22.08%, 18.51%, and 16.28%, respectively, of each hazardous employee's creditable compensation and 8.48%, 7.34%, and 6.34%, respectively, of each nonhazardous employee's creditable compensation. These actuarially determined rates are set by the Board of Trustees of Kentucky Retirement Systems. The City's contributions to CERS for the years ending June 30, 2005, 2004 and 2003, were \$2,963,431, \$2,387,011, and \$2,104,841, respectively, equal to the required contributions for each year.

Note 5 – Appropriations Deficit:

No departments that adopted budgets annually had excess expenditures over appropriations for the fiscal year ended June 30, 2005.

Note 6 - Component Unit Long-Term Debt:

Long-term debt of the discretely presented component units consists of the following at June 30, 2005:

Refunding Revenue Bonds of 1991 - Paducah Water Works

The City of Paducah, Kentucky Refunding Bonds, Series of 1991, in the amount of \$10,775,000 were issued for the purpose of defeasing certain bonds of the Revenue Refunding Bonds, Series of 1985. During the year ended June 30, 1998, Paducah Water Works refunded a portion (\$6,075,000) of the 1991 bond issue by issuing \$6,780,000 of 1997 revenue refunding bonds, Series 1997. At June 30, 2004, the total bonds that are considered extinguished under an in-substance defeasance (refund) are \$11,790,000. The bonds are secured by a first pledge of the revenues of Paducah Water Works. City bond ordinances require that net revenues, as defined in the ordinances, equal or exceed 130% of the maximum annual debt service. Payment of bonds and related interest is fully guaranteed by the Municipal Investors Assurance Corporation.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 6 - Component Unit Long-Term Debt:

The following schedule summarizes the debt service requirements for the Refunding Revenue Bonds, Series of 1991, maturing July 1, 2009 bearing interest rates of 4.375% to 4.450%:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 905,000	\$171,510	\$1,076,510
2007	950,000	131,690	1,081,690
2008	990,000	89,890	1,079,890
2009	1,030,000	45,835	1,075,835
Less deferred debit arising from advanced refunding	<u>(236,842)</u>	<u>-</u>	<u>(236,842)</u>
TOTALS	<u>\$3,638,158</u>	<u>\$438,925</u>	<u>\$4,077,083</u>

Note Payable, Kentucky Infrastructure Authority (KIA) – Paducah Water Works

In connection with a merger with Reidland Water District, Paducah Water Works assumed a loan from the KIA. Interest rates range from 3.16% to 5.19%, with a .2% annual service fee. The annual requirements to amortize the outstanding debt as of June 30, 2005, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Fee (0.2%)</u>	<u>Total</u>
2006	\$ 25,000	\$ 9,456	\$ 430	\$ 34,886
2007	25,000	8,666	380	34,046
2008	25,000	7,769	330	33,099
2009	25,000	6,759	280	32,039
2010	25,000	5,673	230	30,903
2011-2016	<u>90,000</u>	<u>9,147</u>	<u>360</u>	<u>99,507</u>
TOTALS	<u>\$215,000</u>	<u>\$47,470</u>	<u>\$2,010</u>	<u>\$264,480</u>

Paducah Electric Plant Board 1991 Bond Issue

On November 1, 1998, the Utility issued \$3.35 million in special revenue refunding bonds with interest rates between 3.75% and 4.20%. The Utility issued the bonds to advance refund \$3.06 million of the outstanding Series 1991 general obligation bonds with a 6.30% interest rate and were secured by all assets of the Utility. The Utility used the net proceeds along with other resources to purchase the U. S. Government Securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1991 Series bonds maturing on or after January 1, 2002. As a result, that portion of the 1991 Series bonds is considered defeased and the Utility has removed the liability from its books.

On November 9, 2001, the System issued \$3.32 million in special revenue refunding bonds with interest rates between 3.00% and 4.25% and is secured by a first pledge of the net revenues of the System. The System issued the bonds to finance construction of a fiber optic network in the community.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 6 - Component Unit Long-Term Debt:

The following schedule summarizes the remaining debt service requirements for the Paducah Electric Plant Board 2001 and 1998 Bond Issues:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 355,000	\$ 219,607	\$ 574,607
2007	370,000	205,758	575,758
2008	385,000	191,117	576,117
2009	400,000	175,533	575,533
2010	415,000	159,332	574,332
2011-2015	2,355,000	527,803	2,882,803
2016-2018	<u>1,080,000</u>	<u>69,275</u>	<u>1,149,275</u>
TOTALS	<u>\$5,360,000</u>	<u>\$1,548,425</u>	<u>\$6,908,425</u>

Bonds payable totaling \$5,153,938 are recorded net of \$206,062 unamortized bond discount and advance refunding deferred charges.

Notes Payable, Kentucky Association of Counties (KACO) – Paducah Transit Authority

On February 13, 2004 and February 22, 2005, the Transit Authority of the City of Paducah entered into agreements with the KACO in connection with a grant match projects. Interest rates on these agreements are 2.175%. As of June 30, 2005, the outstanding balance was \$350,570 and \$143,976, respectively.

The following schedule summarizes the remaining debt service requirements for the Transit Authority of the City of Paducah notes payable:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 168,680	\$ 17,764	\$ 186,444
2007	48,280	12,689	60,969
2008	38,173	11,068	49,241
2009	39,339	9,416	48,755
2010	40,540	7,721	48,261
2011-2015	<u>159,534</u>	<u>12,954</u>	<u>172,488</u>
TOTALS	<u>\$ 494,546</u>	<u>\$ 71,612</u>	<u>\$ 566,158</u>

Note 7 - Commitments and Contingencies:

Grant Contingencies

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 7 - Commitments and Contingencies:

Construction Commitments

The City has various on-going contracts for construction, renovations, paving materials, equipment, and labor. As of June 30, 2005, the construction commitments were as follows:

	<u>Cumulative Costs Incurred</u>	<u>Estimated Costs</u>
Amphitheater Park Renovations	\$ 58,455	\$ 199,520
Pecan Drive/Buckner Land Roadway Improvement Project		
Funding provided by Kentucky Department of Transportation	-	3,636,376
Pecan Drive Bridge Construction Project		
Funding provided by Kentucky Department of Transportation	881,188	883,956
Street Resurfacing Program	<u>66,215</u>	<u>685,065</u>
	<u>\$1,005,858</u>	<u>\$5,404,917</u>

Note 8 - Risk Management and Litigation:

The City 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. The City obtains coverage from commercial insurance companies to handle the risk of loss. There have been no decreases in insurance coverage from the prior year. There have been no settlements in excess of insurance coverage during the prior three years.

An analysis of claims activity is presented below:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>Balance at Fiscal Year End</u>
1997 - 1998	\$ -	\$ 96,101	\$ 96,101	\$ -
1998 - 1999	-	26,457	26,457	-
1999 - 2000	-	26,455	26,455	-
2000 - 2001	-	102,380	102,380	-
2001 - 2002	-	2,879	2,879	-
2002 - 2003	-	3,277	3,277	-
2003 - 2004	-	133,383	133,383	-
2004 - 2005	-	1,004	1,004	-

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 8 - Risk Management and Litigation:

During fiscal year 1999, the City established the Health Insurance Fund (an internal service fund) to account for and finance employee medical costs relating to the City's employee self-insured medical benefit plan that went into effect as of July 1, 1999. The health insurance provides coverage for up to \$150,000 for each covered individual. The City purchases commercial insurance (reinsurance) for claims in excess of the coverage provided per individual or in excess of the maximum aggregate limit of \$2,000,000. Self-insurance costs are accrued based on claims reported within 90 days of the balance sheet date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was \$413,000 at June 30, 2005.

The analysis of claims activity is presented below:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Actual Claim Payments	Balance at Fiscal Year End
2000 - 2001	\$ -	\$2,636,969	\$2,351,969	\$285,000
2001 - 2002	285,000	2,601,988	2,601,988	285,000
2002 - 2003	285,000	3,257,340	3,210,340	332,000
2003 - 2004	332,000	2,217,067	2,199,067	350,000
2004 - 2005	350,000	2,994,673	2,931,673	413,000

Several lawsuits are pending involving citizens' complaints and the City of Paducah. Various allegations have been made seeking damages which the legal counsel of the City, along with its management, has determined to be immaterial to the City's financial position.

Note 9 - Lease Agreements:

The City is leasing land to the Luther F. Carson Four Rivers Center for the Performing Arts (Center) for a primary term of 99 years. No rental revenue is being collected from this lease. The rental for the primary term of the lease is the construction of the performing arts center. The building will be deemed the property of the City upon termination of the lease. In December, 2003, with the authorization of the City, the Center secured financing of \$6.5 million subject to a mortgage against the leasehold and real property on which the performing arts center is located. The City also consented to an assignment of the lease as security for the loan.

The City is leasing land and a building to Infiniti Media, Incorporated for use by Infiniti Plastic Technologies, Incorporated for a primary term of 20 years. No rental revenue is collected for the first three years of the lease term. Rental payments will commence on September 1, 2007, at a monthly payment of \$33,816 and end with the final payment due May 1, 2024. Infiniti Media may purchase the property during the term of lease by paying off the related indebtedness. In addition, at the end of the lease term, Infiniti Media may purchase the property for \$1. Infiniti Media has the option to cancel this lease at any time after the sixth year of the lease term by providing written notice 18 months prior to the date of termination.

The City also leases certain other property to various lessees under non-cancelable agreements that have various expiration dates through June 30, 2079. Rental revenue received from leased property during 2005 totaled \$331,292.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 9 - Lease Agreements:

The following is an analysis of property leased under these leases at June 30, 2005:

Land	\$ 606,350
Buildings	3,422,262
Equipment	<u>110,126</u>
Total	4,138,738
Less: accumulated depreciation	<u>739,371</u>
NET BOOK VALUE	<u>\$ 3,399,367</u>

Depreciation expense for the year ended June 30, 2005, on leased property was \$67,507.

The following is a schedule of future minimum rental income from operating leases at June 30, 2005:

	<u>Lease Income</u>
2006	\$ 402,565
2007	424,173
2008	758,286
2009	825,919
2010	825,919
Future years	<u>322,786</u>
TOTAL MINIMUM LEASE RECEIPTS	<u>\$ 3,559,648</u>

Note 10 - Reclassification of Beginning Fund Balance:

Governmental Funds

During the previous year, the City had not recorded receivables for payroll taxes, insurance taxes & business licenses earned as of June 30th under the modified accrual basis of accounting. Accordingly, a reclassification was made to the beginning fund balance as follows:

	<u>General Fund</u>
June 30, 2004, balance as previously reported	\$ 4,642,073
Fund balance adjustment	<u>3,870,992</u>
JULY 1, 2004, BALANCE AS RESTATED	<u>\$ 8,513,065</u>

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Note 10 - Reclassification of Beginning Fund Balance:

Business-type Activities

In October of 2000, the City entered into an inter-local agreement with the County of McCracken, Kentucky to share equally the expenses related to the closure of the County landfill. Accordingly, a reclassification was made to the beginning fund balance as follows:

	Solid Waste Fund
June 30, 2004, balance as previously reported	\$ 3,040,450
Fund balance adjustment	(2,062,500)
JULY 1, 2004, BALANCE AS RESTATED	\$ 977,950

Statement of Net Assets

During the previous year, the City had not recorded receivables for payroll taxes, insurance taxes & business licenses earned as of June 30th under the accrual basis of accounting. In addition, capital assets were inadvertently omitted. Accordingly, a reclassification was made to the beginning fund balance as follows:

	Total Governmental Activities
June 30, 2004, balance as previously reported	\$ 32,166,415
Taxes and license receivables	4,103,878
Construction in progress and fixed assets	3,076,396
JULY 1, 2004, BALANCE AS RESTATED	\$ 39,346,689

Note 11 – Subsequent Event

Subsequent to June 30, 2005, the City Commission approved an ordinance effectively increasing employee earnings license fee from 1 ½% to 2% effective October 1, 2005.

CITY OF PADUCAH, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

CITY OF PADUCAH, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
PENSION TRUST FUNDS SCHEDULES

Schedules of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u>
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Police and Firefighters' Pension Fund (PFPF) (Using Entry Age Normal Method)

7/1/2000	11,914,754	15,923,034	4,008,280	74.8	345,500	1160.14
7/1/2001	11,346,128	15,724,236	4,378,108	72.2	356,406	1228.40
7/1/2002	10,382,216	15,550,968	5,168,752	66.8	356,304	1450.66
7/1/2003	9,460,720	15,334,484	5,873,764	61.7	320,782	1831.08
7/1/2004	9,352,299	15,204,717	5,852,418	61.5	287,923	2032.63
7/1/2005	9,150,861	15,310,380	6,159,519	59.8	198,307	3,106.05

Appointive Employees' Pension Fund (AEPF) (Using Aggregate Actuarial Method)

The Aggregate Cost Method is used for the AEPF; therefore, a schedule of funding progress is not required.

Schedules of Employer Contributions

<u>Year Ended June 30</u>	<u>PFPF</u>		<u>AEPF</u>		
	<u>Annual Required Contribution (ARC)</u>	<u>Percent ARC Contributed</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percent ARC Contributed</u>	<u>Ending Net Pension Obligation (NPO)</u>
2000	649,274	100	66,716	112	(182,405)
2001	865,026	100	62,029	121	(182,940)
2002	806,632	100	59,297	126	(186,170)
2003	645,773	100	50,112	150	(198,365)
2004	811,401	100	48,339	156	(212,055)
2005	953,044	100	26,328	285	(246,269)

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Beginning budgetary fund balance	\$4,925,982	\$8,513,065	\$ 8,513,065	\$ -
Resources (Inflows):				
Taxes:				
Real and personal, current year	4,284,000	4,284,000	4,303,297	19,297
Real and personal, prior year	110,000	110,000	141,140	31,140
Franchise	234,000	234,000	264,932	30,932
Bank taxes	165,000	165,000	157,771	(7,229)
In lieu of tax payment	150,450	150,450	146,936	(3,514)
Penalty, interest and advertising	41,000	41,000	51,225	10,225
Paducah Junior College tax collections	-	-	281,088	281,088
Total taxes	<u>4,984,450</u>	<u>4,984,450</u>	<u>5,346,389</u>	<u>361,939</u>
Licenses:				
Business licenses	3,535,000	3,565,500	3,643,200	77,700
Employee earnings	11,000,000	11,000,000	11,183,157	183,157
Comcast fees	280,000	280,000	275,024	(4,976)
Penalties	65,000	65,000	71,584	6,584
Alcoholic beverages	110,500	110,500	116,725	6,225
Insurance premium tax	3,820,000	3,820,000	3,957,289	137,289
Building permits	100,000	100,000	139,681	39,681
Electrical permits	32,000	32,000	38,713	6,713
Zoning change fees	4,000	4,000	3,813	(187)
Miscellaneous building and electrical fees	500	500	1,452	952
KJDA payroll rebate	(64,450)	(64,450)	(61,873)	2,577
Total licenses	<u>18,882,550</u>	<u>18,913,050</u>	<u>19,368,765</u>	<u>455,715</u>
Charges for services:				
Tax collection fee	115,000	115,000	109,713	(5,287)
Administrative charge	240,700	240,700	242,580	1,880
Base court revenue	69,865	69,865	45,582	(24,283)
Recreation fees	134,500	134,500	117,317	(17,183)
Total charges for services	<u>560,065</u>	<u>560,065</u>	<u>515,192</u>	<u>(44,873)</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Grants:				
Police State Incentive	\$ 299,000	\$ 299,000	\$ 272,871	\$ (26,129)
Fire State Incentive	276,000	276,000	265,422	(10,578)
Paducah Housing Authority after school program	26,000	26,000	65,048	39,048
Police supplemental grants	99,000	99,000	63,721	(35,279)
Total grants	<u>700,000</u>	<u>700,000</u>	<u>667,062</u>	<u>(32,938)</u>
Interest	<u>112,300</u>	<u>112,300</u>	<u>190,901</u>	<u>78,601</u>
Other:				
Property rent and sales	528,525	533,150	532,099	(1,051)
Property upkeep and maintenance	119,150	119,150	135,895	16,745
Contractual programs	4,000	4,000	4,337	337
E911 - GIS	20,600	20,600	20,604	4
Miscellaneous	298,170	305,840	80,945	(224,895)
Total other	<u>970,445</u>	<u>982,740</u>	<u>773,880</u>	<u>(208,860)</u>
Amounts available for appropriation	<u>31,135,792</u>	<u>34,765,670</u>	<u>35,375,254</u>	<u>609,584</u>
Charges to Appropriations (Outflows):				
General government:				
General administration:				
Mayor and Commissioners	196,530	192,660	192,654	6
City Manager	254,415	257,795	257,725	70
City Clerk	141,550	144,930	144,927	3
Corporate Counsel	172,330	204,865	204,734	131
Non-departmental	295,000	338,350	338,333	17
Memberships and contingency	373,055	24,580	24,576	4
Civic beautification	2,500	500	317	183
Total general administration	<u>1,435,380</u>	<u>1,163,680</u>	<u>1,163,266</u>	<u>414</u>
Finance:				
Finance administration	155,745	157,565	157,417	148
Accounting and payroll	317,110	303,370	302,765	605
Revenue collection	289,575	289,600	289,585	15
Total finance	<u>762,430</u>	<u>750,535</u>	<u>749,767</u>	<u>768</u>

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
General government:				
Planning:				
Administration	\$ 263,520	\$ 245,205	\$ 245,189	\$ 16
Planning	412,635	256,740	256,551	189
Grants	108,145	94,965	94,949	16
Economic development	262,500	267,410	267,408	2
Total planning	<u>1,046,800</u>	<u>864,320</u>	<u>864,097</u>	<u>223</u>
Human rights	<u>104,395</u>	<u>93,970</u>	<u>93,851</u>	<u>119</u>
Human resources	<u>319,575</u>	<u>303,430</u>	<u>300,135</u>	<u>3,295</u>
Inspection:				
Inspection administration	157,510	151,240	151,215	25
Construction	283,970	284,075	283,894	181
Code enforcement	351,945	321,825	321,770	55
Total inspection	<u>793,425</u>	<u>757,140</u>	<u>756,879</u>	<u>261</u>
Information systems	<u>268,965</u>	<u>245,480</u>	<u>239,729</u>	<u>5,751</u>
Risk management	<u>-</u>	<u>3,950</u>	<u>3,938</u>	<u>12</u>
Public safety:				
Police:				
Police administration	1,227,635	1,182,690	1,171,307	11,383
Patrol	4,923,970	4,933,525	4,932,918	607
Investigations	1,265,755	1,210,870	1,210,866	4
Total police	<u>7,417,360</u>	<u>7,327,085</u>	<u>7,315,091</u>	<u>11,994</u>
Fire:				
Fire administration	182,300	171,095	165,467	5,628
Suppression	5,089,025	5,221,060	5,220,892	168
Prevention	191,300	150,685	150,495	190
Training	147,300	146,110	146,104	6
Total fire	<u>5,609,925</u>	<u>5,688,950</u>	<u>5,682,958</u>	<u>5,992</u>
Public service:				
Public works:				
Public Works Administration	256,695	226,830	226,737	93
Street maintenance	2,130,430	1,958,205	1,953,724	4,481
Street lighting	415,000	449,060	449,058	2

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public service:				
Public works:				
Facility maintenance	\$ 258,930	\$ 222,355	\$ 222,157	\$ 198
Custodial service	293,745	281,520	281,479	41
Downtown maintenance	63,130	99,610	99,603	7
Landscape maintenance	1,448,775	1,435,395	1,435,335	60
Summer youth program	99,310	65,435	65,354	81
Total public works	<u>4,966,015</u>	<u>4,738,410</u>	<u>4,733,447</u>	<u>4,963</u>
Engineering services:				
Engineering services	590,650	468,070	467,924	146
Flood control	405,035	453,350	453,315	35
Total engineering services	<u>995,685</u>	<u>921,420</u>	<u>921,239</u>	<u>181</u>
Recreation:				
Recreation administration	602,580	587,085	587,005	80
Pools and recreation	552,865	458,085	458,019	66
Total recreation	<u>1,155,445</u>	<u>1,045,170</u>	<u>1,045,024</u>	<u>146</u>
Other:				
Cable authority	112,990	79,660	79,547	113
Grant match expense	-	-	(1,797)	1,797
Leave expense	-	38,000	37,616	384
Intergovernmental expense	-	281,200	281,088	112
Miscellaneous property expense	66,240	65,650	65,645	5
Total other	<u>179,230</u>	<u>464,510</u>	<u>462,099</u>	<u>2,411</u>
Other financing uses:				
Operating transfers out	<u>2,017,985</u>	<u>2,769,765</u>	<u>2,740,032</u>	<u>29,733</u>
Total charges to appropriations	<u>27,072,615</u>	<u>27,137,815</u>	<u>27,071,552</u>	<u>66,263</u>
BUDGETARY FUND BALANCE, JUNE 30, 2005	<u>\$4,063,177</u>	<u>\$7,627,855</u>	<u>\$ 8,303,702</u>	<u>\$ 675,847</u>

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
FOR THE YEAR ENDED JUNE 30, 2005

Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>
Sources/inflows of resources:	
Actual amounts "available for appropriation" from the budgetary comparison schedule	\$35,375,254
Differences - budget to GAAP:	
The beginning fund balance is a budgetary resource, but is not a current year revenue for financial reporting purposes	<u>(8,513,065)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances- governmental funds	<u>\$26,862,189</u>
Uses/outflows of resources:	
Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$27,071,552
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	<u>(2,740,032)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances- governmental funds	<u>\$24,331,520</u>

CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

Municipal Aid Program - to account for revenues and expenditures of Kentucky gas tax refunds.

Emergency Communication Service Fund - to account for revenues associated with 911 program.

Court Awards Fund - to account for revenues associated with judicial system confiscations.

Federal, State, and Local Grants - to account for the grant programs awarded to the City of Paducah from agencies of the Federal Government and the Commonwealth of Kentucky.

Debt Service Fund

To account for the payment of bond principal and interest, note principal and interest, and capital lease payments.

CITY OF PADUCAH, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

<u>ASSETS</u>	<u>Special Revenue Funds</u>				
	<u>Municipal Aid Program</u>	<u>Emergency Communication Service Fund</u>	<u>Court Awards Fund</u>	<u>Small Grant Fund</u>	<u>CDBG Grant Fund</u>
Cash and cash equivalents	\$581,823	\$219,941	\$186,448	\$164,436	\$50,000
Investments	230,000	-	-	-	-
Receivables, net:					
Accounts	-	141,725	-	-	-
Grants	-	-	-	11,097	-
Interest	3,604	-	-	-	-
Prepaid items	-	31,178	-	-	-
TOTAL ASSETS	<u><u>\$815,427</u></u>	<u><u>\$392,844</u></u>	<u><u>\$186,448</u></u>	<u><u>\$175,533</u></u>	<u><u>\$50,000</u></u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Voucher and accounts payable	\$136,168	\$ 41,422	\$134,830	\$ -	\$ -
Accrued payroll and payroll taxes	-	44,425	-	-	-
Unearned revenue	-	-	-	137,163	-
Due to other funds	-	-	-	24,439	50,000
Total liabilities	<u>136,168</u>	<u>85,847</u>	<u>134,830</u>	<u>161,602</u>	<u>50,000</u>
Fund Balances:					
Reserved for:					
Program purposes	-	-	-	13,931	-
Unreserved	<u>679,259</u>	<u>306,997</u>	<u>51,618</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>679,259</u>	<u>306,997</u>	<u>51,618</u>	<u>13,931</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$815,427</u></u>	<u><u>\$392,844</u></u>	<u><u>\$186,448</u></u>	<u><u>\$175,533</u></u>	<u><u>\$50,000</u></u>

See auditors report on pages 13-14.

Special Revenue Funds					Debt Service	Total Nonmajor Governmental Funds
HOPE 3 Grant Fund	Home Grant Fund	HUD Revolving Grant Fund	PHA Police Grant Fund	Section Eight Housing	Debt Service Fund	
\$130,761	\$ -	\$206,262	\$ -	\$326,067	\$ 9,805	\$1,875,543
-	-	-	-	-	-	230,000
-	-	-	-	-	-	141,725
-	68,257	-	2,949	-	-	82,303
-	-	-	-	-	-	3,604
-	-	-	-	-	-	31,178
<u>\$130,761</u>	<u>\$68,257</u>	<u>\$206,262</u>	<u>\$2,949</u>	<u>\$326,067</u>	<u>\$ 9,805</u>	<u>\$2,364,353</u>
\$ -	\$45,394	\$ 22	\$ -	\$ 54,862	\$ -	\$ 412,698
-	-	-	-	17,051	-	61,476
-	7,555	-	-	65,254	-	209,972
-	13,328	-	2,949	41,409	-	132,125
-	66,277	22	2,949	178,576	-	816,271
130,761	-	206,240	-	147,491	-	498,423
-	1,980	-	-	-	9,805	1,049,659
<u>130,761</u>	<u>1,980</u>	<u>206,240</u>	<u>-</u>	<u>147,491</u>	<u>9,805</u>	<u>1,548,082</u>
<u>\$130,761</u>	<u>\$68,257</u>	<u>\$206,262</u>	<u>\$2,949</u>	<u>\$326,067</u>	<u>\$ 9,805</u>	<u>\$2,364,353</u>

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				
	Municipal Aid Program	Emergency Communication Service Fund	Court Awards Fund	Small Grant Fund	CDBG Grant Fund
Revenues:					
Taxes	\$ -	\$ 670,181	\$ -	\$ -	\$ -
Charges for services	-	110,089	-	-	-
Intergovernmental	383,822	-	-	-	-
Grants	61,879	-	-	-	12,500
Interest	16,590	3,422	3,984	-	-
Miscellaneous	17,571	265,214	32,568	27,525	-
Total revenues	479,862	1,048,906	36,552	27,525	12,500
Expenditures:					
Current operations:					
Public safety	-	1,306,049	37,044	-	-
Public service	292,419	-	-	-	-
Planning and development	-	-	-	28,274	12,500
Debt Service:					
Principal requirement	-	-	-	-	-
Interest and fiscal requirement	-	-	-	-	-
Total expenditures	292,419	1,306,049	37,044	28,274	12,500
Excess (deficiency) of revenues over expenditures	187,443	(257,143)	(492)	(749)	-
Other Financing Sources (Uses):					
Transfers in	-	337,613	-	12,377	-
Total other financing sources (uses)	-	337,613	-	12,377	-
Net change in fund balances	187,443	80,470	(492)	11,628	-
Fund balances, July 1, 2004	491,816	226,527	52,110	2,303	-
FUND BALANCES, JUNE 30, 2005	\$ 679,259	\$ 306,997	\$51,618	\$13,931	\$ -

See auditors report on pages 13-14.

Special Revenue Funds					Debt Service	Total Nonmajor Governmental Funds
HOPE 3 Grant Fund	Home Grant Fund	HUD Revolving Grant Fund	PHA Police Grant Fund	Section Eight Housing	Debt Service Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 670,181
-	-	-	-	-	-	110,089
-	-	-	-	-	789,323	1,173,145
-	158,089	-	35,019	1,840,208	-	2,107,695
-	-	4,099	-	899	-	28,994
-	-	61,557	-	-	-	404,435
-	158,089	65,656	35,019	1,841,107	789,323	4,494,539
-	-	-	35,019	-	-	1,378,112
-	-	-	-	-	-	292,419
-	156,109	239,759	-	1,831,132	-	2,267,774
-	-	-	-	-	552,938	552,938
-	-	-	-	-	745,676	745,676
-	156,109	239,759	35,019	1,831,132	1,298,614	5,236,919
-	1,980	(174,103)	-	9,975	(509,291)	(742,380)
-	-	167,500	-	-	488,853	1,006,343
-	-	167,500	-	-	488,853	1,006,343
-	1,980	(6,603)	-	9,975	(20,438)	263,963
130,761	-	212,843	-	137,516	30,243	1,284,119
<u>\$130,761</u>	<u>\$ 1,980</u>	<u>\$206,240</u>	<u>\$ -</u>	<u>\$ 147,491</u>	<u>\$ 9,805</u>	<u>\$1,548,082</u>

CITY OF PADUCAH, KENTUCKY
MUNICIPAL AID PROGRAM FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 383,000	\$ 383,822	\$ 822
Grants	46,000	61,879	15,879
Interest	8,400	16,590	8,190
Other	-	17,571	17,571
	<hr/>	<hr/>	<hr/>
Total revenues	437,400	479,862	42,462
	<hr/>	<hr/>	<hr/>
Expenditures:			
Public service	292,450	292,419	31
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	144,950	187,443	42,493
	<hr/>	<hr/>	<hr/>
Fund balance, July 1, 2004		491,816	
		<hr/>	
FUND BALANCE, JUNE 30, 2005		\$ 679,259	
		<hr/>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
EMERGENCY COMMUNICATION SERVICE FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Local contributions	\$ 650,000	\$ 670,181	20,181
Telephone surcharges	100,000	110,089	10,089
Interest	1,530	3,422	1,892
Miscellaneous	172,585	265,214	92,629
Total revenues	<u>924,115</u>	<u>1,048,906</u>	<u>124,791</u>
Expenditures:			
Public safety	<u>1,323,925</u>	<u>1,306,049</u>	<u>17,876</u>
Excess (deficiency) of revenues over expenditures	(399,810)	(257,143)	142,667
Other Financing Sources (Uses):			
Operating transfers in	<u>341,600</u>	<u>337,613</u>	<u>(3,987)</u>
Net change in fund balance	<u>\$ (58,210)</u>	80,470	<u>\$ 138,680</u>
Fund balance, July 1, 2004		<u>226,527</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$ 306,997</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
COURT AWARDS FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Court awarded forfeitures	\$ 25,000	\$32,568	\$ 7,568
Interest	1,000	3,984	2,984
	<u>26,000</u>	<u>36,552</u>	<u>10,552</u>
Expenditures:			
Public safety	<u>37,045</u>	<u>37,044</u>	<u>1</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (11,045)</u>	(492)	<u>\$ 10,553</u>
Fund balance, July 1, 2004		<u>52,110</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$51,618</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
SMALL GRANT FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Grants	\$ -	\$ -	\$ -
Other	-	27,525	27,525
	<u>-</u>	<u>27,525</u>	<u>27,525</u>
Total revenues			
	<u>-</u>	<u>27,525</u>	<u>27,525</u>
Expenditures:			
Planning and development	33,475	28,274	5,201
	<u>33,475</u>	<u>28,274</u>	<u>5,201</u>
Excess (deficiency) of revenues over expenditures	<u>(33,475)</u>	<u>(749)</u>	<u>32,726</u>
Other Financing Sources (Uses):			
Operating transfers in	12,500	12,377	(123)
	<u>12,500</u>	<u>12,377</u>	<u>(123)</u>
Net change in fund balance	<u>\$ (20,975)</u>	11,628	<u>\$ 32,603</u>
Fund balance, July 1, 2004		<u>2,303</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$13,931</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
CDBG FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Grants	<u>\$25,000</u>	<u>\$12,500</u>	<u>\$(12,500)</u>
Expenditures:			
Planning and development	<u>25,000</u>	<u>12,500</u>	<u>12,500</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):			
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, July 1, 2004		<u>-</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$ -</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
HOPE 3 IMPLEMENTATION GRANT FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Other	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures:			
Planning and development	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, July 1, 2004		<u>130,761</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$130,761</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
HOME GRANT FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Grants	\$ 130,600	\$ 158,089	\$ 27,489
Total revenues	<u>130,600</u>	<u>158,089</u>	<u>27,489</u>
Expenditures:			
Planning and development	<u>156,115</u>	<u>156,109</u>	<u>6</u>
Excess (deficiency) of revenues over expenditures	<u>(25,515)</u>	1,980	<u>27,495</u>
Fund balance, July 1, 2004		<u>-</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$ 1,980</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
HUD REVOLVING GRANT FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Interest	\$ -	\$ 4,099	\$ 4,099
Other	-	61,557	61,557
	<u>-</u>	<u>65,656</u>	<u>65,656</u>
Expenditures:			
Planning and development	239,760	239,759	1
Excess (deficiency) of revenues over expenditures	<u>(239,760)</u>	<u>(174,103)</u>	<u>65,657</u>
Other Financing Sources (Uses):			
Operating transfers in	150,000	167,500	17,500
Total other financing sources (uses)	<u>150,000</u>	<u>167,500</u>	<u>17,500</u>
Net change in fund balance	<u>\$ (89,760)</u>	(6,603)	<u>\$ 83,157</u>
Fund balance, July 1, 2004		<u>212,843</u>	
FUND BALANCE, JUNE 30, 2005		<u><u>\$206,240</u></u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
PADUCAH HOUSING AUTHORITY POLICE GRANT FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Grants	<u>\$29,125</u>	<u>\$35,019</u>	<u>\$ 5,894</u>
Expenditures:			
Public safety	<u>35,040</u>	<u>35,019</u>	<u>21</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (5,915)</u>	-	<u>\$ 5,915</u>
Fund balance, July 1, 2004		<u>-</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$ -</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
DEBT SERVICE FUND
DETAIL STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	<u>\$ 795,600</u>	<u>\$ 789,323</u>	<u>\$ (6,277)</u>
Expenditures:			
Debt service:			
Principal requirement	552,940	552,938	2
Interest and fiscal requirement	<u>752,760</u>	<u>745,676</u>	<u>7,084</u>
Total expenditures	<u>1,305,700</u>	<u>1,298,614</u>	<u>7,086</u>
Excess (deficiency) of revenues over expenditures	(510,100)	(509,291)	809
Other Financing Sources (Uses):			
Operating transfers in	<u>488,660</u>	<u>488,853</u>	<u>193</u>
Net change in fund balance	<u>\$ (21,440)</u>	(20,438)	<u>\$ 1,002</u>
Fund balance, July 1, 2004		<u>30,243</u>	
FUND BALANCE, JUNE 30, 2005		<u>\$ 9,805</u>	

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

NONMAJOR PROPRIETARY FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

**COMBINING FINANCIAL STATEMENTS
NONMAJOR PROPRIETARY FUNDS**

Civic Center Fund – to account for the operation of the Civic Center.

TISA Fund – to account for revenues and expenses associated with the operation of the Paducah-McCracken County telecommunications and information systems.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Civic Center Fund	TISA Fund	Total Nonmajor Enterprise Funds
Operating Revenues:			
Charges for services	<u>\$ 32,828</u>	<u>\$104,087</u>	<u>\$136,915</u>
Operating Expenses:			
Cost of sales and service	29,490	89,506	118,996
Depreciation and amortization	<u>9,518</u>	<u>80,757</u>	<u>90,275</u>
Total operating expenses	<u>39,008</u>	<u>170,263</u>	<u>209,271</u>
Operating income (loss)	<u>(6,180)</u>	<u>(66,176)</u>	<u>(72,356)</u>
Non-Operating Revenues (Expenses):			
Interest and investment income	<u>534</u>	<u>-</u>	<u>534</u>
Income (loss) before contributions and transfers	<u>(5,646)</u>	<u>(66,176)</u>	<u>(71,822)</u>
Contributions and Operating Transfers:			
Capital contributions	-	14,735	14,735
Transfers in	<u>-</u>	<u>133,959</u>	<u>133,959</u>
Total contributions and operating transfers	<u>-</u>	<u>148,694</u>	<u>148,694</u>
Change in net assets	(5,646)	82,518	76,872
Net assets, July 1, 2004	<u>182,402</u>	<u>226,314</u>	<u>408,716</u>
NET ASSETS, JUNE 30, 2005	<u><u>\$176,756</u></u>	<u><u>\$308,832</u></u>	<u><u>\$485,588</u></u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Civic Center Fund	TISA Fund	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities:			
Cash received from customers	\$ 32,828	\$117,545	\$ 150,373
Payments to internal service funds	(2,361)	(2,055)	(4,416)
Other receipts (payments)	(27,181)	(110,789)	(137,970)
Net cash provided (used) by operating activities	<u>3,286</u>	<u>4,701</u>	<u>7,987</u>
Cash Flows from Noncapital Financing Activities:			
Transfers (to) from other funds	<u>-</u>	<u>133,959</u>	<u>133,959</u>
Cash Flows from Capital and Related Financing Activities:			
Capital contributions	-	14,735	14,735
Acquisition and construction of capital assets	<u>(2,629)</u>	<u>(55,543)</u>	<u>(58,172)</u>
Net cash used by capital and related financing activities	<u>(2,629)</u>	<u>(40,808)</u>	<u>(43,437)</u>
Cash Flows from Investing Activities:			
Interest on cash and investments	<u>534</u>	<u>-</u>	<u>534</u>
Net increase (decrease) in cash and cash equivalents	1,191	97,852	99,043
Cash and cash equivalents, July 1, 2004	<u>22,551</u>	<u>16,337</u>	<u>38,888</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2005	<u>\$ 23,742</u>	<u>\$114,189</u>	<u>\$ 137,931</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (6,180)	\$ (66,176)	\$ (72,356)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	9,518	80,757	90,275
Change in assets and liabilities:			
Receivables	-	13,458	13,458
Prepaid expense	-	(24,148)	(24,148)
Accounts payable and accrued expenses	<u>(52)</u>	<u>810</u>	<u>758</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 3,286</u>	<u>\$ 4,701</u>	<u>\$ 7,987</u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

INTERNAL SERVICE FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

INTERNAL SERVICE FUNDS

Fleet Maintenance – to account for costs of operating a maintenance facility for automotive equipment used by other City departments.

Fleet Lease Trust – to account for the financing of vehicle acquisitions provided by one department or agency to other departments or agencies of the government and to other governmental units, on a cost reimbursement basis.

Insurance Fund – to account for the costs of obtaining insurance for other City departments.

Health Insurance Fund – to account for the costs associated with the City's health insurance activities. The intent of the City of Paducah is that the cost of providing insurance coverage on a continuing basis be financed primarily through user charges.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2005

<u>ASSETS</u>	<u>Fleet Maintenance</u>	<u>Fleet Lease Trust</u>	<u>Insurance Fund</u>	<u>Health Insurance Fund</u>	<u>Combined Total</u>
Current Assets:					
Cash and cash equivalents	\$ -	\$ 642,879	\$ -	\$488,497	\$1,131,376
Investments	-	1,445,000	-	-	1,445,000
Receivables, net	-	20,256	-	208,592	228,848
Prepaid expense	-	-	1,153,980	13,788	1,167,768
Inventories	68,678	-	-	-	68,678
Total current assets	68,678	2,108,135	1,153,980	710,877	4,041,670
Noncurrent Assets:					
Net depreciable capital assets	26,801	1,662,909	-	-	1,689,710
Total assets	95,479	3,771,044	1,153,980	710,877	5,731,380
<u>LIABILITIES</u>					
Current Liabilities:					
Voucher and accounts payable	12,230	31,790	2,448	424,810	471,278
Accrued payroll and payroll taxes	14,609	-	-	-	14,609
Accrued compensated absences	27,025	-	-	-	27,025
Unearned revenue	-	-	-	24,434	24,434
Due to other funds	14,419	-	1,118,014	-	1,132,433
Total current liabilities	68,283	31,790	1,120,462	449,244	1,669,779
Noncurrent Liabilities:					
Accrued compensated absences	38,517	-	-	-	38,517
Total liabilities	106,800	31,790	1,120,462	449,244	1,708,296
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	26,801	1,662,909	-	-	1,689,710
Unrestricted	(38,122)	2,076,345	33,518	261,633	2,333,374
TOTAL NET ASSETS	<u>\$(11,321)</u>	<u>\$3,739,254</u>	<u>\$ 33,518</u>	<u>\$261,633</u>	<u>\$4,023,084</u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Fleet Maintenance</u>	<u>Fleet Lease Trust</u>	<u>Insurance Fund</u>	<u>Health Insurance Fund</u>	<u>Combined Total</u>
Operating Revenues:					
Charges for services - internal	\$319,061	\$ 653,165	\$1,041,230	\$2,999,664	\$5,013,120
Charges for services - external	-	-	-	501,801	501,801
Total operating revenues	<u>319,061</u>	<u>653,165</u>	<u>1,041,230</u>	<u>3,501,465</u>	<u>5,514,921</u>
Operating Expenses:					
Vehicle maintenance	484,978	4,364	-	-	489,342
Administrative	-	4,980	-	55,745	60,725
Insurance	-	-	1,024,514	3,455,374	4,479,888
Leave expense	3,567	-	-	-	3,567
Depreciation	12,006	448,099	-	-	460,105
Total operating expenses	<u>500,551</u>	<u>457,443</u>	<u>1,024,514</u>	<u>3,511,119</u>	<u>5,493,627</u>
Operating income (loss)	<u>(181,490)</u>	<u>195,722</u>	<u>16,716</u>	<u>(9,654)</u>	<u>21,294</u>
Nonoperating Revenues and (Expenses):					
Interest and investment income	-	33,029	-	-	33,029
Total nonoperating revenues (expenses)	<u>-</u>	<u>33,029</u>	<u>-</u>	<u>-</u>	<u>33,029</u>
Income (loss) before transfers	<u>(181,490)</u>	<u>228,751</u>	<u>16,716</u>	<u>(9,654)</u>	<u>54,323</u>
Contributions and Transfers:					
Transfers in	108,000	216,000	-	-	324,000
Change in net assets	(73,490)	444,751	16,716	(9,654)	378,323
Net assets, July 1, 2004	<u>62,169</u>	<u>3,294,503</u>	<u>16,802</u>	<u>271,287</u>	<u>3,644,761</u>
NET ASSETS, JUNE 30, 2005	<u>\$ (11,321)</u>	<u>\$3,739,254</u>	<u>\$ 33,518</u>	<u>\$ 261,633</u>	<u>\$4,023,084</u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Fleet Maintenance	Fleet Lease Trust	Insurance Fund	Health Insurance Fund	Combined Total
Cash Flows from Operating Activities:					
Receipts from other funds for services	\$ 319,061	\$ 653,165	\$ 1,041,230	\$ 3,456,930	\$ 5,470,386
Payments to suppliers	(146,619)	-	-	-	(146,619)
Payments to employees	(279,351)	-	-	-	(279,351)
Claims paid	-	-	-	(3,406,351)	(3,406,351)
Other receipts (payments)	-	22,447	(1,041,230)	(55,745)	(1,074,528)
Net cash provided (used) by operating activities	<u>(106,909)</u>	<u>675,612</u>	<u>-</u>	<u>(5,166)</u>	<u>563,537</u>
Cash Flows from Noncapital Financing Activities:					
Transfers from other funds	108,000	216,000	-	-	324,000
Cash Flows from Capital and Related Financing Activities:					
Purchase of capital assets	(5,046)	(496,400)	-	-	(501,446)
Net cash used by capital and related financing	<u>(5,046)</u>	<u>(496,400)</u>	<u>-</u>	<u>-</u>	<u>(501,446)</u>
Cash Flows from Investing Activities:					
Proceeds from sales and maturities of investments	-	1,300,000	-	-	1,300,000
Interest and dividends	-	19,383	-	-	19,383
Purchase of investments	-	(1,445,000)	-	-	(1,445,000)
Net cash used by investing activities	<u>-</u>	<u>(125,617)</u>	<u>-</u>	<u>-</u>	<u>(125,617)</u>
Net increase (decrease) in cash and cash equivalents	(3,955)	269,595	-	(5,166)	260,474
Cash and cash equivalents, July 1, 2004	3,955	373,284	-	493,663	870,902
CASH AND CASH EQUIVALENTS, JUNE 30, 2005	<u>\$ -</u>	<u>\$ 642,879</u>	<u>\$ -</u>	<u>\$ 488,497</u>	<u>\$ 1,131,376</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$(181,490)	\$ 195,722	\$ 16,716	\$ (9,654)	\$ 21,294
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	12,006	448,099	-	-	460,105
Change in assets and liabilities:					
Receivables	-	-	-	(68,969)	(68,969)
Prepaid expense	-	-	(138,837)	(13,788)	(152,625)
Inventories	29,437	-	-	-	29,437
Accounts payable and accrued expenses	33,138	31,791	122,121	87,245	274,295
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$(106,909)</u>	<u>\$ 675,612</u>	<u>\$ -</u>	<u>\$ (5,166)</u>	<u>\$ 563,537</u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

FIDUCIARY FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

FIDUCIARY FUNDS

Pension Trust Funds

Police and Firefighters' Retirement Fund and Appointive Employees' Pension Fund – to account for the accumulation of resources to be used for retirement payments at appropriate amounts and times in the future. Resources are contributed by employees and by the City at amounts determined by Kentucky Statutes and/or City Commission decisions.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - PENSION TRUST FUNDS
JUNE 30, 2005

<u>ASSETS</u>	<u>Police and Firefighters' Retirement Fund</u>	<u>Appointive Employees' Pension Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 32,563	\$ 97,514	\$ 130,077
Receivables:			
Interest	54,363	2,531	56,894
Prepaid expenses	58,117	1,802	59,919
Investments at fair value	<u>9,007,869</u>	<u>227,042</u>	<u>9,234,911</u>
Total assets	<u>9,152,912</u>	<u>328,889</u>	<u>9,481,801</u>
<u>LIABILITIES</u>			
Voucher and accounts payable	<u>2,051</u>	<u>-</u>	<u>2,051</u>
<u>NET ASSETS</u>			
Held in trust for pension benefits and other purposes	<u><u>\$9,150,861</u></u>	<u><u>\$328,889</u></u>	<u><u>\$9,479,750</u></u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS - PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Police and Firefighters' Retirement Fund	Appointive Employees' Pension Fund	Totals
Additions:			
Contributions:			
Employer	\$ 953,044	\$ 75,000	\$1,028,044
Plan members	23,487	-	23,487
Total contributions	<u>976,531</u>	<u>75,000</u>	<u>1,051,531</u>
Investment earnings:			
Net increase in fair value of investments	401,519	-	401,519
Interest and dividends	285,918	7,487	293,405
Net investment earnings	<u>687,437</u>	<u>7,487</u>	<u>694,924</u>
Total additions	<u>1,663,968</u>	<u>82,487</u>	<u>1,746,455</u>
Deductions:			
Benefits	1,801,913	69,276	1,871,189
Administrative expenses	63,493	7,942	71,435
Total deductions	<u>1,865,406</u>	<u>77,218</u>	<u>1,942,624</u>
Change in net assets	(201,438)	5,269	(196,169)
Net assets, July 1, 2004	<u>9,352,299</u>	<u>323,620</u>	<u>9,675,919</u>
NET ASSETS, JUNE 30, 2005	<u><u>\$9,150,861</u></u>	<u><u>\$328,889</u></u>	<u><u>\$9,479,750</u></u>

See auditors report on pages 13-14.

FIDUCIARY FUNDS

Private-purpose Trust Funds

Oak Grove Cemetery Trust and Maintenance and Rehab Trust – to account for assets held by the City in the capacity of trustee for specified purposes.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS - PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2005

<u>ASSETS</u>	<u>Oak Grove Cemetery Trust</u>	<u>Maintenance and Rehab Trust</u>	<u>Total</u>
Cash and cash equivalents	\$ -	\$ 4,734	\$ 4,734
Investments at fair value	83,524	-	83,524
Held in trust for other purposes	<u>\$83,524</u>	<u>\$ 4,734</u>	<u>\$88,258</u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS - PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Oak Grove Cemetery Trust	Maintenance and Rehab Trust	Totals
Additions:			
Contributions:			
Intergovernmental revenues	\$ 2,250	\$ 7,000	\$ 9,250
Total contributions	2,250	7,000	9,250
Investment earnings:			
Net decrease in fair value of investments	(2,845)	-	(2,845)
Interest and dividends	5,845	-	5,845
Net investment earnings	3,000	-	3,000
Total additions	5,250	7,000	12,250
Deductions:			
Capital outlay	-	100	100
Administrative expenses	1,300	3,068	4,368
Total deductions	1,300	3,168	4,468
Change in net assets	3,950	3,832	7,782
Net assets, July 1, 2004	79,574	902	80,476
NET ASSETS, JUNE 30, 2005	<u>\$83,524</u>	<u>\$ 4,734</u>	<u>\$ 88,258</u>

See auditors report on pages 13-14.

FIDUCIARY FUNDS

Agency Fund

Payroll Agency Fund – to account for disbursements relative to the City payroll. The various City departments transfer amounts to this fund to cover routine payroll and the related benefits and taxes. All payroll disbursements are made from this fund.

CITY OF PADUCAH, KENTUCKY
AGENCY FUND
STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2005

Payroll Fund:	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Assets:				
Cash and cash equivalents	<u>\$306,560</u>	<u>\$11,122,281</u>	<u>\$11,105,614</u>	<u>\$323,227</u>
Liabilities:				
Payroll taxes and withholdings payable	<u>\$306,560</u>	<u>\$11,122,281</u>	<u>\$11,105,614</u>	<u>\$323,227</u>

See auditors report on pages 13-14.

CITY OF PADUCAH, KENTUCKY

STATISTICAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

**TABLE 1
CITY OF PADUCAH, KENTUCKY
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Service</u>	<u>Parks and Recreation</u>	<u>Other</u>
1995-1996	\$17,737,044	\$2,595,564	\$ 9,329,445	\$4,211,915	\$1,505,497	\$ 94,623
1996-1997	19,823,351	3,539,738	10,372,133	4,312,281	1,476,238	122,961
1997-1998	18,787,240	3,531,033	9,629,127	4,009,198	1,476,446	141,436
1998-1999	21,306,659	4,296,935	10,049,095	5,209,051	1,661,119	90,459
1999-2000	19,817,326	3,436,701	10,363,856	4,260,125	1,661,562	95,082
2000-2001	20,677,530	3,386,330	10,530,012	5,923,130	738,401	99,657
2001-2002	22,904,317	3,446,408	11,076,152	7,163,787	897,060	320,910
2002-2003	22,836,738	3,943,031	11,277,297	5,995,396	975,361	645,653
2003-2004	25,925,933	3,891,251	11,750,018	6,914,523	1,026,297	2,343,844
2004-2005	24,623,940	4,171,662	12,998,049	5,947,106	1,045,024	462,099

Note: This table includes the General Fund and the Municipal Aid Fund.

**TABLE 2
CITY OF PADUCAH, KENTUCKY
GENERAL REVENUE BY SOURCE
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total</u>	<u>Taxes</u>	<u>Licenses</u>	<u>Charges for Services</u>	<u>Inter- Governmental Revenues</u>	<u>Grants</u>	<u>Interest</u>	<u>Other</u>
1995-1996	21,773,167	5,555,183	13,715,804	746,562	361,995	822,581	300,491	270,551
1996-1997	21,973,605	4,710,687	14,007,138	723,337	405,995	1,267,998	353,422	505,028
1997-1998	22,282,146	4,582,205	14,985,551	713,872	428,006	727,386	443,355	401,771
1998-1999	23,320,631	4,770,784	15,584,674	716,181	419,686	786,865	413,480	628,961
1999-2000	23,624,074	4,659,202	15,970,996	566,145	418,698	966,715	438,707	603,611
2000-2001	24,125,224	4,736,568	16,705,030	578,482	437,439	723,626	436,598	507,481
2001-2002	24,893,770	5,006,538	17,299,400	657,826	399,977	665,614	256,900	607,515
2002-2003	25,751,276	5,022,069	17,900,739	652,791	373,022	591,652	185,538	1,025,465
2003-2004	28,363,313	5,205,422	18,423,244	569,320	405,763	916,775	133,488	2,709,301
2004-2005	27,342,051	5,346,389	19,368,765	515,192	383,822	728,941	207,491	791,451

Note: This table includes the General Fund and the Municipal Aid Fund.

**TABLE 3
CITY OF PADUCAH, KENTUCKY
TAX REVENUE BY SOURCE
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total</u>	<u>Real and Personal (Current Year)</u>	<u>Real and Personal (Prior Year)</u>	<u>Franchise</u>	<u># Bank Taxes</u>	<u>In Lieu of Tax Payments</u>	<u>Penalty, Interest & Adv.</u>	<u>% Charge On School Tax Collections</u>
1995-1996	5,642,653	4,846,606	90,680	195,259	236,744	123,243	62,651	87,470
1996-1997	4,801,595	4,012,661	81,368	239,973	210,218	109,522	56,945	90,908
1997-1998	4,676,361	4,029,124	92,287	81,875	215,996	111,872	51,052	94,155
1998-1999	4,875,017	3,977,703	82,589	310,110	232,398	115,344	52,640	104,233
1999-2000	4,770,504	3,982,872	135,215	211,860	189,949	119,938	19,368	111,302
2000-2001	4,850,327	3,973,898	157,508	257,095	175,607	136,864	35,596	113,759
2001-2002	5,127,176	4,088,805	291,515	259,451	184,629	134,055	48,084	120,637
2002-2003	5,137,849	4,185,862	209,645	280,734	165,186	139,754	40,888	115,780
2003-2004	5,317,282	4,471,467	140,776	233,854	161,550	146,145	51,630	111,860
2004-2005	5,175,014	4,303,297	141,140	264,932	157,771	146,936	51,225	109,713

Note: This table includes only the General Fund collections.

Bank tax for fiscal years 1995-1996 was based on the value of each bank's stock. Bank tax for fiscal year 1997 and after was based on the deposits held by each bank.

**TABLE 4
CITY OF PADUCAH, KENTUCKY
SECURED TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>(1) Total Levy</u>	<u>(1) Total Collections</u>	<u>Percent of Levy Collected</u>
1995-1996	5,040,252	5,022,419	99.6%
1996-1997	4,361,298	4,350,475	97.8%
1997-1998	4,417,910	4,373,272	99.0%
1998-1999	4,614,749	4,602,800	99.7%
1999-2000	4,428,970	4,384,681	99.0%
2000-2001	4,549,413	4,406,600	96.9%
2001-2002	4,679,795	4,532,885	96.9%
2002-2003	4,653,264	4,631,782	99.5%
2003-2004	4,890,723	4,866,871	99.5%
2004-2005	4,765,051	4,725,999	99.2%

(1) Includes current year real and personal property tax, franchise, auto and bank shares.

**TABLE 5
CITY OF PADUCAH, KENTUCKY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS**

Fiscal Year	Assessed Value					Estimated Actual Value	Percent Assessed To Estimated Value	Exemptions	FCV Bank Shares
	Real Estate	Personal Property	Franchise	Bank Shares	Total				
1995-1996	705,705,231	390,678,518	54,782,324	115,233,874	1,266,399,947	1,332,467,639	95.0%	53,941,397	127,360,169
1996-1997	760,010,607	394,329,201	53,348,852	*	1,207,688,660	1,262,547,324	95.7%	54,858,664	*
1997-1998	813,820,288	399,909,183	49,442,125	*	1,263,171,596	1,318,865,740	95.8%	55,694,144	*
1998-1999	887,837,493	394,507,049	90,087,831	*	1,372,432,373	1,430,510,601	95.9%	58,258,356	*
1999-2000	940,914,928	429,763,712	66,465,568	*	1,437,144,208	1,497,446,385	95.9%	59,328,314	*
2000-2001	994,267,575	479,928,323	69,737,433	*	1,543,933,331	1,603,816,189	96.3%	58,908,995	*
2001-2002	1,024,284,671	466,849,195	71,286,784	*	1,562,420,650	1,623,844,461	96.2%	60,449,948	*
2002-2003	1,053,370,689	453,327,389	79,952,984	*	1,586,651,062	1,647,809,422	96.3%	60,184,497	*
2003-2004	1,087,747,076	438,024,336	73,121,063	*	1,598,892,475	1,661,522,546	96.2%	61,656,208	*
2004-2005	1,122,829,143	425,304,684	74,460,202	*	1,622,594,029	1,684,469,469	96.3%	60,901,557	*

* The tax on bank shares was eliminated after fiscal year 1997 and replaced with a bank deposit tax. The bank deposit assessment is not included in this table due to incomparability with prior years and the unrealistic impact it would have on Table 7.

**TABLE 6
CITY OF PADUCAH, KENTUCKY
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>General Fund</u>		<u>Public Library</u>		<u>Pension Trust</u>		<u>School Districts</u>		<u>Paducah Junior College</u>		<u>Combined</u>	
	<u>Real Estate</u>	<u>Personal</u>	<u>Real Estate</u>	<u>Personal</u>	<u>Real Estate</u>	<u>Personal</u>	<u>Real Estate</u>	<u>Personal</u>	<u>Real Estate</u>	<u>Personal</u>	<u>Real Estate</u>	<u>Personal</u>
1995-1996	.436	.390	.045	.050	.013	-	.600	.600	.032	.034	1.126	1.074
1996-1997	.327	.390	.043	.050	-	-	.594	.604	.032	.034	.966	1.078
1997-1998	.327	.390	.043	.050	-	-	.585	.607	.032	.034	.987	1.081
1998-1999	.318	.390	.041	.050	-	-	.598	.598	.030	.034	.987	1.072
1999-2000	.300	.390	.040	.050	-	-	.590	.590	.029	.034	.959	1.064
2000-2001	.300	.390	-	-	-	-	.597	.597	.022	.022	.919	1.009
2001-2002	.300	.390	-	-	-	-	.600	.603	.022	.022	.922	1.015
2002-2003	.300	.390	-	-	-	-	.598	.605	.022	.022	.920	1.017
2003-2004	.300	.390	-	-	-	-	.617	.617	.021	.021	.938	1.028
2004-2005	.300	.390	-	-	-	-	.618	.619	.021	.021	.938	1.030

TABLE 7
CITY OF PADUCAH, KENTUCKY
RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>(1) Population</u>	<u>Assessed Value</u>	<u>Gross Bonded Debt</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1995-1996	27,256	\$1,266,399,947	\$4,072,981	\$ 40,182	0.003	1.47
1996-1997	27,256	1,207,688,660	70,625	-	-	-
1997-1998	27,256	1,263,171,596	42,375	-	-	-
1998-1999	27,256	1,372,432,373	-	-	-	-
1999-2000	27,256	1,437,144,208	-	-	-	-
2000-2001	26,307	1,543,933,331	9,290,000	9,057,359	0.59	344.29
2001-2002	26,307	1,562,420,650	9,075,000	8,830,276	0.57	335.66
2002-2003	26,307	1,586,651,062	8,850,000	8,803,949	0.56	334.66
2003-2004	26,307	1,598,892,475	17,048,855	17,018,612	1.06	646.92
2004-2005	26,307	1,622,594,029	16,723,274	16,713,469	1.03	635.32

(1) Source:
Bureau of the Census Count - 1990 and 2000.

**TABLE 8
CITY OF PADUCAH, KENTUCKY
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>(1) Total General Government Expenditures</u>	<u>Ratio of Debt Service To Total Governmental Fund Type Expenditures</u>
1995-1996	\$ 438,141	\$355,361	\$ 793,502	\$17,737,044	4.5%
1996-1997	4,119,275 *	431,669	4,550,944	19,823,351	22.9%
1997-1998	150,709	46,829	197,538	18,787,240	1.1%
1998-1999	170,615	35,891	206,506	21,306,659	1.0%
1999-2000	134,295	30,536	164,831	19,817,326	0.8%
2000-2001	140,636	25,752	166,388	20,677,530	0.8%
2001-2002	362,275	413,364	775,639	22,904,317	3.4%
2002-2003	379,229	428,578	807,807	22,836,738	3.5%
2003-2004	428,613	471,625	900,238	25,925,933	3.5%
2004-2005	552,938	745,676	1,298,614	24,623,940	5.3%

(1) Includes the General Fund and Municipal Aid Fund

* Includes in-substance defeasance of Kentucky League of Cities - Pooled Leasing debt.

**TABLE 9
CITY OF PADUCAH, KENTUCKY
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE YEAR ENDED JUNE 30, 2005**

Net assessed value		\$ 1,622,594,029
Add exemption		<u>60,901,557</u>
Total assessed value		<u><u>\$ 1,683,495,586</u></u>
Debt limit - 10% of total assessed value (1)		\$ 168,349,559
Debt outstanding:		
General obligation bonds outstanding	13,220,000	
Notes payable	3,503,274	
Less debt not subject to limit	<u>-</u>	
Gross bonded debt	16,723,274	
Less amount available in debt service funds	<u>9,805</u>	
Net bonded indebtedness subject to limit		<u>16,713,469</u>
Legal Debt Margin		<u><u>\$ 151,636,090</u></u>

(1) Section 158 of the Commonwealth of Kentucky states:

"Cities shall not be authorized or permitted to incur indebtedness to an amount, including existing indebtedness, in the aggregate exceeding the following named maximum percentages on the value of the taxable property therein, to be estimated by the assessment previous to the incurring of the indebtedness: Cities of the first and second classes, and of the third class having a population exceeding fifteen hundred, ten per centum."

**TABLE 10
CITY OF PADUCAH, KENTUCKY
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS**

Fiscal Year	Property Value				Commercial Construction		Residential Construction		(1) Bank Deposits
	Commercial	Residential	Exemptions	Total	No. Units	Value	No. Units	Value	(in thousands)
1995-1996	\$385,729,011	\$319,976,220	\$53,941,397	\$ 759,646,628	293	\$50,578,040	298	\$12,381,735	*
1996-1997	418,868,651	341,141,956	54,858,664	814,869,271	236	37,274,349	330	9,857,980	\$858,034
1997-1998	447,773,935	366,046,353	55,694,144	869,514,432	285	32,398,583	348	11,332,887	879,579
1998-1999	467,467,471	419,904,322	58,258,356	945,630,149	309	29,708,999	310	10,840,325	948,147
1999-2000	522,210,835	418,704,093	59,328,314	1,000,243,242	171	38,001,115	211	9,288,734	767,477
2000-2001	558,387,762	435,879,813	58,908,995	1,053,176,570	126	16,330,078	187	10,117,794	706,842
2001-2002	575,900,884	448,383,787	60,449,948	1,084,734,619	116	43,006,170	191	8,524,556	753,577
2002-2003	592,114,279	521,440,907	60,184,497	1,173,739,683	166	35,896,704	231	9,795,159	659,388
2003-2004	602,788,179	484,958,897	61,656,208	1,149,403,284	130	23,635,207	268	17,872,216	659,388
2004-2005	622,478,658	500,350,485	60,901,577	1,183,730,720	148	41,430,152	204	16,598,570	627,285

* Unavailable

(1) Sources:
Through fiscal year 1997 - Federal Deposit Insurance Corporation
Fiscal year 1998 and after - Kentucky Revenue Cabinet

**TABLE 11
CITY OF PADUCAH, KENTUCKY
SCHEDULE OF SEWER REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>(1) Gross Revenue</u>	<u>(2) Expenses</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
1995-1996	\$3,529,784	\$1,778,177	\$1,751,607	\$195,000	\$59,200	\$254,200	6.89x
1996-1997	3,479,257	1,917,660	1,561,597	205,000	52,570	257,570	6.06x
1997-1998	3,382,994	1,873,558	1,509,436	210,000	45,190	255,190	5.91x
1998-1999	3,369,358	2,081,507	1,287,851	110,000	37,105	147,105	8.75x
1999-2000	*	*	*	*	*	*	*
2000-2001	*	*	*	*	*	*	*
2001-2002	*	*	*	*	*	*	*
2002-2003	*	*	*	*	*	*	*
2003-2004	*	*	*	*	*	*	*
2004-2005	*	*	*	*	*	*	*

(1) Gross revenue includes only sewer charges received from customers.

(2) Total expenses are exclusive of depreciation and bond interest.

* This information is not applicable for fiscal years 2000 through 2005 since all assets and liabilities of the Wastewater/Stormwater Fund were transferred to the Paducah-McCracken County Joint Sewer Agency as of July 1, 1999.

**TABLE 12
CITY OF PADUCAH, KENTUCKY
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>(1) Population</u>	<u>(1) Per Capita Income</u>	<u>(1) Median Age</u>	<u>(2) School Enrollment</u>	<u>(3) Unemployment Rate</u>
1995-1996	27,256	11,918	36.6	3,320	4.4%
1996-1997	27,256	11,918	36.6	3,312	5.5%
1997-1998	27,256	11,918	36.6	3,244	4.3%
1998-1999	27,256	11,918	36.6	3,195	3.2%
1999-2000	27,256	11,918	36.6	3,289	3.8%
2000-2001	26,307	11,918	39.9	3,037	4.2%
2001-2002	26,307	18,417	39.9	2,909	5.2%
2002-2003	26,307	18,417	39.9	2,887	6.0%
2003-2004	26,307	18,417	39.9	2,977	4.0%
2004-2005	26,307	18,417	39.9	2,819	6.1%

Sources:

(1) Bureau of the Census Count - 1990 and 2000.

(2) Board of Education; represents elementary and secondary public schools.

(3) Kentucky Cabinet for Human Resources, Department for Employment Services.

**TABLE 13
CITY OF PADUCAH, KENTUCKY
MISCELLANEOUS STATISTICAL DATA
JUNE 30, 2005**

Miscellaneous:

Date of incorporation	1830
Form of government	City Manager, Mayor and Commissioners
Area - square miles	19.99
Miles of streets/paved	215
Miles of sidewalks	45
Population	26,307
Registered voters	20,253
Votes cast last general election	12,103
Number of hospitals	2

Schools:

Number of public schools:	
High school	1
Middle school	1
Elementary	4
Head Start	1
Alternative learning center	1
Adult education	1
Students	2,819
Teachers	228
Administrative personnel	21
Support personnel	244

Parks and Recreation:

Number of parks	14
Acres of parks	280
Public golf courses	2
Public swimming pools	1
Public tennis courts	6

**TABLE 13
CITY OF PADUCAH, KENTUCKY
MISCELLANEOUS STATISTICAL DATA
JUNE 30, 2005**

Police and Fire Protection:

Number of employees:	
Policemen	74
Firefighters	73
Number of fire stations	5

Utilities:

Water utility:	
Number of users	22509
Annual consumption	2,498,264,800 Gallons
Distribution lines	480.5 Miles
Employees	46.5
Sewer utility:	
Plant capacity main plant	9,000,000 Gallons/Day
Miles of collection system:	
Sanitary sewers	300 Miles
Combination sewers	56 Miles
Storm sewers	38 Miles
Employees	31
Electric utility:	
Number of street lights	4612
Number of city maintained traffic light intersections	10
Employees	61

TABLE 14
CITY OF PADUCAH, KENTUCKY
PRINCIPAL TAXPAYERS
JANUARY 1, 2005

<u>Taxpayer</u>	<u>Type of Business</u>	<u>(1) Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Kentucky Oaks Mall	Mall	\$ 42,611,499	3.07%
Wal-Mart	Retailer	33,968,895	2.45%
Amerisource	Drug Wholesaler	21,489,621	1.55%
Lourdes Medical Pavilion	Healthcare	15,982,400	1.15%
Sams East Inc	Retailer	14,711,574	1.06%
Ducmall LLC	Mall	14,225,000	1.03%
Paducah Medical Investors	Healthcare	13,440,090	0.97%
Lowe's	Retailer	12,136,826	0.88%
Computer Services, Inc.	Bank Data Processor	9,083,185	0.66%
Alliant Foodservice, Inc.	Food wholesaler	<u>8,156,900</u>	<u>0.59%</u>
TOTALS		<u><u>\$185,805,990</u></u>	<u><u>13.41%</u></u>

(1) Source - Property Valuation Administration; Assessed value as of January 1, 2005.

**TABLE 15
CITY OF PADUCAH, KENTUCKY
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2005**

	<u>Bonds/Loans Outstanding</u>	<u>Amount Available Debt Service Funds</u>	<u>Net Debt Outstanding</u>	(1) <u>Percentage Applicable to City of Paducah</u>
City of Paducah	<u>16,723,274</u>	<u>\$ 9,805</u>	<u>\$ 16,713,469</u>	<u>100.0%</u>
Paducah Independent School District	7,075,000	-	7,075,000	100.0%
McCracken County	11,664,348	-	11,664,348	47.7%
McCracken County Board of Education	<u>27,684,761</u>	<u>-</u>	<u>27,684,761</u>	23.9%
Overlapping Debt	<u>46,424,109</u>	<u>-</u>	<u>46,424,109</u>	
TOTALS	<u><u>\$ 63,147,383</u></u>	<u><u>\$ 9,805</u></u>	<u><u>\$ 63,137,578</u></u>	

(1) Applicable percentage is determined by ratio of assessed valuation of property subject to taxation in overlapping unit to valuation of property subject to taxation in reporting unit.

TABLE 16
CITY OF PADUCAH, KENTUCKY
SUMMARY OF INSURANCE IN FORCE
JUNE 30, 2005

<u>Type of Coverage</u>	<u>Insurer</u>	<u>Policy No.</u>	<u>Liability Limits</u>	<u>Policy Term</u>	<u>Premium</u>
General liability	KLC	L5429-011020	\$ 2,000,000	7/1/04 - 7/1/05	\$145,164
Property	KLC	P5429-011020	48,969,934	7/1/04 - 7/1/05	89,082
Commercial auto	KLC	L5429-011020	2,000,000	7/1/04 - 7/1/05	211,954
Public officials liability	KLC	L5429-011020	2,000,000	7/1/04 - 7/1/05	107,026
Law enforcement liability	KLC	L5429-011020	2,000,000	7/1/04 - 7/1/05	87,371
Workers' compensation	KLC Workers' Comp. Trust	W5429-011020	4,000,000	7/1/04 - 7/1/05	374,545

CITY OF PADUCAH, KENTUCKY

SINGLE AUDIT SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2005

CITY OF PADUCAH, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-Through Grantor/ Program Title:</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Expenditures</u>
Department of Housing and Urban Development:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871	N/A	\$1,831,132
Passed-through Kentucky Housing Corporation:			
HOME Investment Partnerships Program	14.239	M-01-SG-2101-36-00 M-01-SG-2101-05-00 HR04-0198-01	<u>156,109</u>
Total Department of Housing and Urban Development			<u>1,987,241</u>
Department of Justice:			
Direct Programs:			
Local Law Enforcement Block Grants Program	16.592	N/A	11,752
Bulletproof Vest Partnership Program	16.607	N/A	<u>4,926</u>
Total Department of Justice			<u>16,678</u>
Department of Agriculture:			
Passed-through Kentucky Department of Education:			
Summer Food Service Program for Children	10.559	079V70999SU	<u>22,191</u>
Total Department of Agriculture			<u>22,191</u>
Department of Homeland Security:			
Passed-through Division of Disaster and Emergency Services:			
Assistance to Firefighters Grant	97.044	EMW-2003-FG-12050	83,510
Passed-through Kentucky Department of Military Affairs:			
State Domestic Preparedness Equipment Support Program	97.004	M-03453577	<u>17,196</u>
Total Department of Homeland Security			<u>100,706</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-Through Grantor/ Program Title:</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Expenditures</u>
Department of Transportation:			
Direct Programs:			
Airport Improvement Program	20.106	N/A	<u>5,199</u>
Total Department of Transportation			<u>5,199</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$2,132,015</u></u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PADUCAH, KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Basis of Presentation:

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

Note 2 – Subrecipients:

The City of Paducah provided federal awards to a subrecipient as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Paducah Board of Education	10.559	<u>22,191</u>
		<u>\$ 22,191</u>

**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***

Honorable William F. Paxton, Mayor
Members of the Board of Commissioners
City of Paducah
Paducah, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Paducah, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the City of Paducah, Kentucky's basic financial statements and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Paducah, Kentucky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that are considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Paducah, Kentucky, in a separate letter dated October 28, 2005.

Compliance and Other Matters

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

However, we noted certain matters that we reported to management of the City of Paducah, Kentucky, in a separate letter dated October 28, 2005.

This report is intended for the information and use of the Board of Commissioners of the City of Paducah, Kentucky, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kemper CPA Group LLP

Certified Public Accountants and Consultants
October 28, 2005

**Report on Compliance with Requirements Applicable
to Each Major Program and On Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Honorable William F. Paxton, Mayor
Members of the Board of Commissioners
City of Paducah
Paducah, Kentucky

Compliance

We have audited the compliance of the City of Paducah, Kentucky, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Paducah, Kentucky's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Paducah, Kentucky's management. Our responsibility is to express an opinion on the City of Paducah, Kentucky's compliance based on our audit.

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

In our opinion, the City of Paducah, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Paducah, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Paducah, Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners of the City of Paducah, Kentucky, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kempner CPA Group LLP

Certified Public Accountants and Consultants
October 28, 2005

CITY OF PADUCAH, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. Summary of Audit Results:

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the City of Paducah, Kentucky.
2. No reportable conditions were disclosed during the audit of the basic financial statements of the City of Paducah, Kentucky.
3. No instances of noncompliance material to the basic financial statements of the City of Paducah, Kentucky were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the City of Paducah, Kentucky expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards program to be reported.
7. The programs tested as major programs included:

<u>Name</u>	<u>CFDA #</u>
Section 8 Housing Choice Vouchers	14.871

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Paducah, Kentucky was determined to be a low-risk auditee.

B. Findings - Basic Financial Statements Audit:

None

C. Findings and Questioned Costs - Major Federal Award Programs:

None