

**CITY OF PADUCAH,
KENTUCKY**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2006

**FINANCE DEPARTMENT
CITY OF PADUCAH,
KENTUCKY**



Jim and Vick

Talghman House Civil War Museum

Janice Gorton

City of Paducah
Paducah, Kentucky
Comprehensive Annual Financial Report
Year Ended June 30, 2006



**Issued by the
Finance Department**

CITY OF PADUCAH, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

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CITY OF PADUCAH, KENTUCKY

INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006



CITY OF PADUCAH

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

October 13, 2006

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, 2006. 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.

In the early 1990s, 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 was 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 area.

In FY2006, as the following table indicates, there were over 575 jobs created and retained, and \$9.25 million capital invested not to mention the added fiscal impact from the jobs created and capital invested. Additionally, World Market, Bed Bath and Beyond and numerous other retail shops opened, creating several dozen more service industry jobs, further strengthening Paducah’s retail market.

Summary of Capital Investment and New/Retained Jobs			
FY2006			
Company	Capital Investment In Millions	Jobs	
		New	Retained
Pepsi	\$2.00	11	29
Ingram Barge	\$4.50	60	300
Marquette	\$2.00	12	40
A & K Construction	\$.75	25	100
Total	\$9.25	108	469

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, disc golf, skate boarding, 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', which 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 340 full-time employees as of June 30, 2006. 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. 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 of Paducah.

The following component units have been presented as blended units because the units' governing bodies are 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.

LONG-TERM FINANCIAL PLANNING

On October 1, 2005, the City's payroll tax was increased ½ cent. As a result of the payroll tax increase, the City Commission created the Investment Fund. The Investment Fund is funded with the ½ cent increase and is dedicated to the following purposes: economic development, neighborhood redevelopment, infrastructure capital investment, and property tax relief. In addition, the ordinance levying the tax increase included a sunset clause. The tax will revert from 2% of payroll to 1 ½ % October 1, 2008 if the City Commission does not vote to extend it. In FY2006 Investment Fund expenditures and transfers out totaled \$3,745,060. During the FY 2007 budget process, the Commission reviewed 49 decision packages proposed for the Investment Fund Budget with a total cost of \$12.5 million; expenditures totaling \$3.3 million were appropriated.

The City has numerous infrastructure/capital items that will affect the long-term financial planning process. The following projects are two examples of future considerations facing the City:

Floodwall Restoration. The 12.5-mile long floodwall system protecting a large portion of the Paducah-McCracken area is approaching 60 years of age. It is still in good condition long beyond its design life; however, it is in need of necessary repairs. The estimated cost of this restoration project is approximately \$5.2 million. Anticipated grant funds will cover 65% of the project, but that still leaves the City with a commitment of \$1.8 million.

Riverfront Redevelopment Plan. The City's Riverfront Redevelopment Plan includes proposed improvements that will provide public amenities, recreational facilities & public spaces that will tie the City's downtown to the River. The plan includes steamboat landing redevelopment, a public marina, boat ramp, and recreational trails and shoreline enhancements, just to name a few. Completion of Phase I & Phase II of the riverfront redevelopment will cost an estimated \$46.2 million. In FY2007 the City was allocated \$5.3 million in federal funds for Phase 1. As the project gets underway, property acquisition, construction, and eventually operating costs will be a long-term planning consideration.

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 29,920 persons employed (McCracken County) as of June 30, 2006.

The June 2006 unemployment rate was 5.7% (McCracken County), which is 23% higher than the federal rate of 4.6%. The local unemployment rate of 5.7%, compares favorably to last year's 6.4%. The number of active electric and water meters was nearly the same as the prior year. The number of building and electric permits obtained was 662 for fiscal year 2006 valued at \$50.7 million, which is \$7.3 million down from fiscal year 2005.

CASH MANAGEMENT

Idle cash in the City's various funds, except for pension funds, is invested for terms ranging from overnight to 12 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 2006 in the General Fund was \$358,950, on rates varying from 3.25% to 4.95%.

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/deductibles costing more than \$1.2 million and \$1.0 million in fiscal year 2006 and fiscal year 2005, 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 Kentucky 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 increase of \$5,012,636, with net assets valued at \$14,163,498 on June 30, 2006. In November 2005, the City issued general obligation bonds of \$6.1 million to finance the Police and Firefighters' Pension Fund estimated actuary liability. There were 3 active members and 88 retirees and/or beneficiaries in this fund as of June 30, 2006. The most recent actuarial report prepared for the PFPF was as of July 1, 2006.

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 10.98% for non-hazardous and 25.01% for hazardous duty employees in fiscal year 2006.

The **AEPF** is a single-employer contributory defined benefit plan created by local ordinance under Kentucky 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, 2006. 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 \$15,755 in fiscal year 2006, with net assets valued as of June 30, 2006, of \$344,643.

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 seven 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 the Paducah-McCracken County Joint Sewer Authority (JSA) 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 general obligation bonds 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 Paducah-McCracken County Industrial Development Authority (IDA) in an amount nearly equal to the debt service obligation.

In fiscal year 2006, the City issued \$6.1 million in general obligation bonds to fully fund the Police and Firefighters Pension Fund's unfunded pension liability.

The total cash outlay requirements for debt service retirement; principal and interest, in fiscal year 2006 were \$1,543,584.

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, 2005. This was the fifteenth consecutive year that the City achieved this prestigious award.

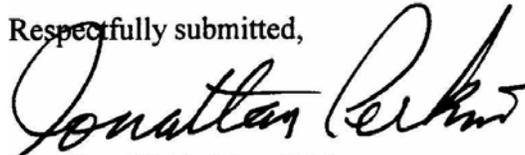
In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

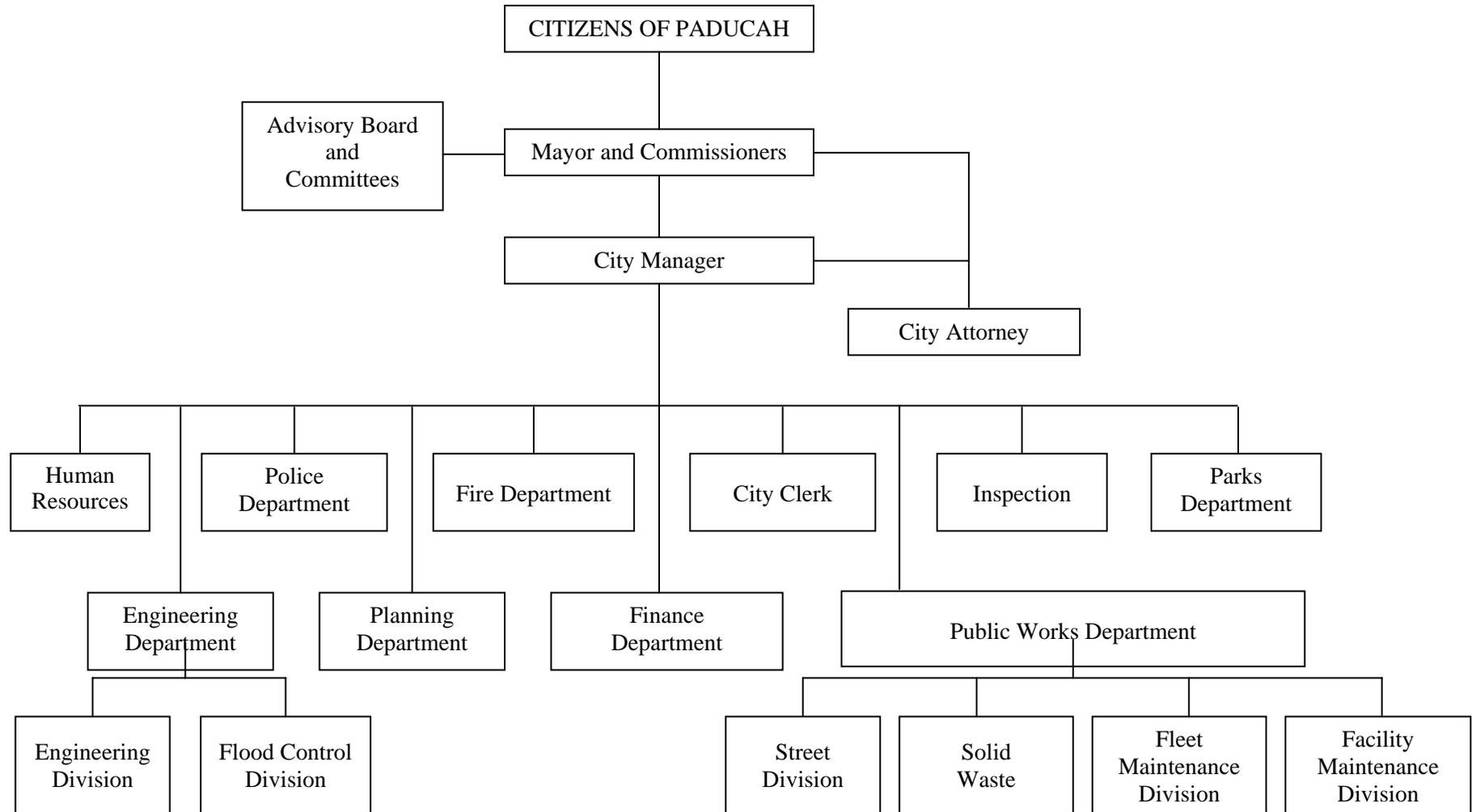
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We wish to express our appreciation to all members of the Finance Department who assisted and contributed to its preparation, and special 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, 2005

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.



President

Executive Director

CITY OF PADUCAH, KENTUCKY

FINANCIAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

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, 2006, 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, 2006, 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 13, 2006, 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis, Pension Trust Fund Schedules, and budgetary comparison information on pages 14 through 26 and 81 through 88, 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 section 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 and statistical sections 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
Paducah, Kentucky
October 13, 2006

CITY OF PADUCAH, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

CITY OF PADUCAH, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

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, 2006. 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 1-8) 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 \$43.5 million at the close of the 2005-2006 fiscal year. Of this amount, \$7.9 million (unrestricted net assets) may be used to meet City government's ongoing obligations to citizens and creditors.
- Total net assets increased \$3.4 million.
- At fiscal year end, City governmental funds reported a combined ending fund balance of \$13.4 million. Approximately 74% of this total amount, \$9.9 million, is unreserved and available for spending at the City's discretion. Of the \$9.9 million, \$790,381 is in various special funds, which are earmarked for specific purposes.
- At the end of the current fiscal year, unreserved general fund balance was \$9.2 million, of which cash makes up approximately \$4.4 million. When compared to actual total appropriations, the general fund cash balance is 13%.

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 fifteen (15) 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 Investment Funds, all of which are considered to be major funds. Data from the other twelve (12) 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 89-103.

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 104-106 of this report. Individual data for the internal service funds is likewise presented in the form of combining statements on pages 107-109 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 110-114 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 89-114 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 \$43.5 million as of June 30, 2006.

The largest portion of the City's net assets (74%) 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 (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (18%) may be used to meet the City's ongoing obligations to citizens and creditors.

As of June 30, 2006, 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 fourth 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u> <u>(Restated)</u>	<u>2006</u>	<u>2005</u> <u>(Restated)</u>
Current assets	\$ 29,580,305	\$ 21,724,001	\$ 2,586,401	\$ 2,434,670	\$ 32,166,706	\$ 24,158,671
Capital assets	36,786,376	35,927,035	1,277,720	1,463,118	38,064,096	37,390,153
Other noncurrent assets	<u>6,833,601</u>	<u>6,552,878</u>	-	-	<u>6,833,601</u>	<u>6,552,878</u>
Total Assets	<u>73,200,282</u>	<u>64,203,914</u>	<u>3,864,121</u>	<u>3,897,788</u>	<u>77,064,403</u>	<u>68,101,702</u>
Current liabilities	8,287,277	8,122,376	420,861	304,214	8,708,138	8,426,590
Noncurrent liabilities	<u>22,822,101</u>	<u>17,502,282</u>	<u>2,033,450</u>	<u>2,084,531</u>	<u>24,855,551</u>	<u>19,586,813</u>
Total liabilities	<u>31,109,378</u>	<u>25,624,658</u>	<u>2,454,311</u>	<u>2,388,745</u>	<u>33,563,689</u>	<u>28,013,403</u>
Net assets:						
Invested in capital assets, net of related debt	30,664,671	29,492,197	1,277,720	1,463,118	31,942,391	30,955,315
Restricted	3,708,035	1,668,022	-	-	3,708,035	1,668,022
Unrestricted	<u>7,718,198</u>	<u>7,419,037</u>	<u>132,090</u>	<u>45,925</u>	<u>7,850,288</u>	<u>7,464,962</u>
TOTAL NET ASSETS	<u>\$ 42,090,904</u>	<u>\$ 38,579,256</u>	<u>\$ 1,409,810</u>	<u>\$ 1,509,043</u>	<u>\$ 43,500,714</u>	<u>\$ 40,088,299</u>

A. Analysis of the City's Operations

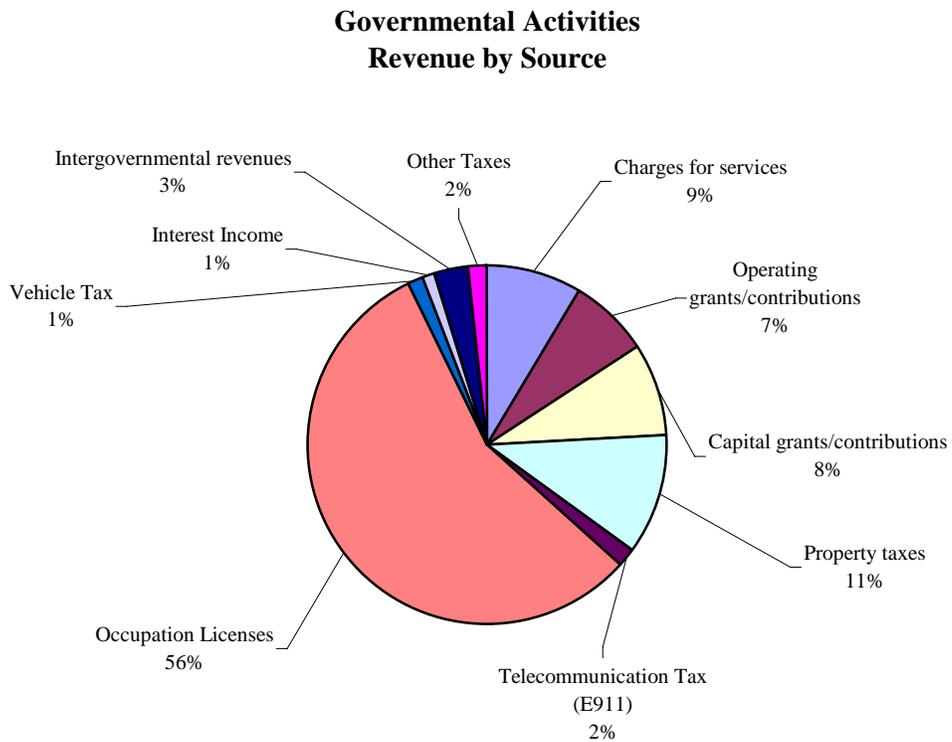
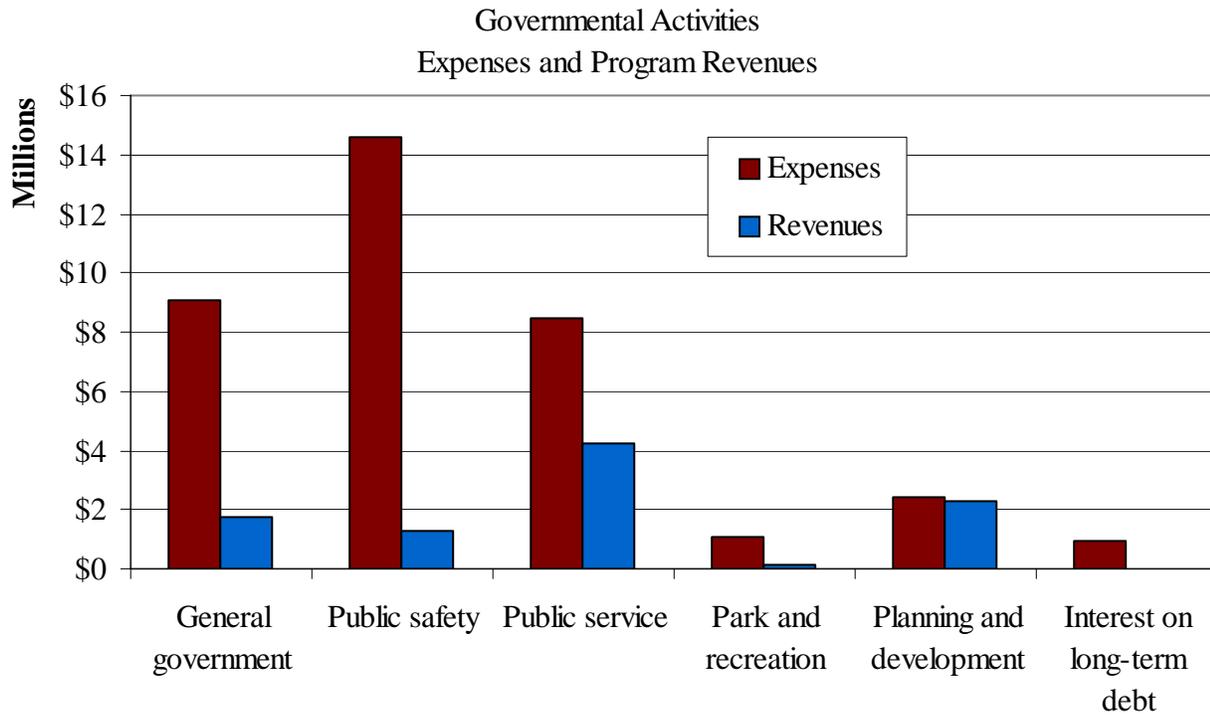
The following table provides a summary of the City's operations for the years ended June 30, 2006 and 2005. The City first implemented GASB Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* in fiscal year 2003. Governmental activities increased the City's net assets by \$3,511,648. Business-type activities decreased the City's net assets by \$99,233.

The following table provides a summary of the City's operations for the years ended June 30, 2006 and June 30, 2005:

City of Paducah, Kentucky
Changes in Net Assets
June 30

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005 (Restated)</u>	<u>2006</u>	<u>2005 (Restated)</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,452,878	\$ 3,305,792	\$ 3,829,684	\$ 3,720,332	\$ 7,282,562	\$ 7,026,124
Operating grants/ contributions	2,988,612	2,452,694	-	-	2,988,612	2,452,694
Capital grants/ contributions	3,302,568	1,100,064	22,894	14,735	3,325,462	1,114,799
General Revenues:						
Property taxes	4,107,934	3,919,113	-	-	4,107,934	3,919,113
Franchise taxes	282,115	269,407	-	-	282,115	269,407
Telecommunications Tax	626,971	670,181	-	-	626,971	670,181
Insurance premium tax	3,863,953	3,957,289	-	-	3,863,953	3,957,289
Vehicle tax	518,648	540,470	-	-	518,648	540,470
Bank tax	178,871	157,771	-	-	178,871	157,771
Gross receipts license tax	3,899,432	3,720,784	-	-	3,899,432	3,720,784
Employee licenses tax	14,794,217	11,192,445	-	-	14,794,217	11,192,445
Other taxes	498,409	478,574	-	-	498,409	478,574
Intergovernmental revenue	1,201,973	955,645	-	-	1,201,973	955,645
Unrestricted investment earnings	462,292	290,647	85,786	51,508	548,078	342,155
Gain on sale of capital assets	<u>8,340</u>	<u>-</u>	<u>55,337</u>	<u>27,500</u>	<u>63,677</u>	<u>27,500</u>
Total revenues	<u>40,187,213</u>	<u>33,010,876</u>	<u>3,993,701</u>	<u>3,814,075</u>	<u>44,180,914</u>	<u>36,824,951</u>
Expenses:						
General						
Government	9,057,295	8,431,994	-	-	9,057,295	8,431,994
Public safety	14,592,756	14,620,938	-	-	14,592,756	14,620,938
Public service	8,486,662	6,249,860	-	-	8,486,662	6,249,860
Park & recreation	1,044,361	1,045,024	-	-	1,044,361	1,045,024
Planning & development	2,404,636	2,521,412	-	-	2,404,636	2,521,412
Interest on long-term debt	974,101	775,122	-	-	974,101	775,122
Solid Waste	-	-	3,893,013	3,683,954	3,893,013	3,683,954
Civic Center	-	-	45,894	39,008	45,894	39,008
TISA	<u>-</u>	<u>-</u>	<u>269,781</u>	<u>170,264</u>	<u>269,781</u>	<u>170,264</u>
Total expenses	<u>36,559,811</u>	<u>33,644,350</u>	<u>4,208,688</u>	<u>3,893,226</u>	<u>40,768,499</u>	<u>37,537,576</u>
Increase (decrease) in Net assets before transfers	3,627,402	(633,474)	(214,987)	(79,151)	3,412,415	(712,625)
Transfers	<u>(115,754)</u>	<u>(133,959)</u>	<u>115,754</u>	<u>133,959</u>	<u>-</u>	<u>-</u>
Change in net assets	3,511,648	(767,433)	(99,233)	54,808	3,412,415	(712,625)
Net assets, July 1, restated	<u>38,579,256</u>	<u>39,346,689</u>	<u>1,509,043</u>	<u>1,454,235</u>	<u>40,088,299</u>	<u>40,800,924</u>
NET ASSETS, JUNE 30	<u>\$ 42,090,904</u>	<u>\$ 38,579,256</u>	<u>\$ 1,409,810</u>	<u>\$ 1,509,043</u>	<u>\$ 43,500,714</u>	<u>\$ 40,088,299</u>

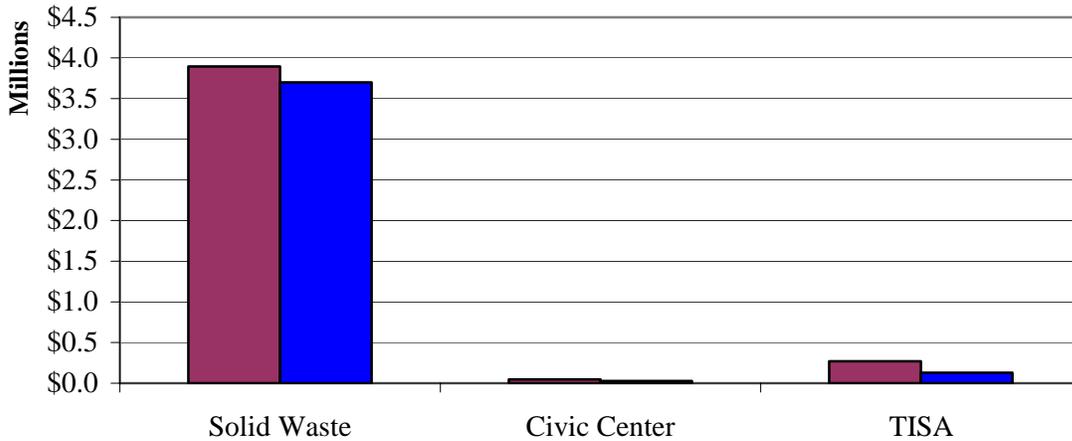
B. Governmental Activities



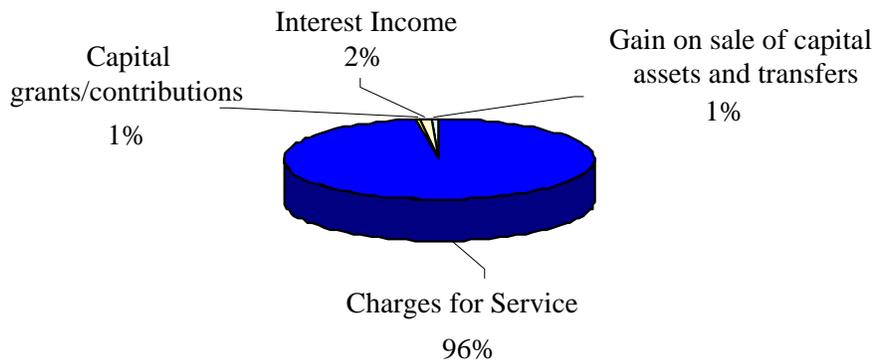
C. Business-Type Activities

Business-type activities decreased the City’s net assets by \$99,233, in contrast to the positive position in net assets for Governmental Activities for the year.

**Business-Type Activities
Expenses and Revenues**



**Business-Type Activities
Revenue by Source**

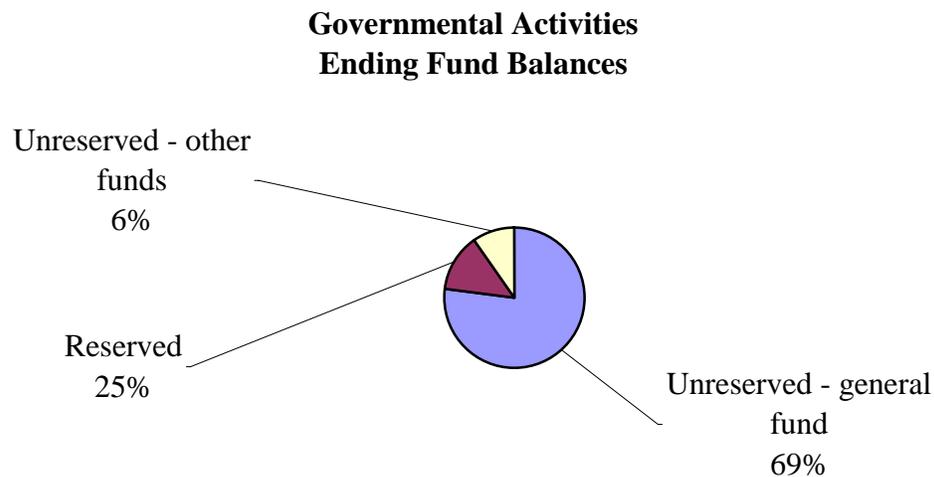


IV. Financial Analysis of the City's Funds

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 \$13.4 million (see Exhibit 3). Approximately 74% of this total amount, \$9.9 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 \$9.9 million, \$790,381 is in the debt service fund and various special revenue funds, which are earmarked for specific purposes. The remaining \$3.5 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 2005-2006 fiscal year, the general fund unreserved fund balance was \$9.2 million. City fiscal policy (ordinance 2005-6-6988) required that an amount not less than 8% of the General Fund's budgeted expenditures remain undesignated in the fund balance, or \$2.7 million, which leaves \$6.5 million as unreserved for fiscal year 2006. While \$6.5 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 27% of expenditures and transfers out (\$34 million). When compared to total appropriations (\$34 million), the general fund cash balance (\$4.4 million) is 13%.

The General Fund fund balance increased by \$854 thousand during the 2005-2006 fiscal year and was the result of expenditures being held down and a strong revenue environment, thus revenues outgrew expenditures. Key factors contributing to this positive change include the following:

- o Strong business license collections,
- o Continued growth in payroll tax collections, and
- o A successful 'Amnesty Program' (netted \$320,000).

The General Capital Improvements Fund had a fund balance of \$1.97 million all of which is reserved. The General Capital Improvements fund balance increased \$1 million over last year. The fund balance increased because several capital projects that were fully funded had not yet been completed; therefore, funds remained on hand at year-end.

The Investment Fund had a fund balance of \$720 thousand, all of which is reserved for capital projects. The Investment Fund's fund balance increased \$720 thousand. The Investment Fund was authorized by the City Commission in fiscal year 2005-2006 as a special revenue fund whose use is restricted to economic development, community redevelopment and capital and infrastructure projects. The Investment Fund captures all manner of financial activities related to revenue from the ½ cent payroll tax increase, effective October 1, 2005.

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	\$ (33,736)
Civic Center	(3,612)
TISA	136,710

Combined total net asset change for the three funds was \$44 thousand less than last year, broken down as follows: Solid Waste (\$0 thousand), Civic Center \$55 thousand, and TISA (\$99 thousand). Other factors concerning the proprietary enterprise funds have been addressed in the discussion of City business-type activities (III, C).

V. General Fund Budgetary Highlights

Differences between the original budget and the final actual amounts resulted in a \$618 thousand decrease in appropriations and can be briefly summarized as follows:

<u>Department</u>	<u>Appropriations</u>	
	<u>Increase</u>	<u>Decrease</u>
	<u>(In Thousands)</u>	
General administration	\$ -	\$ 32
Finance	-	38
Planning	-	51
Human rights	-	1
Human resources	-	39
Inspection	28	-
Information systems	-	43
Risk management	4	-
Police	-	282
Fire	-	76
Public works	-	157
Engineering services	-	170
Recreation	-	61
Other	300	-

Transfers out were increased \$6.3 million. This net increase is broken down as follows: \$300 thousand for economic development and neighborhood redevelopment; and \$6 million to fund the cost of the Police and Firefighter Pension Fund (PFPF) unfunded liability. The PFPF cost is offset with the proceeds of a general obligation bond as described in the 'Long-Term Debt' section of this report (VI, B). The decrease in appropriations of \$618 thousand, coupled with the non-PFPF portion of transfers out, or \$300 thousand, affected the fund balance 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 economic development and neighborhood redevelopment it was necessary to reduce the cost of operations by \$618 thousand and increase the non-PFPF portion of transfers out by \$300 thousand, or a positive net change of \$318 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, 2006, is \$38.1 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 2006, projects and equipment expenditures totaled nearly \$4.8 million. The largest capital-type projects, in terms of dollars in fiscal year 2006, are shown in the following table:

Pecan Drive improvement project	\$2,366,775
Equipment for Public Safety and Public Works	338,085
Noble Park Improvements & Recreation Trail	272,630
Neighborhood Redevelopment (includes Fountain & Uppertown)	177,913
Municipal Facility Improvements	174,576

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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 5,320,275	\$ 5,420,685	\$ 65,908	\$ 65,908	\$ 5,386,183	\$ 5,486,593
Land improvements	940,577	983,401	-	-	940,577	983,401
Construction in progress	3,945,451	3,641,595	-	-	3,945,451	3,641,595
Buildings and improvements	7,103,751	6,612,805	267,090	186,542	7,370,841	6,799,347
Infrastructure	16,261,506	16,867,122	-	-	16,261,506	16,867,122
Equipment	1,583,603	698,168	111,326	220,417	1,694,929	918,585
Furnishings and fixtures	7,112	8,379	-	-	7,112	8,379
Vehicles	<u>1,624,101</u>	<u>1,694,880</u>	<u>833,396</u>	<u>990,251</u>	<u>2,457,497</u>	<u>2,685,131</u>
TOTALS	<u>\$36,786,376</u>	<u>\$35,927,035</u>	<u>\$1,277,720</u>	<u>\$1,463,118</u>	<u>\$38,064,096</u>	<u>\$37,390,153</u>

Additional information on City capital assets can be found in Note 3 in the notes to financial statements on pages 62-64.

B. Long-Term Debt

At year-end, the City had \$24,083,707 in outstanding bonds, accrued compensated absences and notes payable, compared to \$18,506,727 at June 30, 2005 with maturities extending through 2026. During the year, the City's total debt increased by \$5,576,980, as shown in the following table:

General Obligation Bonds:	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Convention and Performing Arts Center – 2001	\$ 8,130,000	\$ 8,380,000
Kentucky League of Cities – 2003	3,110,441	3,247,853
Infiniti Media Building – 2004	4,680,000	4,840,000
General Fund accrued compensated absences	1,854,481	1,783,453
KACO – 2005	208,785	255,421
Police/Firefighter Pension Fund Liability – 2005	<u>6,100,000</u>	<u>-</u>
TOTALS	<u>\$24,083,707</u>	<u>\$18,506,727</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.

In fiscal year 2006, the City issued \$6.1 million in general obligation bonds to finance the police and firefighter's pension fund estimated pension liability. These bonds are to be fully paid within 20 years and are backed by the full faith and credit of the City.

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 \$175,093,068. 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. In fiscal year 2006, less than 5.5% 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-growth in the local economy as compared to the national economy in fiscal year 2006. It is estimated that over 575 jobs were created or retained in fiscal year 2006 along with \$9.25 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) in 2004 at a cost in excess of \$35 million.

During fiscal 2006, approximately \$2.4 million was spent on the Pecan Drive Improvements project in the western part of the City. This roadway project will cost more than \$6 million when fully completed in fiscal 2007. It consists of 1.8 miles of roadway designed to accommodate modern-day traffic flow near the City's retail areas and opens up over 160 acres for development.

Major capital projects over the past few years have significantly increased the flow of commerce, tourism and traffic flow in the City.

B. Unemployment Rate. The unemployment rate for the City of Paducah (McCracken County) as of June 2006 was 5.7%.

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 333 qualified businesses, which have pledged expenditures of \$107 million in addition to creating 395-targeted jobs.

All the above factors, in addition to current and future needs of the City, were considered when the 2006-2007 Budget for the City of Paducah was prepared. The beginning general fund balance for fiscal year 2006-2007 is \$9,157,310 (cash balance was \$4,401,832). The City has estimated an ending fund balance of \$8,820,380 (cash balance \$4,100,000 or 14% of projected general fund expenditures). An increase in employee payroll withholding tax went into effect October 2005. The increase grossed over \$1.8 million during the first year of implementation and over \$3.9 million is anticipated in 2006-2007. 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, 2006

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2006

<u>ASSETS</u>	<u>Primary Government</u>			Component Units
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Current Assets:				
Cash and cash equivalents	\$ 7,676,769	\$ 947,334	\$ 8,624,103	\$ 212,259
Investments	3,687,160	1,462,354	5,149,514	-
Receivables, net:				
Notes	264,000	-	264,000	-
Accounts	5,483,774	102,486	5,586,260	3,063,206
Grants	876,083	-	876,083	167,105
Interest	92,208	28,067	120,275	-
Property tax	4,368,599	-	4,368,599	-
Other	-	-	-	989,107
Internal balances	(32,728)	32,728	-	-
Inventory	234,635	-	234,635	1,922,611
Prepaid pension obligation	5,712,765	-	5,712,765	-
Prepaid expenses	1,216,835	13,432	1,230,267	59,671
Other current assets	205	-	205	1,050,150
Total current assets	<u>29,580,305</u>	<u>2,586,401</u>	<u>32,166,706</u>	<u>7,464,109</u>
Noncurrent Assets:				
Investments, restricted	-	-	-	4,454,610
Notes receivable	6,590,000	-	6,590,000	-
Bond issuance costs, net	243,601	-	243,601	-
Net capital assets:				
Land and construction in progress	9,265,726	65,908	9,331,634	2,753,851
Depreciable capital assets	27,520,650	1,211,812	28,732,462	75,900,624
Restricted assets	-	-	-	56,702
Other assets	-	-	-	732,165
Total noncurrent assets	<u>43,619,977</u>	<u>1,277,720</u>	<u>44,897,697</u>	<u>83,897,952</u>
Total assets	<u>\$73,200,282</u>	<u>\$3,864,121</u>	<u>\$77,064,403</u>	<u>\$91,362,061</u>

LIABILITIES

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Current Liabilities:				
Voucher and accounts payable	\$ 2,184,243	\$ 325,181	\$ 2,509,424	\$ 4,544,026
Cash deficit	-	-	-	367
Line of credit	-	-	-	1,487,303
Accrued payables	504,060	32,141	536,201	527,046
Due to other taxing agencies	110,339	-	110,339	-
Deferred revenue	4,227,029	-	4,227,029	774,942
Accrued compensated absences	476,839	63,539	540,378	-
Accrued interest	-	-	-	153,173
Notes payable due within one year	184,767	-	184,767	240,219
Bonds payable due within one year	600,000	-	600,000	1,320,000
Other current liabilities	-	-	-	1,432,746
Total current liabilities	<u>8,287,277</u>	<u>420,861</u>	<u>8,708,138</u>	<u>10,479,822</u>
Noncurrent Liabilities:				
Accrued compensated absences	1,377,642	12,531	1,390,173	-
Landfill post-closure costs	-	2,020,919	2,020,919	-
Other liabilities	-	-	-	496,971
Notes payable	3,134,459	-	3,134,459	404,048
Bonds payable	18,310,000	-	18,310,000	6,304,022
Total noncurrent liabilities	<u>22,822,101</u>	<u>2,033,450</u>	<u>24,855,551</u>	<u>7,205,041</u>
Total liabilities	<u>31,109,378</u>	<u>2,454,311</u>	<u>33,563,689</u>	<u>17,684,863</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	30,664,671	1,277,720	31,942,391	69,975,499
Restricted for:				
Program purposes	1,018,231	-	1,018,231	-
Capital projects	2,689,804	-	2,689,804	-
Debt service	-	-	-	3,459,923
Unrestricted	7,718,198	132,090	7,850,288	241,776
TOTAL NET ASSETS	<u>\$42,090,904</u>	<u>\$1,409,810</u>	<u>\$43,500,714</u>	<u>\$73,677,198</u>

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<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	\$ 9,057,295	\$ 1,618,903	\$ -	\$ 130,000
Public safety	14,592,756	767,086	85,321	437,396
Public service	8,486,662	942,355	584,352	2,735,172
Parks and recreation	1,044,361	103,932	15,773	-
Planning and development	2,404,636	20,602	2,303,166	-
Interest on long-term debt	974,101	-	-	-
Total governmental activities (See Note 1)	<u>36,559,811</u>	<u>3,452,878</u>	<u>2,988,612</u>	<u>3,302,568</u>
Business-type activities:				
Solid Waste	3,893,013	3,696,609	-	-
Civic Center	45,894	26,378	-	-
TISA	269,781	106,697	-	22,894
Total business-type activities	<u>4,208,688</u>	<u>3,829,684</u>	<u>-</u>	<u>22,894</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$40,768,499</u></u>	<u><u>\$ 7,282,562</u></u>	<u><u>\$2,988,612</u></u>	<u><u>\$ 3,325,462</u></u>
Component Units:				
Authorities:				
Paducah Water Works	\$ 6,552,696	\$ 6,726,647	\$ -	\$ 985,871
Paducah Power System	46,130,501	46,882,028	-	-
Paducah Transit Authority	5,399,673	3,020,693	1,350,514	439,196
TOTAL COMPONENT UNITS	<u><u>\$58,082,870</u></u>	<u><u>\$56,629,368</u></u>	<u><u>\$1,350,514</u></u>	<u><u>\$ 1,425,067</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 (loss) on sale of capital assets
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers
Change in net assets
Net assets, July 1, 2005, as previously reported
Adjustment to beginning net assets (See Note 10)
NET ASSETS, JUNE 30, 2006

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental	Business-type	Total	Component
Activities	Activities		Units
\$ (7,308,392)	-	\$ (7,308,392)	-
(13,302,953)	-	(13,302,953)	-
(4,224,783)	-	(4,224,783)	-
(924,656)	-	(924,656)	-
(80,868)	-	(80,868)	-
(974,101)	-	(974,101)	-
(26,815,753)	-	(26,815,753)	-
-	(196,404)	(196,404)	-
-	(19,516)	(19,516)	-
-	(140,190)	(140,190)	-
-	(356,110)	(356,110)	-
(26,815,753)	(356,110)	(27,171,863)	-
-	-	-	1,159,822
-	-	-	751,527
-	-	-	(589,270)
-	-	-	1,322,079
4,107,934	-	4,107,934	-
282,115	-	282,115	-
626,971	-	626,971	-
3,863,953	-	3,863,953	-
518,648	-	518,648	-
178,871	-	178,871	-
3,899,432	-	3,899,432	-
14,794,217	-	14,794,217	-
498,409	-	498,409	-
1,201,973	-	1,201,973	-
462,292	85,786	548,078	199,838
8,340	55,337	63,677	(191,913)
-	-	-	57,836
30,443,155	141,123	30,584,278	65,761
(115,754)	115,754	-	-
30,327,401	256,877	30,584,278	65,761
3,511,648	(99,233)	3,412,415	1,387,840
38,579,256	1,435,470	40,014,726	72,289,358
-	73,573	73,573	-
\$ 42,090,904	\$1,409,810	\$ 43,500,714	\$73,677,198

CITY OF PADUCAH, KENTUCKY

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

CITY OF PADUCAH, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

<u>ASSETS</u>	<u>General Fund</u>	<u>General Capital Improvements</u>	<u>Special Revenue Investment Fund</u>
Cash and cash equivalents	\$ 2,426,929	\$1,885,661	\$ 3,015
Investments	1,974,903	-	-
Accounts receivable:			
Accounts	5,221,798	-	400,000
Grants	70,682	680,993	-
Interest	33,876	-	-
Property taxes (net of allowances for uncollectibles)	4,222,083	-	-
Prepaid items	-	-	-
Due from other funds	1,604,987	240,018	944,058
TOTAL ASSETS	\$ 15,555,258	\$2,806,672	\$1,347,073
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Voucher and accounts payable	\$ 405,690	\$ 831,496	\$ 5,543
Accrued payroll and payroll taxes	457,261	-	-
Due to other funds	946,366	-	621,729
Due to other taxing agencies	110,339	-	-
Deferred revenue	4,027,388	5,173	-
Accrued compensated absences	450,904	-	-
Total liabilities	6,397,948	836,669	627,272
Fund Balances:			
Reserved for:			
Program purposes	-	-	-
Capital improvements	-	1,970,003	719,801
Unreserved:			
General Fund	9,157,310	-	-
Special Revenue Funds	-	-	-
Debt Service Fund	-	-	-
Total fund balances	9,157,310	1,970,003	719,801
TOTAL LIABILITIES AND FUND BALANCES	\$ 15,555,258	\$2,806,672	\$1,347,073

See accompanying notes to the basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$1,725,453	\$ 6,041,058
237,451	2,212,354
93,705	5,715,503
124,407	876,082
5,264	39,140
-	4,222,083
33,646	33,646
69	2,789,132
<u>\$2,219,995</u>	<u>\$21,928,998</u>

\$ 367,614	\$ 1,610,343
37,889	495,150
79,040	1,647,135
-	110,339
161,475	4,194,036
-	450,904
<u>646,018</u>	<u>8,507,907</u>

783,596	783,596
-	2,689,804
-	9,157,310
758,017	758,017
32,364	32,364
<u>1,573,977</u>	<u>13,421,091</u>
<u>\$2,219,995</u>	<u>\$21,928,998</u>

CITY OF PADUCAH, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balance - total governmental funds \$ 13,421,091

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Delinquent property taxes receivable are not reported in the governmental funds balance sheet since they are not considered "available" revenues. 146,516

The long-term notes receivable are not reported in the governmental funds balance sheet since they are not available to pay current period expenditures. 6,405,000

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. 23,750

Inventory is not a current financial resource and, therefore, is not reported in the governmental funds balance sheet. 168,703

A prepaid pension obligation is not a current financial resource, and therefore, is not reported in the governmental funds balance sheet. 5,712,765

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. 36,786,376

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	\$ 784,767	
Due after one year	<u>22,822,101</u>	(23,606,868)

(Continued)

CITY OF PADUCAH, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2006

Bond issuance costs used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		\$ 243,601
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.		(79,428)
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	\$ 4,606,222	
Current liabilities	(1,704,096)	
Net amount allocated to business-type activities	<u>(32,728)</u>	<u>2,869,398</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 42,090,904</u></u>

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, 2006

	<u>General Fund</u>	<u>General Capital Improvements</u>	<u>Special Revenue Investment Fund</u>
Revenues:			
Taxes	\$ 5,577,715	\$ -	\$ -
Licenses	20,602,949	-	2,829,616
Charges for services	531,141	-	-
Intergovernmental	-	123,180	-
Grants	627,020	2,971,834	-
Interest	358,950	-	-
Miscellaneous	1,001,124	515,021	3,015
	<u>28,698,899</u>	<u>3,610,035</u>	<u>2,832,631</u>
Total revenues			
Expenditures:			
Current operations:			
General government	4,286,431	-	-
Public safety	13,132,320	-	-
Public service	5,950,974	-	-
Parks and recreation	1,044,299	-	-
Planning and development	-	-	472,962
Other	481,690	-	-
Capital outlay	-	4,990,282	-
Debt service:			
Principal requirement	-	-	-
Interest and fiscal requirement	-	-	-
	<u>24,895,714</u>	<u>4,990,282</u>	<u>472,962</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>3,803,185</u>	<u>(1,380,247)</u>	<u>2,359,669</u>
Other Financing Sources (Uses):			
Long-term debt issued	6,100,000	-	-
Transfers in	9,132	2,725,132	1,632,230
Transfers out	(9,058,709)	(328,595)	(3,272,098)
	<u>(2,949,577)</u>	<u>2,396,537</u>	<u>(1,639,868)</u>
Total other financing sources (uses)			
Net change in fund balances	853,608	1,016,290	719,801
Fund balances, July 1, 2005	<u>8,303,702</u>	<u>953,713</u>	<u>-</u>
FUND BALANCES, JUNE 30, 2006	<u><u>\$ 9,157,310</u></u>	<u><u>\$1,970,003</u></u>	<u><u>\$ 719,801</u></u>

See accompanying notes to the basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 626,971	\$ 6,204,686
-	23,432,565
122,918	654,059
1,406,699	1,529,879
2,198,646	5,797,500
43,993	402,943
325,125	1,844,285
<u>4,724,352</u>	<u>39,865,917</u>
-	4,286,431
1,234,526	14,366,846
1,467,682	7,418,656
-	1,044,299
2,072,265	2,545,227
-	481,690
12,809	5,003,091
594,047	594,047
949,537	949,537
<u>6,330,866</u>	<u>36,689,824</u>
<u>(1,606,514)</u>	<u>3,176,093</u>
-	6,100,000
1,667,576	6,034,070
(21,778)	(12,681,180)
<u>1,645,798</u>	<u>(547,110)</u>
39,284	2,628,983
<u>1,534,693</u>	<u>10,792,108</u>
<u>\$1,573,977</u>	<u>\$13,421,091</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, 2006

Net change in fund balances - total governmental funds	\$ 2,628,983
<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.	61,815
Inventory sales provide current financial resources and are reported as revenues in governmental funds.	(53,710)
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.	3,779,542
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.	(205,000)
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.	2,019
Delinquent property taxes receivable are not considered "available" revenues in the governmental funds.	(1,111)
Tax revenues in the governmental funds that do not provide current financial resources are not reported as revenues in the Statement of Activities.	(319,756)
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.	5,466,496

(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, 2006

The issuance of long-term debt provides current financial resources to governmental funds and is reported as revenue in governmental funds. However, the proceeds are not reported in the government-wide Statement of Activities. \$(6,100,000)

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 \$462,636. (3,328,739)

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. 594,047

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. (25,065)

Long-term accrued compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (43,103)

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. 95,723

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	\$ 514,656	
Net of amount allocated to business-type activities	(17,785)	
Depreciation expense	462,636	959,507

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 3,511,648**

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

<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	\$ 822,053	\$125,281	\$ 947,334	\$1,635,711
Investments	1,462,354	-	1,462,354	1,474,806
Accounts receivable	98,095	4,391	102,486	-
Interest receivable	28,067	-	28,067	246,589
Prepaid expenses	-	13,432	13,432	1,183,184
Inventory	-	-	-	65,932
Total current assets	<u>2,410,569</u>	<u>143,104</u>	<u>2,553,673</u>	<u>4,606,222</u>
Noncurrent Assets:				
Net capital assets:				
Land	65,908	-	65,908	-
Depreciable capital assets	903,077	308,735	1,211,812	1,635,614
Total noncurrent assets	<u>968,985</u>	<u>308,735</u>	<u>1,277,720</u>	<u>1,635,614</u>
Total assets	<u>3,379,554</u>	<u>451,839</u>	<u>3,831,393</u>	<u>6,241,836</u>
<u>LIABILITIES</u>				
Current Liabilities:				
Voucher and accounts payable	315,175	9,801	324,976	494,464
Accrued payroll and payroll taxes	32,141	-	32,141	8,910
Accrued compensated absences	63,539	-	63,539	25,936
Deferred revenue	-	-	-	32,994
Due to other funds	-	205	205	1,141,792
Total current liabilities	<u>410,855</u>	<u>10,006</u>	<u>420,861</u>	<u>1,704,096</u>
Noncurrent Liabilities:				
Landfill post-closure costs	2,020,919	-	2,020,919	-
Accrued compensated absences	12,531	-	12,531	-
Total noncurrent liabilities	<u>2,033,450</u>	<u>-</u>	<u>2,033,450</u>	<u>-</u>
Total liabilities	<u>2,444,305</u>	<u>10,006</u>	<u>2,454,311</u>	<u>1,704,096</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	968,985	308,735	1,277,720	1,635,614
Unrestricted	(33,736)	133,098	99,362	2,902,126
TOTAL NET ASSETS	<u>\$ 935,249</u>	<u>\$441,833</u>	<u>1,377,082</u>	<u>\$4,537,740</u>
Reconciliation to government-wide statements of net assets:				
Adjustment to reflect the consolidation of Internal Service Funds' activities related to Enterprise Funds			<u>32,728</u>	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES			<u>\$1,409,810</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, 2006

	Business-type Activities			Governmental
	Solid Waste	Nonmajor Enterprise Funds	Totals	Internal Service Funds
Operating Revenues:				
Charges for services - internal	\$ 3,640,690	\$133,075	\$3,773,765	\$5,323,498
Charges for services - external	-	-	-	428,879
Miscellaneous	38,134	-	38,134	-
Total operating revenues	<u>3,678,824</u>	<u>133,075</u>	<u>3,811,899</u>	<u>5,752,377</u>
Operating Expenses:				
Cost of sales and service	3,619,779	218,199	3,837,978	5,267,457
Depreciation and amortization	273,234	97,476	370,710	462,636
Total operating expenses	<u>3,893,013</u>	<u>315,675</u>	<u>4,208,688</u>	<u>5,730,093</u>
Operating income (loss)	<u>(214,189)</u>	<u>(182,600)</u>	<u>(396,789)</u>	<u>22,284</u>
Nonoperating Revenues (Expenses):				
Interest and investment income	85,587	199	85,786	57,332
Gain (loss) on disposal of property and equipment	55,337	-	55,337	8,340
Total nonoperating revenues (expenses)	<u>140,924</u>	<u>199</u>	<u>141,123</u>	<u>65,672</u>
Income (loss) before contributions and transfers	<u>(73,265)</u>	<u>(182,401)</u>	<u>(255,666)</u>	<u>87,956</u>
Contributions and Transfers:				
Capital contributions	-	22,894	22,894	-
Transfers in	-	134,254	134,254	426,700
Transfers out	-	(18,500)	(18,500)	-
Total contributions and transfers	<u>-</u>	<u>138,648</u>	<u>138,648</u>	<u>426,700</u>
Change in net assets	(73,265)	(43,753)	(117,018)	514,656
Total net assets, July 1, 2005, as previously reported	934,941	485,586		4,023,084
Adjustment to beginning net assets (See Note 10)	<u>73,573</u>	<u>-</u>		<u>-</u>
TOTAL NET ASSETS - JUNE 30, 2006	<u><u>\$ 935,249</u></u>	<u><u>\$441,833</u></u>		<u><u>\$4,537,740</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>17,785</u>	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES			<u><u>\$ (99,233)</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, 2006

	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Solid Waste</u>	<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>	<u>Internal Service Funds</u>
Cash Flows from Operating Activities:				
Cash received from customers	\$3,633,088	\$ 142,232	\$3,775,320	\$5,752,258
Payments to suppliers	(2,232,136)	-	(2,232,136)	(228,836)
Payments to employees	(949,357)	-	(949,357)	(305,438)
Claims paid	-	-	-	(3,431,289)
Payments to internal service funds	(379,607)	(4,273)	(383,880)	-
Other receipts (payments)	38,134	(189,329)	(151,195)	(1,327,325)
Net cash provided (used) by operating activities	<u>110,122</u>	<u>(51,370)</u>	<u>58,752</u>	<u>459,370</u>
Cash Flows from Noncapital Financing Activities:				
Transfers (to) from other funds	-	115,754	115,754	426,700
Cash Flows from Capital and Related Financing Activities:				
Capital contributions	-	22,894	22,894	-
Purchase of capital assets	(90,527)	(100,127)	(190,654)	(408,539)
Proceeds from sale of capital assets	60,680	-	60,680	8,340
Net cash provided (used) by capital and related financing activities	<u>(29,847)</u>	<u>(77,233)</u>	<u>(107,080)</u>	<u>(400,199)</u>
Cash Flows from Investing Activities:				
Proceeds from sale of investment securities	1,440,000	-	1,440,000	1,445,000
Interest on cash and investments	77,144	199	77,343	48,270
Purchase of investments	(1,462,354)	-	(1,462,354)	(1,474,806)
Net cash provided (used) by investing activities	<u>54,790</u>	<u>199</u>	<u>54,989</u>	<u>18,464</u>
Net increase (decrease) in cash and cash equivalents	135,065	(12,650)	122,415	504,335
Cash and cash equivalents, July 1, 2005	686,988	137,931	824,919	1,131,376
CASH AND CASH EQUIVALENTS, JUNE 30, 2006	<u>\$ 822,053</u>	<u>\$ 125,281</u>	<u>\$ 947,334</u>	<u>\$ 1,635,711</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ (214,189)	\$ (182,600)	\$ (396,789)	\$ 22,284
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	273,234	97,476	370,710	462,636
Change in assets and liabilities:				
Receivables	(7,602)	9,157	1,555	(8,679)
Prepaid expenses	-	17,710	17,710	(15,414)
Inventories	-	-	-	2,746
Accounts payable	58,679	6,887	65,566	(4,203)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 110,122</u>	<u>\$ (51,370)</u>	<u>\$ 58,752</u>	<u>\$ 459,370</u>

See accompanying notes to the basic financial statements.

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

<u>ASSETS</u>	Primary Government		
	Pension Funds	Private- purpose Trusts	Agency Funds
Cash and cash equivalents	\$ 316,175	\$ 5,738	\$ 606,178
Receivables:			
Interest	81,900	-	-
Prepaid expenses	64,936	-	-
Investments at fair value	14,046,026	85,760	-
Total assets	14,509,037	91,498	606,178
<u>LIABILITIES</u>			
Voucher and accounts payable	896	-	-
Payroll taxes and withholdings payable	-	-	606,178
Total liabilities	896	-	\$ 606,178
<u>NET ASSETS</u>			
Held in trust for pension benefits and other purposes	\$ 14,508,141	\$ 91,498	\$ -

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, 2006

	Pension Funds	Private- purpose Trusts
Additions:		
Contributions:		
Employer	\$ 6,219,816	\$ -
Plan members	16,075	-
Intergovernmental revenues	-	10,580
	6,235,891	10,580
 Total contributions	 6,235,891	 10,580
 Investment income:		
Net increase (decrease) in fair value of investments	366,645	2,514
Interest and dividends	373,988	2,297
	740,633	4,811
 Net investment income	 740,633	 4,811
 Total additions	 6,976,524	 15,391
 Deductions:		
Benefits	1,867,577	-
Capital outlay	-	8,388
Administrative expenses	80,556	3,763
	1,948,133	12,151
 Total deductions	 1,948,133	 12,151
 Change in net assets	 5,028,391	 3,240
 Net assets, July 1, 2005	 9,479,750	 88,258
 NET ASSETS, JUNE 30, 2006	 \$ 14,508,141	 \$ 91,498

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, 2006

CITY OF PADUCAH, KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2006

<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	\$ 146,861	\$ 65,398	\$ -	\$ 212,259
Receivables, net:				
Accounts	323,864	2,680,184	59,158	3,063,206
Grants	-	-	167,105	167,105
Other	666,251	304,968	17,888	989,107
Inventories	605,245	1,267,875	49,491	1,922,611
Prepaid expenses	-	59,671	-	59,671
Other current assets	1,050,150	-	-	1,050,150
Total current assets	<u>2,792,371</u>	<u>4,378,096</u>	<u>293,642</u>	<u>7,464,109</u>
Noncurrent Assets:				
Investments, restricted	2,576,377	1,878,233	-	4,454,610
Net capital assets:				
Land and construction in progress	556,106	1,725,219	472,526	2,753,851
Depreciable capital assets	31,067,429	40,746,233	4,086,962	75,900,624
Restricted assets	56,702	-	-	56,702
Other assets	66,709	665,456	-	732,165
Total noncurrent assets	<u>34,323,323</u>	<u>45,015,141</u>	<u>4,559,488</u>	<u>83,897,952</u>
Total assets	<u>37,115,694</u>	<u>49,393,237</u>	<u>4,853,130</u>	<u>91,362,061</u>

<u>LIABILITIES</u>	Paducah Water Works	Paducah Power System	Paducah Transit Authority	All Component Unit Totals
Current Liabilities:				
Voucher and accounts payable	\$ 233,745	\$ 4,124,956	\$ 185,325	\$ 4,544,026
Cash deficit	-	-	367	367
Line of credit	-	1,387,326	99,977	1,487,303
Accrued payables	-	460,229	66,817	527,046
Deferred revenue	-	774,942	-	774,942
Accrued interest	-	153,173	-	153,173
Notes payable due within one year	25,000	-	215,219	240,219
Bonds payable due within one year	950,000	370,000	-	1,320,000
Other current liabilities	908,825	520,553	3,368	1,432,746
Total current liabilities	2,117,570	7,791,179	571,073	10,479,822
Noncurrent Liabilities:				
Bonds payable	1,842,369	4,461,653	-	6,304,022
Notes payable	165,000	-	239,048	404,048
Other liabilities	-	495,469	1,502	496,971
Total noncurrent liabilities	2,007,369	4,957,122	240,550	7,205,041
Total liabilities	4,124,939	12,748,301	811,623	17,684,863
<u>NET ASSETS</u>				
Net Assets:				
Invested in capital assets, net of related debt	28,707,875	37,639,799	3,627,825	69,975,499
Restricted for:				
Capital projects	-	-	-	-
Debt service	1,581,690	1,878,233	-	3,459,923
Unrestricted	2,701,190	(2,873,096)	413,682	241,776
TOTAL NET ASSETS	\$32,990,755	\$36,644,936	\$4,041,507	\$73,677,198

See accompanying notes to the basic financial statements

CITY OF PADUCAH, KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2006

<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	\$ 6,552,696	\$ 6,726,647	\$ -	\$ 985,871
Paducah Power System	46,130,501	46,882,028	-	-
Paducah Transit Authority	5,399,673	3,020,693	1,350,514	439,196
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL COMPONENT UNITS	<u>\$58,082,870</u>	<u>\$56,629,368</u>	<u>\$1,350,514</u>	<u>\$1,425,067</u>
General Revenues:				
Unrestricted investment earnings				
Gain (loss) on disposal of assets				
Miscellaneous general				
Total general revenues and transfers				
Change in net assets				
Net assets, July 1, 2005				
NET ASSETS, JUNE 30, 2006				

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
\$ 1,159,822	\$ -	\$ -	\$ 1,159,822
-	751,527	-	751,527
-	-	(589,270)	(589,270)
<u>1,159,822</u>	<u>751,527</u>	<u>(589,270)</u>	<u>1,322,079</u>
111,044	74,855	13,939	199,838
-	-	(191,913)	(191,913)
-	33,881	23,955	57,836
<u>111,044</u>	<u>108,736</u>	<u>(154,019)</u>	<u>65,761</u>
1,270,866	860,263	(743,289)	1,387,840
<u>31,719,889</u>	<u>35,784,673</u>	<u>4,784,796</u>	<u>72,289,358</u>
<u>\$32,990,755</u>	<u>\$36,644,936</u>	<u>\$4,041,507</u>	<u>\$73,677,198</u>

CITY OF PADUCAH, KENTUCKY

NOTES TO THE FINANCIAL STATEMENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2006

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, 2006

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.

Special Revenue Investment Fund – To account for restricted funds from employee license fee used for economic development, neighborhood redevelopment and infrastructure capital investments within 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.

Fiduciary funds report resources held in trust. Pension trust funds report the receipt, investment, and distribution of retirement contributions. Private-purpose trust funds report the receipt and distribution of maintenance trust agreements.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Summary of Significant Account Policies:

Agency fund accounts for the City's payroll wages, taxes and related withholdings.

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, pension and private-purpose trust 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, pension and private-purpose 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, 2006

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.

Deferred revenue

The City reports deferred revenue on its statement of net assets. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred 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 deferred revenue is removed from the statement of net assets and revenue is recognized.

Allocation of Indirect Expenses

The City allocates indirect expenses primarily comprised of fleet management services and various self funded insurance coverage provided to departments and employees of the city not directly allocated. Allocations are charged to functions based on use by weighted-average methodology.

Budgets and Budgetary Accounting

The City legal adopts annual budgets for all governmental and proprietary funds except for Section Eight Housing Fund. 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.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Summary of Significant Accounting Policies:

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.
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, 2006.

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, grant revenue and interlocal note receivable. 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.

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Summary of Significant Accounting Policies:

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.

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.

Capital Assets

The accounting treatment over property, plant, and equipment (capital 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, property, plant, and equipment are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital 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

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Summary of Significant Accounting Policies:

Fund Financial Statements

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

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, notes 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.

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Summary of Significant Accounting Policies:

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.
- 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.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Summary of Significant Accounting Policies:

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.

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.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 1 - Summary of Significant Accounting Policies:

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
25% of Employee Earning Tax	Economic and Capital Development

For the year ended June 30, 2006, the City complied, in all material respects, with these revenue restrictions.

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, 2006, 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, 2006, are as follows:

<u>Description</u>	<u>Date</u>
Assessment and enforceable lien	January 1, 2005
Levy	October 11, 2005
Face value amount payment dates	1 st half by November 1, 2005 2 nd half by February 1, 2006
Delinquent date - 10% penalty plus 1/2% per month	1 st half - November 30, 2005 2 nd half - February 28, 2006

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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.

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, 2006, 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 \$9,552,194 and \$10,186,764, respectively.

Investments

As of June 30, 2006, 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)	\$ 5,149,514	NA	\$5,149,514	\$ -	\$ -	\$ -
Component Units						
Money Market Funds	921,208	AAA	921,208	-	-	-
Certificates of Deposits	3,533,402	NA	3,533,402	-	-	-
	<u>4,454,610</u>					
Total Primary Government And Component Units	<u>\$ 9,604,124</u>					
Fiduciary and Private Purpose Trust Funds						
Money Market Funds	\$ 4,002	AAA	\$ -	\$ -	\$ -	\$ -
Certificates of Deposits (3)	225,000	NA	225,000	-	-	-
Common Stock	5,594,311	NA	NA	NA	NA	NA
Corporate Bonds	1,280,991	AAA/A-	599,085	487,135	194,771	-
U.S. Agencies	609,085	AAA	359,582	249,503	-	-
Mortgage Backed Securities (4)	3,561,825	AAA/AA-	273,337	1,085,874	2,202,614	-
Mutual Funds						
Equity	50,296	NA	NA	NA	NA	NA
Fixed	31,462	NA	NA	NA	NA	NA
Index	<u>2,774,814</u>	NA	NA	NA	NA	NA
Total Fiduciary and Private Purpose Trust Funds	<u>\$14,131,786</u>					

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

- (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) Includes \$640,609 of securities callable as of 6/12/06.

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 States 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.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

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.

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, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

<u>Primary Government</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 5,420,685	\$ 1,890	\$ 102,300	\$ 5,320,275
Construction in Progress	<u>3,641,595</u>	<u>3,798,050</u>	<u>3,494,194</u>	<u>3,945,451</u>
Total capital assets, not being depreciated:	<u>9,062,280</u>	<u>3,799,940</u>	<u>3,596,494</u>	<u>9,265,726</u>
<u>Capital assets, being depreciated:</u>				
Land improvements	1,954,953	-	-	1,954,953
Building and improvements	17,157,849	987,673	221,935	17,923,587
Infrastructure	28,163,073	1,393,063	-	29,556,136
Equipment	6,005,625	1,373,871	-	7,379,496
Furnishings and fixtures	241,855	-	-	241,855
Vehicles	<u>6,785,259</u>	<u>399,031</u>	<u>68,266</u>	<u>7,116,024</u>
Totals at historical cost	<u>60,308,614</u>	<u>4,153,638</u>	<u>290,201</u>	<u>64,172,051</u>
Less: Accumulated depreciation				
Land improvements	971,552	42,824	-	1,014,376
Buildings and improvements	10,545,044	327,722	52,930	10,819,836
Infrastructure	11,295,951	1,998,679	-	13,294,630
Equipment	5,307,457	488,436	-	5,795,893
Furnishings and fixtures	233,476	1,267	-	234,743
Vehicles	<u>5,090,379</u>	<u>469,810</u>	<u>68,266</u>	<u>5,491,923</u>
Total accumulated depreciation	<u>33,443,859</u>	<u>3,328,738</u>	<u>121,196</u>	<u>36,651,401</u>
Total capital assets, being depreciated, net:	<u>\$26,864,755</u>	<u>\$ 824,900</u>	<u>\$ 169,005</u>	<u>\$27,520,650</u>
Primary Government Activities Capital Assets – Net	<u>\$35,927,035</u>	<u>\$ 4,624,840</u>	<u>\$ 3,765,499</u>	<u>\$36,786,376</u>
<u>Business-type Activities:</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
<u>Capital assets, not being depreciated:</u>				
Land	\$ 65,908	\$ -	\$ -	\$ 65,908

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

<u>Business-type Activities:</u>	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>Capital assets, being depreciated:</u>				
Building and improvements	336,827	92,427	-	429,254
Equipment	2,125,753	7,699	-	2,133,452
Vehicles	2,223,817	90,527	149,593	2,164,751
Totals at historical cost	<u>4,686,397</u>	<u>190,653</u>	<u>149,593</u>	<u>4,727,457</u>
Less: Accumulated depreciation				
Buildings and improvements	150,285	11,879	-	162,164
Equipment	1,905,336	116,790	-	2,022,126
Vehicles	1,233,566	242,041	144,252	1,331,355
Total accumulated depreciation	<u>3,289,187</u>	<u>370,710</u>	<u>144,252</u>	<u>3,515,645</u>
Total capital assets, being depreciated, net:	<u>\$ 1,397,210</u>	<u>\$ (180,057)</u>	<u>\$ 5,341</u>	<u>\$ 1,211,812</u>
Business - Type Activities Capital Assets – Net	<u>\$ 1,463,118</u>	<u>\$ (180,057)</u>	<u>\$ 5,341</u>	<u>\$ 1,277,720</u>

Depreciation expense was charged to governmental activities as follows:

General government:		
General administration		\$ 173,889
Finance		2,901
Planning		13,117
Human rights		-
Personnel		1,188
Information systems		3,931
Fleet maintenance		<u>8,437</u>
Total general government		<u>203,463</u>
Public safety:		
Police		112,960
Fire		29,451
Grants		149,670
Emergency 911		36,966
Court awards		19,147
Fleet Lease Trust		<u>454,199</u>
Total public safety		<u>802,393</u>
Public service:		
Public works		76,110
Engineering		<u>167,829</u>
Total public service		<u>243,939</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

Parks and recreation	<u>\$ 78,394</u>
Planning and development:	
Infrastructure	1,998,678
Grants	<u>1,871</u>
Total planning and development	<u>2,000,549</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 3,328,738</u>

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

Solid Waste Fund	\$ 273,234
Civic Center	11,260
TISA Fund	<u>86,216</u>
Total Depreciation Expense – Business-Type Activities	<u>\$ 370,710</u>

Discretely Presented Component Units:	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 1,878,096	\$ -	\$ -	\$ 1,878,096
Construction in Progress	<u>1,110,471</u>	<u>-</u>	<u>234,716</u>	<u>875,755</u>
Total capital assets, not being depreciated:	<u>2,988,567</u>	<u>-</u>	<u>234,716</u>	<u>2,753,851</u>
Capital assets, being depreciated:				
Building and improvements	1,668,226	4,600	-	1,672,826
Equipment	5,121,710	658,935	1,048,271	4,732,374
Utility Plant	<u>118,230,531</u>	<u>5,623,683</u>	<u>865,607</u>	<u>122,988,607</u>
Totals capital assets, being depreciated:	<u>125,020,467</u>	<u>6,287,218</u>	<u>1,913,878</u>	<u>129,393,807</u>
Less: Accumulated depreciation:				
Buildings and improvements	325,611	107,308	-	432,919
Equipment	2,024,547	691,250	830,478	1,885,319
Utility plant	<u>48,318,925</u>	<u>3,752,146</u>	<u>896,126</u>	<u>51,174,945</u>
Total accumulated depreciation	<u>50,669,083</u>	<u>4,550,704</u>	<u>1,726,604</u>	<u>53,493,183</u>
Total capital assets, being depreciated, net:	<u>74,351,384</u>	<u>1,736,514</u>	<u>187,274</u>	<u>75,900,624</u>
Component Units				
Capital Assets – Net	<u>\$77,339,951</u>	<u>\$ 1,736,514</u>	<u>\$ 421,990</u>	<u>\$78,654,475</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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	\$ 1,250,671
Paducah Power System	2,501,475
Paducah Transit Authority	<u>798,558</u>
 TOTAL DEPRECIATION EXPENSE BY ACTIVITY	 <u>\$ 4,550,704</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, 2006, the governmental long-term debt consisted of the following:

General obligation bonds:	
Current portion	\$ 600,000
Noncurrent portion	<u>18,310,000</u>
 TOTAL GENERAL OBLIGATION BOND COSTS	 <u>\$18,910,000</u>
Note payable:	
Current portion	\$ 184,767
Noncurrent portion	<u>3,134,459</u>
 TOTAL NOTE PAYABLE PAYMENTS	 <u>\$ 3,319,226</u>
Accrued compensated absences:	
Current portion	\$ 476,839
Noncurrent portion	<u>1,377,642</u>
 TOTAL ACCRUED COMPENSATED ABSENCES	 <u>\$ 1,854,481</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

Business-type Activities

As of June 30, 2006, the long-term debt payable from proprietary fund resources consisted of the following:

Accrued compensated absences:		
Current portion		\$63,539
Noncurrent portion		<u>12,531</u>
TOTAL ACCRUED COMPENSATED		
ABSENCES		<u>\$76,070</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. Principal and interest payments prior to September 1, 2007, on the bonds are being split evenly between the City and the County. After September 1, 2007, the City and County will share 2.031% of the bond payments with the remaining amount being made from a sublease with Infiniti Plastic Technologies, Inc.

Series 2005 Bond Issue - The City of Paducah issued general obligation bonds of \$6,100,000 in November, 2005, to finance the police and firefighter's pension fund estimated actuary liability. Interest rate is fixed at 5.35%. 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.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

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.

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, 2006:

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	\$ 8,380,000	\$ -	\$ 250,000	\$ 8,130,000	\$ 260,000
Infiniti Media Building	4,840,000	-	160,000	4,680,000	165,000
Pension	-	6,100,000	-	6,100,000	175,000
Notes payable:					
Kentucky League of Cities	3,247,853	-	137,412	3,110,441	137,411
Kentucky Association of Counties	105,421	-	24,136	81,285	24,856
Kentucky Association of Counties	150,000	-	22,500	127,500	22,500
Accrued compensated absences	<u>1,783,453</u>	<u>504,714</u>	<u>433,686</u>	<u>1,854,481</u>	<u>476,839</u>
TOTAL GENERAL LONG- TERM DEBT	<u>\$18,506,727</u>	<u>\$6,604,714</u>	<u>\$1,027,734</u>	<u>\$24,083,707</u>	<u>\$ 1,261,606</u>
Business-type activities:					
Accrued compensated absences	<u>\$ 78,784</u>	<u>\$ 54,039</u>	<u>\$ 56,753</u>	<u>\$ 76,070</u>	<u>\$ 63,539</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 788,942	\$ 1,022,105
2008	826,485	991,496
2009	856,680	958,353
2010	866,856	923,678
2011	902,092	886,485
2012-2016	5,038,705	3,815,009
2017-2021	6,379,741	2,535,852
2022-2026	<u>6,569,725</u>	<u>883,504</u>
TOTALS	<u>\$22,229,226</u>	<u>\$12,016,482</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, 2006, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accrued sick leave	\$ 783,149	\$ 26,685
Accrued vacation leave	942,056	43,978
Applicable payroll taxes	<u>129,276</u>	<u>5,407</u>
 Totals	 1,854,481	 76,070
 Less current portion	 <u>476,839</u>	 <u>63,539</u>
 LONG-TERM PORTION	 <u>\$ 1,377,642</u>	 <u>\$ 12,531</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, 2006, 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. The City reduces the liability annually for reimbursements to the County 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, 2006

Note 3 - Detail Notes on Transaction Classes/Accounts:

Interfund Transactions and Balances

Interfund transfers during the year ended June 30, 2006, were as follows:

	<u>Interfund Transfers In</u>	<u>Interfund Transfers Out</u>
Governmental Funds:		
General Fund	\$ 9,132	\$ 9,058,709
Capital Project Fund	2,725,132	328,595
Capital Investment Fund	1,632,230	3,272,098
Nonmajor Governmental Funds	1,667,576	21,778
Internal Service Funds	426,700	-
Fiduciary Funds:		
Appointive Employee Pension Fund	75,000	-
Police and Firefighters' Pension Fund	6,029,656	-
Proprietary Funds:		
Nonmajor Proprietary Funds	<u>134,254</u>	<u>18,500</u>
TOTALS	<u>\$12,699,680</u>	<u>\$ 12,699,680</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, 2006:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$1,604,987	\$ 946,366
General Capital Improvements Fund	240,018	-
Special Revenue Investment Fund	944,058	621,729
Nonmajor Governmental Funds	69	79,040
Nonmajor Enterprise Funds	-	205
Internal Service Funds	<u>-</u>	<u>1,141,792</u>
TOTALS	<u>\$2,789,132</u>	<u>\$2,789,132</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:

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2006</u>	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Beginning NPO balance	\$ -	\$ -	\$ -
ARC	<u>719,348</u>	<u>953,044</u>	<u>811,401</u>
Pension cost	719,348	953,044	811,401
Less actual contribution	<u>6,144,816</u>	<u>953,044</u>	<u>811,401</u>
Net change in NPO	<u>(5,425,468)</u>	-	-
ENDING NPO BALANCE	<u>\$ (5,425,468)</u>	<u>\$ -</u>	<u>\$ -</u>
PERCENTAGE OF PENSION COST CONTRIBUTED	<u>854%</u>	<u>100%</u>	<u>100%</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2006

Assets:	
Cash and cash equivalents	\$ 201,833
Receivables	78,330
Prepaid expenses	63,015
Investment at fair value	<u>13,821,026</u>
Total assets	14,164,204
Liabilities:	
Voucher and accounts payable	<u>706</u>
Net Assets:	
Held in trust for pension benefits and other purposes	<u>\$ 14,163,498</u>

Statement of Changes in Net Assets
Police and Firefighters' Retirement Fund
For the Year Ended June 30, 2006

Additions:	
Employer contributions	\$ 6,144,816
Plan members' contributions	<u>16,075</u>
Total contributions	<u>6,160,891</u>
Investment earnings:	
Net increase in fair value of investments	366,645
Interest and dividends	<u>361,292</u>
Net investment earnings	<u>727,937</u>
Total additions	<u>6,888,828</u>
Deductions:	
Benefits	1,803,875
Administrative expenses	<u>72,317</u>
Total deductions	<u>1,876,192</u>
Change in net assets	5,012,636
Net assets, July 1, 2005	<u>9,150,862</u>
NET ASSETS, JUNE 30, 2006	<u>\$ 14,163,498</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2006. 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, 2006	Year Ended June 30, 2005	Year Ended June 30, 2004
Beginning NPO balance	<u>\$(246,269)</u>	<u>\$(212,055)</u>	<u>\$(198,365)</u>
ARC	17,182	26,328	48,339
Interest on NPO	(14,776)	(12,723)	(11,902)
Unfunded ARC adjustment	<u>31,566</u>	<u>27,181</u>	<u>25,426</u>
Pension cost	33,972	40,786	61,863
Less actual contribution	<u>75,000</u>	<u>75,000</u>	<u>75,553</u>
Net change in NPO	<u>(41,028)</u>	<u>(34,214)</u>	<u>(13,690)</u>
ENDING NPO BALANCE	<u>\$(287,297)</u>	<u>\$(246,269)</u>	<u>\$(212,055)</u>
PERCENTAGE OF PENSION COST CONTRIBUTED	<u>221%</u>	<u>184%</u>	<u>122%</u>

The financial statements for the Appointive Employees' Pension Fund are as follows:

Statement of Fiduciary Net Assets
Appointive Employees' Pension Fund
June 30, 2006

Assets:	
Cash and cash equivalents	\$ 114,342
Receivables	3,570
Prepaid expenses	1,921
Investment at fair value	<u>225,000</u>
Total assets	344,833
Liabilities:	
Voucher and accounts payable	<u>190</u>
Net Assets:	
Held in trust for pension benefits and other purposes	<u>\$ 344,643</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 4 - Pension Plans - City of Paducah:

Statement of Changes in Net Assets
Appointive Employees' Pension Fund
For the Year Ended June 30, 2006

Additions:

Interest and dividends	\$ 12,696
Employer contributions	<u>75,000</u>
 Total additions	 <u>87,696</u>

Deductions:

Benefits	63,702
Administrative expenses	<u>8,239</u>
 Total deductions	 <u>71,941</u>

Change in net assets	15,755
Net assets, July 1, 2005	<u>328,888</u>

NET ASSETS, JUNE 30, 2006 \$ 344,643

Contribution Information

A summary of actuarial assumptions at June 30, 2006, the date of the latest actuarial valuation is as follows:

	PFPF	AEPF
Valuation date	7/1/06	7/1/06
Actuarial cost method	Entry age normal	Aggregate (1)
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	26 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, 2006

Note 4 - Pension Plans - City of Paducah:

Membership Information

Membership of each plan consisted of the following at June 30, 2006:

	PFPF	AEPF
Active participants	3	-
Beneficiaries	37	8
Retired participants	51	3
TOTAL PARTICIPANTS	91	11

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, 2006, 2005 and 2004, the City contributed 25.01%, 22.08%, and 18.51%, respectively, of each hazardous employee's creditable compensation and 10.98%, 8.48%, and 7.34%, 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, 2006, 2005 and 2004, were \$3,460,797, \$2,963,431, and \$2,387,011, 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, 2006.

Note 6 - Component Unit Long-Term Debt:

Long-term debt of the discretely presented component units consists of the following at June 30, 2006:

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, 2006

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>
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>(177,631)</u>	<u>-</u>	<u>(177,631)</u>
TOTALS	<u>\$2,792,369</u>	<u>\$267,415</u>	<u>\$3,059,784</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, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Fee (0.2%)</u>	<u>Total</u>
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	30,000	4,521	180	34,701
2012-2016	<u>60,000</u>	<u>4,626</u>	<u>180</u>	<u>64,806</u>
TOTALS	<u>\$190,000</u>	<u>\$38,014</u>	<u>\$1,580</u>	<u>\$229,594</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.

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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>
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	435,000	142,083	577,083
2012-2016	2,450,000	431,620	2,881,620
2017-2021	<u>550,000</u>	<u>23,375</u>	<u>573,375</u>
TOTALS	<u>\$5,005,000</u>	<u>\$1,328,818</u>	<u>\$6,333,818</u>

Bonds payable totaling \$4,831,653 are recorded net of \$173,347 unamortized bond discount and advance refunding deferred charges.

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

On February 13, 2004 and August 12, 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 4.25%. As of June 30, 2006, the outstanding balance was \$270,947 and \$173,206, respectively. On November 30, 2005, Transit Authority of the City of Paducah entered into an interest free agreement with the Sandy Valley Transportation Services, Inc. The balance outstanding as of June 30, 2006 was \$10,114.

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>
2007	\$ 215,219	\$ 10,893	\$ 226,112
2008	32,873	9,531	42,404
2009	33,877	8,109	41,986
2010	34,912	6,549	41,461
2011	35,979	5,142	41,121
2012-2016	<u>101,407</u>	<u>6,014</u>	<u>107,421</u>
TOTALS	<u>\$ 454,267</u>	<u>\$ 46,238</u>	<u>\$ 500,505</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, 2006

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, 2006, the construction commitments were as follows:

	<u>Cumulative Costs Incurred</u>	<u>Estimated Costs</u>
Stormwater Phase II	\$ 30,458	\$ 66,500
Pecan Drive/Buckner Land Roadway Improvement Project		
Funding provided by Kentucky Department of Transportation	2,114,894	4,028,927
Street Resurfacing Program	<u>211,088</u>	<u>860,795</u>
	<u>\$2,356,440</u>	<u>\$4,956,222</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	-
2005 - 2006	-	23,829	23,829	-

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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 \$454,000 at June 30, 2006.

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
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
2005 - 2006	413,000	2,853,645	2,812,645	454,000

During the fiscal year ending June 30, 2006, several current and former firefighters of the City of Paducah filed a lawsuit for unpaid compensation benefits and related pension obligations. The range of possible financial exposure for the City is zero to six million dollars. The City intends to vigorously defend the case.

In addition, 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.

(Continued)

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 9 - Lease Agreements:

The City also leases certain other property to various lessees under non-cancelable agreements that have various expiration dates through June 30, 2011. Rental revenue received from leased property during 2006 totaled \$391,292.

The following is an analysis of property leased under these leases at June 30, 2006:

Land	\$ 606,350
Buildings	3,422,262
Equipment	<u>110,126</u>
Total	4,138,738
Less: accumulated depreciation	<u>811,127</u>
NET BOOK VALUE	<u>\$ 3,327,611</u>

Depreciation expense for the year ended June 30, 2006, on leased property was \$71,755.

The following is a schedule of future minimum rental income from operating leases at June 30, 2006:

	<u>Lease Income</u>
2007	\$ 434,185
2008	776,106
2009	843,739
2010	843,739
2011	<u>336,151</u>
TOTAL MINIMUM LEASE RECEIPTS	<u>\$ 3,233,920</u>

Note 10 – Reclassification of Beginning Fund Balance:

Business-type Activities

During the previous year, the City had not recorded receivables for refuse collections earned as of June 30th. Accordingly, a reclassification was made to the beginning fund balance as follows:

	<u>Solid Waste Fund</u>
June 30, 2005, balance as previously reported	\$ 934,941
Fund balance adjustment	<u>73,573</u>
July 1, 2005, balance as restated	<u>\$ 1,008,514</u>

CITY OF PADUCAH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Note 11 – Subsequent Event

Subsequent to the fiscal year ended June 30, 2006, the City was awarded \$5.3 million in federal grant funds for renovations and redevelopment of the downtown riverfront. Costs of the first phase of renovations and redevelopment are estimated to be approximately \$13 million.

CITY OF PADUCAH, KENTUCKY

REQUIRED SUPPLEMENTARY INFORMATION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

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)

7/1/2001	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
7/1/2006	14,163,498	14,527,020	363,522	97.5	165,414	219.76

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

PFPF			
<u>Year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percent ARC Contributed</u>	<u>Ending Net Pension Obligation (NPO)</u>
2001	865,026	100	-
2002	806,632	100	-
2003	645,773	100	-
2004	811,401	100	-
2005	953,044	100	-
2006	719,348	854	(5,425,468)

AEPF			
<u>Year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percent ARC Contributed</u>	<u>Ending Net Pension Obligation (NPO)</u>
2001	62,029	121	(182,940)
2002	59,297	126	(186,170)
2003	50,112	150	(198,365)
2004	48,339	156	(212,055)
2005	26,328	285	(246,269)
2006	17,182	437	(287,297)

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ 8,303,702	\$ 8,303,702	\$ 8,303,702	\$ -
Resources (Inflows):				
Taxes:				
Real and personal, current year	4,439,500	4,476,800	4,476,860	60
Real and personal, prior year	111,000	155,000	155,545	545
Franchise	239,000	277,000	277,580	580
Bank taxes	165,000	178,870	178,870	-
In lieu of tax payment	150,000	161,860	161,876	16
Penalty, interest and advertising	44,000	44,000	44,792	792
Paducah Junior College tax collections	-	282,190	282,192	2
Total taxes	5,148,500	5,575,720	5,577,715	1,995
Licenses:				
Business licenses	3,675,000	4,065,000	4,065,570	570
Employee earnings	11,374,000	12,118,000	12,118,219	219
Comcast fees	280,000	294,000	294,432	432
Penalties	66,000	59,800	59,827	27
Alcoholic beverages	115,000	125,575	125,625	50
Insurance premium tax	3,934,600	3,863,600	3,863,953	353
Building permits	106,000	137,500	137,934	434
Electrical permits	30,500	28,500	28,518	18
Zoning change fees	4,500	4,500	4,911	411
Miscellaneous building and electrical fees	500	500	531	31
KJDA payroll rebate	(77,000)	(97,000)	(96,571)	429
Total licenses	19,509,100	20,599,975	20,602,949	2,974
Charges for services:				
Tax collection fee	125,000	117,045	117,071	26
Administrative charge	252,000	252,000	252,000	-
Base court revenue	50,000	58,100	58,138	38
Recreation fees	131,500	103,500	103,932	432
Total charges for services	558,500	530,645	531,141	496

(Continued)

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Grants:				
Police State Incentive	\$ 300,000	\$ 272,900	\$ 272,939	\$ 39
Fire State Incentive	276,000	295,000	295,337	337
Paducah Housing Authority after school program	26,000	53,000	53,111	111
Police supplemental grants	30,000	5,600	5,633	33
Total grants	<u>632,000</u>	<u>626,500</u>	<u>627,020</u>	<u>520</u>
Interest	<u>115,000</u>	<u>358,610</u>	<u>358,950</u>	<u>340</u>
Other:				
Property rent and sales	579,630	589,130	589,285	155
Property upkeep and maintenance	106,300	145,350	145,605	255
Contractual programs	4,000	8,000	8,416	416
E911 - GIS	20,000	21,000	21,222	222
Miscellaneous	318,795	236,145	236,596	451
Total other	<u>1,028,725</u>	<u>999,625</u>	<u>1,001,124</u>	<u>1,499</u>
Other financing sources:				
Long-term debt issued	-	6,100,000	6,100,000	-
Operating transfers in	-	9,132	9,132	-
Total other financing sources	<u>-</u>	<u>6,109,132</u>	<u>6,109,132</u>	<u>-</u>
Amounts available for appropriation	<u>35,295,527</u>	<u>43,103,909</u>	<u>43,111,733</u>	<u>7,824</u>
Charges to Appropriations (Outflows):				
General government:				
General administration:				
Mayor and Commissioners	181,560	309,465	309,401	64
City Manager	300,310	315,020	314,734	286
City Clerk	158,720	160,065	160,026	39
Corporate Counsel	187,335	164,465	164,411	54
Non-departmental	375,000	426,900	426,832	68
Memberships and contingency	250,075	46,925	46,031	894
Civic beautification	2,450	2,650	2,622	28
Total general administration	<u>1,455,450</u>	<u>1,425,490</u>	<u>1,424,057</u>	<u>1,433</u>
Finance:				
Finance administration	162,205	171,880	171,858	22
Accounting and payroll	332,895	313,115	313,036	79
Revenue collection	342,640	314,715	314,653	62
Total finance	<u>837,740</u>	<u>799,710</u>	<u>799,547</u>	<u>163</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
General government:				
Planning:				
Administration	\$ 238,555	\$ 246,205	\$ 246,194	\$ 11
Planning	229,735	190,750	190,428	322
Grants	113,700	95,330	94,764	566
Economic development	12,500	12,500	12,500	-
Total planning	<u>594,490</u>	<u>544,785</u>	<u>543,886</u>	<u>899</u>
Human rights	<u>85,390</u>	<u>85,225</u>	<u>84,356</u>	<u>869</u>
Human resources	<u>309,440</u>	<u>270,470</u>	<u>270,000</u>	<u>470</u>
Inspection:				
Inspection administration	160,840	161,770	161,676	94
Construction	306,270	291,800	291,677	123
Code enforcement	337,090	345,675	345,671	4
Neighborhood redevelopment	-	34,165	33,417	748
Total inspection	<u>804,200</u>	<u>833,410</u>	<u>832,441</u>	<u>969</u>
Information systems	<u>265,480</u>	<u>222,465</u>	<u>222,255</u>	<u>210</u>
Risk management	<u>105,660</u>	<u>109,985</u>	<u>109,889</u>	<u>96</u>
Public safety:				
Police:				
Police administration	1,109,855	1,070,875	1,070,527	348
Patrol	5,140,695	5,017,900	5,017,583	317
Investigations	1,330,735	1,211,445	1,211,204	241
Total police	<u>7,581,285</u>	<u>7,300,220</u>	<u>7,299,314</u>	<u>906</u>
Fire:				
Fire administration	193,050	183,610	183,406	204
Suppression	5,415,590	5,368,545	5,368,358	187
Prevention	188,545	172,455	172,367	88
Training	111,345	108,980	108,875	105
Total fire	<u>5,908,530</u>	<u>5,833,590</u>	<u>5,833,006</u>	<u>584</u>
Public service:				
Public works:				
Public Works Administration	214,365	219,165	219,100	65
Street maintenance	2,204,910	1,981,620	1,981,391	229
Street lighting	415,000	448,500	448,389	111

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Public service:				
Public works:				
Facility maintenance	\$ 194,745	\$ 237,540	\$ 237,457	\$ 83
Custodial service	336,065	267,410	266,937	473
Downtown maintenance	278,230	282,560	282,489	71
Landscape maintenance	1,445,000	1,505,865	1,505,818	47
Summer youth program	80,780	70,780	70,354	426
Total public works	<u>5,169,095</u>	<u>5,013,440</u>	<u>5,011,935</u>	<u>1,505</u>
Engineering services:				
Engineering services	669,670	551,725	551,307	418
Flood control	439,210	388,225	387,732	493
Total engineering services	<u>1,108,880</u>	<u>939,950</u>	<u>939,039</u>	<u>911</u>
Recreation:				
Recreation administration	585,690	572,520	572,315	205
Pools and recreation	519,860	472,005	471,984	21
Total recreation	<u>1,105,550</u>	<u>1,044,525</u>	<u>1,044,299</u>	<u>226</u>
Other:				
Cable authority	92,810	63,790	63,467	323
Grant match expense	-	-	-	-
Leave expense	-	67,600	67,531	69
Intergovernmental expense	-	282,195	282,192	3
Miscellaneous property expense	88,385	68,885	68,500	385
Total other	<u>181,195</u>	<u>482,470</u>	<u>481,690</u>	<u>780</u>
Other financing uses:				
Operating transfers out	2,762,435	9,058,709	9,058,709	-
Total charges to appropriations	<u>28,274,820</u>	<u>33,964,444</u>	<u>33,954,423</u>	<u>10,021</u>
BUDGETARY FUND BALANCE, JUNE 30, 2006	<u><u>\$ 7,020,707</u></u>	<u><u>\$ 9,139,465</u></u>	<u><u>\$ 9,157,310</u></u>	<u><u>\$ 17,845</u></u>

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

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

Sources/inflows of resources:

Actual amounts "available for appropriation" from the budgetary comparison schedule	\$43,111,733
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Differences - budget to GAAP:

The beginning fund balance is a budgetary resource, but is not a current year revenue for financial reporting purposes	(8,303,702)
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Proceeds from issuance of long-term debt are inflows of budgetary resources, but are not revenues for financial reporting purposes	(6,100,000)
--	-------------

Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes	<u>(9,132)</u>
--	----------------

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u><u>\$ 28,698,899</u></u>
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Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$33,954,423
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Differences - budget to GAAP:

Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	<u>(9,058,709)</u>
---	--------------------

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u><u>\$ 24,895,714</u></u>
--	-----------------------------

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
SPECIAL REVENUE INVESTMENT FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ -	\$ -	\$ -	\$ -
Resources (Inflows):				
Licenses:				
Employee earnings	1,896,000	2,829,600	2,829,616	16
Total licenses	1,896,000	2,829,600	2,829,616	16
Other:				
Miscellaneous	-	3,000	3,015	15
Total other	-	3,000	3,015	15
Other financing sources:				
Long-term debt issued	-	-	-	-
Operating transfers in	1,302,230	1,632,230	1,632,230	-
Total other financing sources	1,302,230	1,632,230	1,632,230	-
Amounts available for appropriation	3,198,230	4,464,830	4,464,861	31
Charges to Appropriations (Outflows):				
General government:				
Planning and development:				
Economic development	867,000	473,000	472,962	38
Total planning and development	867,000	473,000	472,962	38
Other financing uses:				
Operating transfers out	2,331,230	3,272,100	3,272,098	2
Total charges to appropriations	3,198,230	3,745,100	3,745,060	40
BUDGETARY FUND BALANCE, JUNE 30, 2006	\$ -	\$ 719,730	\$ 719,801	\$ 71

CITY OF PADUCAH, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
SPECIAL REVENUE INVESTMENT FUND
FOR THE YEAR ENDED JUNE 30, 2006

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

Sources/inflows of resources:

Actual amounts "available for appropriation" from the budgetary comparison schedule	\$ 4,464,861
---	--------------

Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes	<u>(1,632,230)</u>
--	--------------------

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>\$ 2,832,631</u>
--	---------------------

Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 3,745,060
---	--------------

Differences - budget to GAAP:

Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	<u>(3,272,098)</u>
---	--------------------

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>\$ 472,962</u>
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CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

**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.

Downtown Capital Improvements

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

CITY OF PADUCAH, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

<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>	<u>HOPE 3 Grant Fund</u>
Cash and cash equivalents	\$192,686	\$ 301,848	\$227,140	\$ 53,348	\$ -	\$127,397
Investments	237,451	-	-	-	-	-
Receivables, net:						
Accounts	-	92,111	-	-	-	-
Grants	-	-	-	120,887	-	-
Interest	5,264	-	-	-	-	-
Prepaid items	-	33,646	-	-	-	-
Due from other funds	-	-	-	-	-	-
TOTAL ASSETS	<u><u>\$435,401</u></u>	<u><u>\$ 427,605</u></u>	<u><u>\$227,140</u></u>	<u><u>\$174,235</u></u>	<u><u>\$ -</u></u>	<u><u>\$127,397</u></u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Voucher and accounts payable	\$147,875	\$ 11,182	\$150,566	\$ 98	\$ -	\$ -
Accrued payroll and payroll taxes	-	22,506	-	-	-	-
Deferred revenues	-	-	-	161,475	-	-
Due to other funds	-	-	-	9,059	-	-
Total liabilities	<u>147,875</u>	<u>33,688</u>	<u>150,566</u>	<u>170,632</u>	<u>-</u>	<u>-</u>
Fund Balances:						
Reserved for:						
Program purposes	-	-	-	3,603	-	127,397
Unreserved	<u>287,526</u>	<u>393,917</u>	<u>76,574</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>287,526</u>	<u>393,917</u>	<u>76,574</u>	<u>3,603</u>	<u>-</u>	<u>127,397</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$435,401</u></u>	<u><u>\$ 427,605</u></u>	<u><u>\$227,140</u></u>	<u><u>\$174,235</u></u>	<u><u>\$ -</u></u>	<u><u>\$127,397</u></u>

See auditors report on pages 12-13.

	Special Revenue Funds			Debt Service	Capital Project	Total Nonmajor Governmental Funds
Home Grant Fund	HUD Revolving Grant Fund	PHA Police Grant Fund	Section Eight Housing	Debt Service Fund	Downtown Capital Improvements	
\$ -	\$ 238,958	\$ -	\$551,712	\$ 32,364	\$ -	\$1,725,453
-	-	-	-	-	-	237,451
-	-	-	-	-	1,594	93,705
-	-	3,520	-	-	-	124,407
-	-	-	-	-	-	5,264
-	-	-	-	-	-	33,646
-	-	-	-	-	69	69
<u>\$ -</u>	<u>\$ 238,958</u>	<u>\$3,520</u>	<u>\$551,712</u>	<u>\$ 32,364</u>	<u>\$ 1,663</u>	<u>\$2,219,995</u>
\$ -	\$ 5,580	\$ -	\$ 52,176	\$ -	\$ 137	\$ 367,614
-	-	-	15,383	-	-	37,889
-	-	-	-	-	-	161,475
-	10,666	3,520	54,269	-	1,526	79,040
-	16,246	3,520	121,828	-	1,663	646,018
-	222,712	-	429,884	-	-	783,596
-	-	-	-	32,364	-	790,381
-	222,712	-	429,884	32,364	-	1,573,977
<u>\$ -</u>	<u>\$ 238,958</u>	<u>\$3,520</u>	<u>\$551,712</u>	<u>\$ 32,364</u>	<u>\$ 1,663</u>	<u>\$2,219,995</u>

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					
	Municipal Aid Program	Emergency Communication Service Fund	Court Awards Fund	Small Grant Fund	CDBG Grant Fund	HOPE 3 Grant Fund
Revenues:						
Taxes	\$ -	\$ 626,971	\$ -	\$ -	\$ -	\$ -
Charges for services	-	122,918	-	-	-	-
Intergovernmental	604,882	-	-	-	-	-
Grants	-	-	-	109,853	12,500	-
Interest	17,582	9,878	7,581	-	-	-
Miscellaneous	3,486	216,991	50,710	39,561	-	-
	<u>625,950</u>	<u>976,758</u>	<u>58,291</u>	<u>149,414</u>	<u>12,500</u>	<u>-</u>
Total revenues						
Expenditures:						
Current operations:						
Public safety	-	1,166,580	33,335	-	-	-
Public service	1,467,682	-	-	-	-	-
Planning and development	-	-	-	175,049	12,500	3,364
Capital Outlay	-	-	-	-	-	-
Debt Service:						
Principal requirement	-	-	-	-	-	-
Interest and fiscal requirement	-	-	-	-	-	-
	<u>1,467,682</u>	<u>1,166,580</u>	<u>33,335</u>	<u>175,049</u>	<u>12,500</u>	<u>3,364</u>
Total expenditures						
Excess (deficiency) of revenues over expenditures	<u>(841,732)</u>	<u>(189,822)</u>	<u>24,956</u>	<u>(25,635)</u>	<u>-</u>	<u>(3,364)</u>
Other Financing Sources (Uses):						
Transfers in	450,000	276,741	-	24,439	-	-
Transfers out	-	-	-	(9,132)	-	-
	<u>450,000</u>	<u>276,741</u>	<u>-</u>	<u>15,307</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)						
Net change in fund balances	(391,732)	86,919	24,956	(10,328)	-	(3,364)
Fund balances, July 1, 2005	<u>679,258</u>	<u>306,998</u>	<u>51,618</u>	<u>13,931</u>	<u>-</u>	<u>130,761</u>
FUND BALANCES, JUNE 30, 2006	<u><u>\$ 287,526</u></u>	<u><u>\$ 393,917</u></u>	<u><u>\$76,574</u></u>	<u><u>\$ 3,603</u></u>	<u><u>\$ -</u></u>	<u><u>\$127,397</u></u>

See auditors report on pages 12-13.

Home Grant Fund	Special Revenue Funds			Debt Service	Capital Project	Total Nonmajor Governmental Funds
	HUD Revolving Grant Fund	PHA Police Grant Fund	Section Eight Housing	Debt Service Fund	Downtown Capital Improvements	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 626,971
-	-	-	-	-	-	122,918
-	-	-	-	801,817	-	1,406,699
14,921	-	34,611	2,004,993	-	21,768	2,198,646
-	8,562	-	384	-	6	43,993
-	14,377	-	-	-	-	325,125
<u>14,921</u>	<u>22,939</u>	<u>34,611</u>	<u>2,005,377</u>	<u>801,817</u>	<u>21,774</u>	<u>4,724,352</u>
-	-	34,611	-	-	-	1,234,526
-	-	-	-	-	-	1,467,682
27,567	130,801	-	1,722,984	-	-	2,072,265
-	-	-	-	-	12,809	12,809
-	-	-	-	594,047	-	594,047
-	-	-	-	949,537	-	949,537
<u>27,567</u>	<u>130,801</u>	<u>34,611</u>	<u>1,722,984</u>	<u>1,543,584</u>	<u>12,809</u>	<u>6,330,866</u>
<u>(12,646)</u>	<u>(107,862)</u>	<u>-</u>	<u>282,393</u>	<u>(741,767)</u>	<u>8,965</u>	<u>(1,606,514)</u>
10,666	135,000	-	-	764,326	6,404	1,667,576
-	(10,666)	-	-	-	(1,980)	(21,778)
<u>10,666</u>	<u>124,334</u>	<u>-</u>	<u>-</u>	<u>764,326</u>	<u>4,424</u>	<u>1,645,798</u>
(1,980)	16,472	-	282,393	22,559	13,389	39,284
<u>1,980</u>	<u>206,240</u>	<u>-</u>	<u>147,491</u>	<u>9,805</u>	<u>(13,389)</u>	<u>1,534,693</u>
<u>\$ -</u>	<u>\$ 222,712</u>	<u>\$ -</u>	<u>\$ 429,884</u>	<u>\$ 32,364</u>	<u>\$ -</u>	<u>\$ 1,573,977</u>

CITY OF PADUCAH, KENTUCKY
MUNICIPAL AID PROGRAM FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental	\$ 604,885	\$ 604,882	\$ (3)
Interest	17,500	17,582	82
Other	3,490	3,486	(4)
	<u>625,875</u>	<u>625,950</u>	<u>75</u>
Expenditures:			
Public service	<u>1,467,685</u>	<u>1,467,682</u>	<u>3</u>
Excess (deficiency) of revenues over expenditures	(841,810)	(841,732)	78
Other Financing Sources (Uses):			
Operating transfers in	<u>450,000</u>	<u>450,000</u>	<u>-</u>
Net change in fund balance	<u>\$ (391,810)</u>	<u>(391,732)</u>	<u>\$ 78</u>
Fund balance, July 1, 2005		<u>679,258</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ 287,526</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
EMERGENCY COMMUNICATION SERVICE FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Local contributions	\$ 626,900	\$ 626,971	\$ 71
Telephone surcharges	122,900	122,918	18
Interest	9,800	9,878	78
Miscellaneous	<u>216,990</u>	<u>216,991</u>	<u>1</u>
Total revenues	<u>976,590</u>	<u>976,758</u>	<u>168</u>
Expenditures:			
Public safety	<u>1,166,765</u>	<u>1,166,580</u>	<u>185</u>
Excess (deficiency) of revenues over expenditures	(190,175)	(189,822)	353
Other Financing Sources (Uses):			
Operating transfers in	<u>276,741</u>	<u>276,741</u>	<u>-</u>
Net change in fund balance	<u>\$ 86,566</u>	86,919	<u>\$ 353</u>
Fund balance, July 1, 2005		<u>306,998</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ 393,917</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
COURT AWARDS FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Court awarded forfeitures	\$ 50,710	\$ 50,710	\$ -
Interest	7,580	7,581	1
	<u>58,290</u>	<u>58,291</u>	<u>1</u>
Expenditures:			
Public safety	<u>33,350</u>	<u>33,335</u>	<u>15</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 24,940</u>	24,956	<u>\$ 16</u>
Fund balance, July 1, 2005		<u>51,618</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ 76,574</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
SMALL GRANT FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Grants	\$ 109,750	\$ 109,853	\$ 103
Other	39,655	39,561	(94)
	<u>149,405</u>	<u>149,414</u>	<u>9</u>
Expenditures:			
Planning and development	175,052	175,049	3
Excess (deficiency) of revenues over expenditures	<u>(25,647)</u>	<u>(25,635)</u>	<u>12</u>
Other Financing Sources (Uses):			
Operating transfers in	24,439	24,439	-
Operating transfers out	<u>(9,132)</u>	<u>(9,132)</u>	<u>-</u>
Total other financing sources (uses)	<u>15,307</u>	<u>15,307</u>	<u>-</u>
Net change in fund balance	<u>\$ (10,340)</u>	<u>(10,328)</u>	<u>\$ 12</u>
Fund balance, July 1, 2005		<u>13,931</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ 3,603</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
CDBG FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Grants	<u>\$12,500</u>	<u>\$12,500</u>	<u>\$ -</u>
Expenditures:			
Planning and development	<u>12,500</u>	<u>12,500</u>	<u>-</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>	<u><u>\$ -</u></u>
Fund balance, July 1, 2005		<u>-</u>	
FUND BALANCE, JUNE 30, 2006		<u><u>\$ -</u></u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
HOPE 3 IMPLEMENTATION GRANT FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<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>3,365</u>	<u>3,364</u>	<u>1</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (3,365)</u>	<u>(3,364)</u>	<u>\$ 1</u>
Fund balance, July 1, 2005		<u>130,761</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$127,397</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
HOME GRANT FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Grants	\$ 14,920	\$ 14,921	\$ 1
Total revenues	<u>14,920</u>	<u>14,921</u>	<u>1</u>
Expenditures:			
Planning and development	<u>27,570</u>	<u>27,567</u>	<u>3</u>
Excess (deficiency) of revenues over expenditures	<u>(12,650)</u>	<u>(12,646)</u>	<u>4</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>10,666</u>	<u>10,666</u>	<u>-</u>
Total other financing sources (uses)	<u>10,666</u>	<u>10,666</u>	<u>-</u>
Net change in fund balance	<u>\$ (1,984)</u>	(1,980)	<u>\$ 4</u>
Fund balance, July 1, 2005		<u>1,980</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ -</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
HUD REVOLVING GRANT FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Interest	\$ 8,560	\$ 8,562	\$ 2
Other	14,380	14,377	(3)
Total revenues	<u>22,940</u>	<u>22,939</u>	<u>(1)</u>
Expenditures:			
Planning and development	<u>130,805</u>	<u>130,801</u>	<u>4</u>
Excess (deficiency) of revenues over expenditures	<u>(107,865)</u>	<u>(107,862)</u>	<u>3</u>
Other Financing Sources (Uses):			
Operating transfers in	135,000	135,000	-
Operating transfers out	<u>(10,666)</u>	<u>(10,666)</u>	<u>-</u>
Total other financing sources (uses)	<u>124,334</u>	<u>124,334</u>	<u>-</u>
Net change in fund balance	<u>\$ 16,469</u>	16,472	<u>\$ 3</u>
Fund balance, July 1, 2005		<u>206,240</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$222,712</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
PADUCAH HOUSING AUTHORITY POLICE GRANT FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Grants	<u>\$34,611</u>	<u>\$34,611</u>	<u>\$ -</u>
Expenditures:			
Public safety	<u>34,611</u>	<u>34,611</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, July 1, 2005		<u>-</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ -</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
DEBT SERVICE FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	<u>\$ 801,810</u>	<u>\$ 801,817</u>	<u>\$ 7</u>
Expenditures:			
Debt service:			
Principal requirement	594,047	594,047	-
Interest and fiscal requirement	<u>949,540</u>	<u>949,537</u>	<u>3</u>
Total expenditures	<u>1,543,587</u>	<u>1,543,584</u>	<u>3</u>
Excess (deficiency) of revenues over expenditures	(741,777)	(741,767)	10
Other Financing Sources (Uses):			
Operating transfers in	<u>764,325</u>	<u>764,326</u>	<u>1</u>
Net change in fund balance	<u>\$ 22,548</u>	22,559	<u>\$ 11</u>
Fund balance, July 1, 2005		<u>9,805</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ 32,364</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
DOWNTOWN CAPITAL IMPROVEMENT FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Grants	\$ 21,765	\$ 21,768	\$ 3
Interest	-	6	6
	<hr/>	<hr/>	<hr/>
Total revenues	21,765	21,774	9
	<hr/>	<hr/>	<hr/>
Expenditures:			
Capital outlay	12,810	12,809	1
	<hr/>	<hr/>	<hr/>
Total expenditures	12,810	12,809	1
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	8,955	8,965	10
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses):			
Operating transfers in	6,404	6,404	-
Operating transfers out	(1,980)	(1,980)	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	4,424	4,424	-
	<hr/>	<hr/>	<hr/>
Net change in fund balance	<u>\$ 13,379</u>	13,389	<u>\$ 10</u>
Fund balance, July 1, 2005		<u>(13,389)</u>	
FUND BALANCE, JUNE 30, 2006		<u>\$ -</u>	

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

NONMAJOR PROPRIETARY FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

**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 NET ASSETS
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2006

<u>ASSETS</u>	Civic Center Fund	TISA Fund	Total Nonmajor Enterprise Funds
Current Assets:			
Cash and cash equivalents	\$ -	\$125,281	\$125,281
Receivables, net	-	4,391	4,391
Prepaid expense	-	13,432	13,432
	<hr/>	<hr/>	<hr/>
Total current assets	-	143,104	143,104
	<hr/>	<hr/>	<hr/>
Noncurrent Assets:			
Net depreciable capital assets	235,564	73,171	308,735
	<hr/>	<hr/>	<hr/>
Total assets	235,564	216,275	451,839
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES</u>			
Current Liabilities:			
Voucher and accounts payable	3,407	6,394	9,801
Due to other funds	205	-	205
	<hr/>	<hr/>	<hr/>
Total liabilities	3,612	6,394	10,006
	<hr/>	<hr/>	<hr/>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	235,564	73,171	308,735
Unrestricted	(3,612)	136,710	133,098
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	\$231,952	\$209,881	\$441,833
	<hr/>	<hr/>	<hr/>

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Civic Center Fund	TISA Fund	Total Nonmajor Enterprise Funds
Operating Revenues:			
Charges for services	<u>\$ 26,378</u>	<u>\$106,697</u>	<u>\$133,075</u>
Operating Expenses:			
Cost of sales and service	34,634	183,565	218,199
Depreciation and amortization	<u>11,260</u>	<u>86,216</u>	<u>97,476</u>
Total operating expenses	<u>45,894</u>	<u>269,781</u>	<u>315,675</u>
Operating income (loss)	<u>(19,516)</u>	<u>(163,084)</u>	<u>(182,600)</u>
Non-Operating Revenues (Expenses):			
Interest and investment income	<u>199</u>	<u>-</u>	<u>199</u>
Income (loss) before contributions and transfers	<u>(19,317)</u>	<u>(163,084)</u>	<u>(182,401)</u>
Contributions and Operating Transfers:			
Capital contributions	-	22,894	22,894
Transfers in	93,013	41,241	134,254
Transfers out	<u>(18,500)</u>	<u>-</u>	<u>(18,500)</u>
Total contributions and operating transfers	<u>74,513</u>	<u>64,135</u>	<u>138,648</u>
Change in net assets	55,196	(98,949)	(43,753)
Net assets, July 1, 2005	<u>176,756</u>	<u>308,830</u>	<u>485,586</u>
NET ASSETS, JUNE 30, 2006	<u><u>\$231,952</u></u>	<u><u>\$209,881</u></u>	<u><u>\$441,833</u></u>

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Civic Center Fund	TISA Fund	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities:			
Cash received from customers	\$ 26,378	\$ 115,854	\$ 142,232
Payments to internal service funds	(2,271)	(2,002)	(4,273)
Other receipts (payments)	(30,134)	(159,195)	(189,329)
Net cash provided (used) by operating activities	<u>(6,027)</u>	<u>(45,343)</u>	<u>(51,370)</u>
Cash Flows from Noncapital Financing Activities:			
Transfers (to) from other funds	<u>74,513</u>	<u>41,241</u>	<u>115,754</u>
Cash Flows from Capital and Related Financing Activities:			
Capital contributions	-	22,894	22,894
Acquisition and construction of capital assets	<u>(92,427)</u>	<u>(7,700)</u>	<u>(100,127)</u>
Net cash used by capital and related financing activities	<u>(92,427)</u>	<u>15,194</u>	<u>(77,233)</u>
Cash Flows from Investing Activities:			
Interest on cash and investments	<u>199</u>	<u>-</u>	<u>199</u>
Net increase (decrease) in cash and cash equivalents	(23,742)	11,092	(12,650)
Cash and cash equivalents, July 1, 2005	<u>23,742</u>	<u>114,189</u>	<u>137,931</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2006	<u>\$ -</u>	<u>\$ 125,281</u>	<u>\$ 125,281</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (19,516)	\$ (163,084)	\$ (182,600)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	11,260	86,216	97,476
Change in assets and liabilities:			
Receivables	-	9,157	9,157
Prepaid expense	-	17,710	17,710
Accounts payable and accrued expenses	<u>2,229</u>	<u>4,658</u>	<u>6,887</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (6,027)</u>	<u>\$ (45,343)</u>	<u>\$ (51,370)</u>

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

INTERNAL SERVICE FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

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, 2006

<u>ASSETS</u>	Fleet Maintenance	Fleet Lease Trust	Insurance Fund	Health Insurance Fund	Combined Total
Current Assets:					
Cash and cash equivalents	\$ 300	\$1,153,937	\$ -	\$481,474	\$1,635,711
Investments	-	1,474,806	-	-	1,474,806
Receivables, net	-	29,318	-	217,271	246,589
Prepaid expense	-	-	1,183,184	-	1,183,184
Inventories	65,932	-	-	-	65,932
Total current assets	66,232	2,658,061	1,183,184	698,745	4,606,222
Noncurrent Assets:					
Net depreciable capital assets	27,873	1,607,741	-	-	1,635,614
Total assets	94,105	4,265,802	1,183,184	698,745	6,241,836
<u>LIABILITIES</u>					
Current Liabilities:					
Voucher and accounts payable	22,621	-	11,927	459,916	494,464
Accrued payroll and payroll taxes	8,910	-	-	-	8,910
Accrued compensated absences	25,936	-	-	-	25,936
Deferred revenue	-	-	-	32,994	32,994
Due to other funds	2,026	-	1,139,766	-	1,141,792
Total current liabilities	59,493	-	1,151,693	492,910	1,704,096
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	27,873	1,607,741	-	-	1,635,614
Unrestricted	6,739	2,658,061	31,491	205,835	2,902,126
TOTAL NET ASSETS	\$ 34,612	\$4,265,802	\$ 31,491	\$205,835	\$4,537,740

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<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	\$361,383	\$ 676,884	\$1,228,049	\$3,057,182	\$5,323,498
Charges for services - external	-	-	-	428,879	428,879
Total operating revenues	<u>361,383</u>	<u>676,884</u>	<u>1,228,049</u>	<u>3,486,061</u>	<u>5,752,377</u>
Operating Expenses:					
Vehicle maintenance	529,320	-	-	-	529,320
Administrative	-	5,809	-	61,676	67,485
Insurance	-	-	1,230,076	3,480,182	4,710,258
Leave expense	(39,606)	-	-	-	(39,606)
Depreciation	8,437	454,199	-	-	462,636
Total operating expenses	<u>498,151</u>	<u>460,008</u>	<u>1,230,076</u>	<u>3,541,858</u>	<u>5,730,093</u>
Operating income (loss)	<u>(136,768)</u>	<u>216,876</u>	<u>(2,027)</u>	<u>(55,797)</u>	<u>22,284</u>
Nonoperating Revenues and (Expenses):					
Interest and investment income	-	57,332	-	-	57,332
Gain (loss) on disposal of property and equipment	-	8,340	-	-	8,340
Total nonoperating revenues (expenses)	<u>-</u>	<u>65,672</u>	<u>-</u>	<u>-</u>	<u>65,672</u>
Income (loss) before transfers	<u>(136,768)</u>	<u>282,548</u>	<u>(2,027)</u>	<u>(55,797)</u>	<u>87,956</u>
Contributions and Transfers:					
Transfers in	182,700	244,000	-	-	426,700
Change in net assets	45,932	526,548	(2,027)	(55,797)	514,656
Net assets, July 1, 2005	<u>(11,320)</u>	<u>3,739,254</u>	<u>33,518</u>	<u>261,632</u>	<u>4,023,084</u>
NET ASSETS, JUNE 30, 2006	<u>\$ 34,612</u>	<u>\$4,265,802</u>	<u>\$ 31,491</u>	<u>\$ 205,835</u>	<u>\$4,537,740</u>

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Fleet Maintenance	Fleet Lease Trust	Insurance Fund	Health Insurance Fund	Combined Total
Cash Flows from Operating Activities:					
Receipts from other funds for services	\$ 361,383	\$ 676,884	\$ 1,228,049	\$ 3,485,942	\$ 5,752,258
Payments to suppliers	(228,836)	-	-	-	(228,836)
Payments to employees	(305,438)	-	-	-	(305,438)
Claims paid	-	-	-	(3,431,289)	(3,431,289)
Other receipts (payments)	-	(37,600)	(1,228,049)	(61,676)	(1,327,325)
Net cash provided (used) by operating activities	(172,891)	639,284	-	(7,023)	459,370
Cash Flows from Noncapital Financing Activities:					
Transfers from other funds	182,700	244,000	-	-	426,700
Cash Flows from Capital and Related Financing Activities:					
Proceeds from sale of capital assets	-	8,340	-	-	8,340
Purchase of capital assets	(9,509)	(399,030)	-	-	(408,539)
Net cash used by capital and related financing	(9,509)	(390,690)	-	-	(400,199)
Cash Flows from Investing Activities:					
Proceeds from sales and maturities of investments	-	1,445,000	-	-	1,445,000
Interest and dividends	-	48,270	-	-	48,270
Purchase of investments	-	(1,474,806)	-	-	(1,474,806)
Net cash used by investing activities	-	18,464	-	-	18,464
Net increase (decrease) in cash and cash equivalents	300	511,058	-	(7,023)	504,335
Cash and cash equivalents, July 1, 2005	-	642,879	-	488,497	1,131,376
CASH AND CASH EQUIVALENTS, JUNE 30, 2006	\$ 300	\$ 1,153,937	\$ -	\$ 481,474	\$ 1,635,711
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$(136,768)	\$ 216,876	\$ (2,027)	\$ (55,797)	\$ 22,284
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	8,437	454,199	-	-	462,636
Change in assets and liabilities:					
Receivables	-	-	-	(8,679)	(8,679)
Prepaid expense	-	-	(29,202)	13,788	(15,414)
Inventories	2,746	-	-	-	2,746
Accounts payable and accrued expenses	(47,306)	(31,791)	31,229	43,665	(4,203)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$(172,891)	\$ 639,284	\$ -	\$ (7,023)	\$ 459,370

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY

SUPPLEMENTARY INFORMATION

FIDUCIARY FUNDS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

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, 2006

<u>ASSETS</u>	<u>Police and Firefighters' Retirement Fund</u>	<u>Appointive Employees' Pension Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 201,833	\$114,342	\$ 316,175
Receivables:			
Interest	78,330	3,570	81,900
Prepaid expenses	63,015	1,921	64,936
Investments at fair value	<u>13,821,026</u>	<u>225,000</u>	<u>14,046,026</u>
Total assets	<u>14,164,204</u>	<u>344,833</u>	<u>14,509,037</u>
<u>LIABILITIES</u>			
Voucher and accounts payable	<u>706</u>	<u>190</u>	<u>896</u>
<u>NET ASSETS</u>			
Held in trust for pension benefits and other purposes	<u>\$ 14,163,498</u>	<u>\$344,643</u>	<u>\$ 14,508,141</u>

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS - PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

Additions:	Police and Firefighters' Retirement Fund	Appointive Employees' Pension Fund	Totals
Contributions:			
Employer	\$ 6,144,816	\$ 75,000	\$ 6,219,816
Plan members	16,075	-	16,075
Total contributions	<u>6,160,891</u>	<u>75,000</u>	<u>6,235,891</u>
Investment earnings:			
Net increase in fair value of investments	366,645	-	366,645
Interest and dividends	361,292	12,696	373,988
Net investment earnings	<u>727,937</u>	<u>12,696</u>	<u>740,633</u>
Total additions	<u>6,888,828</u>	<u>87,696</u>	<u>6,976,524</u>
Deductions:			
Benefits	1,803,875	63,702	1,867,577
Administrative expenses	72,317	8,239	80,556
Total deductions	<u>1,876,192</u>	<u>71,941</u>	<u>1,948,133</u>
Change in net assets	5,012,636	15,755	5,028,391
Net assets, July 1, 2005	<u>9,150,862</u>	<u>328,888</u>	<u>9,479,750</u>
NET ASSETS, JUNE 30, 2006	<u><u>\$ 14,163,498</u></u>	<u><u>\$ 344,643</u></u>	<u><u>\$ 14,508,141</u></u>

See auditors report on pages 12-13.

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, 2006

<u>ASSETS</u>	<u>Oak Grove Cemetery Trust</u>	<u>Maintenance and Rehab Trust</u>	<u>Total</u>
Cash and cash equivalents	\$ -	\$ 5,738	\$ 5,738
Investments at fair value	85,760	-	85,760
Held in trust for other purposes	<u>\$85,760</u>	<u>\$ 5,738</u>	<u>\$91,498</u>

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS - PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Oak Grove Cemetery Trust	Maintenance and Rehab Trust	Totals
Additions:			
Contributions:			
Intergovernmental revenues	\$ 2,580	\$ 8,000	\$ 10,580
Total contributions	<u>2,580</u>	<u>8,000</u>	<u>10,580</u>
Investment earnings:			
Net increase in fair value of investments	2,514	-	2,514
Interest and dividends	<u>2,297</u>	<u>-</u>	<u>2,297</u>
Net investment earnings	<u>4,811</u>	<u>-</u>	<u>4,811</u>
Total additions	<u>7,391</u>	<u>8,000</u>	<u>15,391</u>
Deductions:			
Capital outlay	4,931	3,457	8,388
Administrative expenses	<u>224</u>	<u>3,539</u>	<u>3,763</u>
Total deductions	<u>5,155</u>	<u>6,996</u>	<u>12,151</u>
Change in net assets	2,236	1,004	3,240
Net assets, July 1, 2005	<u>83,524</u>	<u>4,734</u>	<u>88,258</u>
NET ASSETS, JUNE 30, 2006	<u><u>\$85,760</u></u>	<u><u>\$ 5,738</u></u>	<u><u>\$ 91,498</u></u>

See auditors report on pages 12-13.

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, 2006

Payroll Fund:	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
Assets:				
Cash and cash equivalents	<u>\$323,227</u>	<u>\$12,396,399</u>	<u>\$12,113,448</u>	<u>\$606,178</u>
Liabilities:				
Payroll taxes and withholdings payable	<u>\$323,227</u>	<u>\$12,396,399</u>	<u>\$12,113,448</u>	<u>\$606,178</u>

See auditors report on pages 12-13.

CITY OF PADUCAH, KENTUCKY

STATISTICAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

STATISTICAL SECTION

This part of the City of Paducah's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being changed over time.	115-119
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and employee taxes.	120-125
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	126-130
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.	131-133
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	134-135

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented the new reporting model in the fiscal year ending June 30, 2003. Schedules presenting government-wide information include information beginning in that year.

TABLE 1
CITY OF PADUCAH, KENTUCKY
NET ASSETS BY COMPONENT
Last Four Fiscal Years (1)
(accrual basis of accounting)

	Fiscal Year			
	2006	2005 (2)	2004	2003
Governmental activities:				
Invested in Capital Assets, Net of Related Debt	\$ 30,664,671	\$ 29,492,197	\$ 27,826,117	\$ 27,955,839
Restricted for:				
Program purposes	1,018,231	727,699	714,538	713,766
Capital projects	2,689,804	940,323	4,031,802	3,583,589
Unrestricted	7,718,198	7,419,037	(406,042)	1,571,120
Total governmental activities net assets	<u>42,090,904</u>	<u>38,579,256</u>	<u>32,166,415</u>	<u>33,824,314</u>
Business-type activities:				
Invested in Capital Assets, Net of Related Debt	1,277,720	1,463,118	1,463,668	1,425,753
Unrestricted	132,090	(27,648)	1,979,494	1,565,100
Total business-type activities net assets	<u>1,409,810</u>	<u>1,435,470</u>	<u>3,443,162</u>	<u>2,990,853</u>
Primary government:				
Invested in Capital Assets, Net of Related Debt	31,942,391	30,955,315	29,289,785	29,381,592
Restricted for:				
Program purposes	1,018,231	727,699	714,538	713,766
Capital projects	2,689,804	940,323	4,031,802	3,583,589
Unrestricted	7,850,288	7,391,389	1,573,452	3,136,220
Total primary government net assets	<u>\$ 43,500,714</u>	<u>\$ 40,014,726</u>	<u>\$ 35,609,577</u>	<u>\$ 36,815,167</u>

- (1) The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003. Therefore, ten years of data is not available but will be accumulated over time.
- (2) Significant change in governmental and business-type net assets due to reclassification for prior year omitted receivables, capital assets and post-closure landfill expenses.

TABLE 2
CITY OF PADUCAH, KENTUCKY
CHANGES IN NET ASSETS
Last Four Fiscal Years (1)
(accrual basis of accounting)

	Fiscal Year			
	2006	2005 (2)	2004	2003
Expenses				
<i>Governmental activities:</i>				
General government	\$ 9,057,295	\$ 8,431,994	\$ 7,969,027	\$ 7,396,882
Public safety	14,592,756	14,620,938	13,243,912	12,964,120
Public service	8,486,662	6,249,860	8,618,901	7,376,791
Parks and recreation	1,044,361	1,045,024	1,026,293	975,362
Planning and development	2,404,636	2,521,412	5,330,393	3,108,192
Interest on long-term debt	974,101	775,122	496,049	428,578
Total governmental activities expenses	<u>36,559,811</u>	<u>33,644,350</u>	<u>36,684,575</u>	<u>32,249,925</u>
<i>Business-type activities:</i>				
Solid Waste	3,893,013	3,683,954	3,419,464	3,359,731
Civic Center	45,894	39,008	33,181	46,509
TISA	269,781	170,264	184,166	123,719
Total business-type activities expenses	<u>4,208,688</u>	<u>3,893,226</u>	<u>3,636,811</u>	<u>3,529,959</u>
Total primary government expenses	<u>\$ 40,768,499</u>	<u>\$ 37,537,576</u>	<u>\$ 40,321,386</u>	<u>\$ 35,779,884</u>
Program Revenues				
<i>Governmental activities:</i>				
Charges for services:				
General government	\$ 1,618,903	\$ 1,485,005	\$ 1,601,414	\$ 1,445,383
Public safety	767,086	794,814	1,134,386	94,386
Public service	942,355	895,155	986,618	683,119
Parks and recreation	103,932	117,317	132,388	131,355
Planning and development	20,602	13,501	12,893	15,867
Operating grants and contributions	2,988,612	2,452,694	3,290,134	4,176,548
Capital grants and contributions	3,302,568	1,100,064	3,221,637	2,213,757
Total governmental activities program revenues	<u>9,744,058</u>	<u>6,858,550</u>	<u>10,379,470</u>	<u>8,760,415</u>
<i>Business-type activities:</i>				
Solid Waste	3,696,609	3,583,417	3,790,132	3,298,964
Civic Center	26,378	32,828	36,455	20,825
TISA	106,697	104,087	100,778	93,383
Operating grants and contributions	-	-	-	-
Capital grants and contributions	22,894	14,735	24,990	3,666
Total business-type activities program revenues	<u>3,852,578</u>	<u>3,735,067</u>	<u>3,952,355</u>	<u>3,416,838</u>
Total primary government program revenues	<u>\$ 13,596,636</u>	<u>\$ 10,593,617</u>	<u>\$ 14,331,825</u>	<u>\$ 12,177,253</u>
Net (Expense)/Revenue				
<i>Governmental activities</i>	\$ (26,815,753)	\$ (26,785,800)	\$ (26,305,105)	\$ (23,489,510)
<i>Business-type activities</i>	(356,110)	(158,159)	315,544	(113,121)
Total primary government net (expense)	<u>\$ (27,171,863)</u>	<u>\$ (26,943,959)</u>	<u>\$ (25,989,561)</u>	<u>\$ (23,602,631)</u>

	Fiscal Year			
	2006	2005 (2)	2004	2003
General Revenues and Other Changes in Net Assets				
<i>Governmental activities:</i>				
Taxes and licenses:				
Property taxes, levied for general purposes	\$ 4,107,934	\$ 3,919,113	\$ 4,012,168	\$ 3,893,211
Insurance premium tax	3,863,953	3,957,289	3,767,864	3,580,964
Gross receipts license tax	3,899,432	3,720,784	3,496,438	3,404,338
Employee license tax	14,794,217	11,192,445	10,616,223	10,301,231
Other taxes	2,105,014	2,116,403	1,764,140	1,893,064
Intergovernmental revenue	1,201,973	955,645	871,273	836,132
Unrestricted investment earnings	462,292	290,647	220,992	325,811
Gain on sale of capital assets	8,340	-	(1,972)	125,714
Transfers	(115,754)	(133,959)	(68,964)	18,666
Total governmental activities	30,327,401	26,018,367	24,678,162	24,379,131
<i>Business-type activities:</i>				
Unrestricted investment earnings	85,786	51,508	32,826	39,530
Gain on sale of capital assets	55,337	27,500	34,975	24,238
Transfers	115,754	133,959	68,964	(18,666)
Total business-type activities	256,877	212,967	136,765	45,102
Change in Net Assets				
<i>Governmental activities:</i>	3,511,648	(767,433)	(1,626,943)	889,621
<i>Business-type activities:</i>	(99,233)	54,808	452,309	(68,019)
Total primary government	\$ 3,412,415	\$ (712,625)	\$ (1,174,634)	\$ 821,602

- (1) The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003. Therefore, ten years of data is not available but will be accumulated over time.
- (2) Significant change in governmental and business-type net assets due to reclassification for prior year omitted receivables, capital assets and post-closure landfill expenses.

TABLE 3
CITY OF PADUCAH, KENTUCKY
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2006	2005 (1)	2004	2003	2002	2001 (2)	2000	1999	1998	1997
General Fund										
Reserved for:										
Encumbrances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,043	\$ 78,898
Unreserved	9,157,310	8,303,702	4,642,073	4,925,982	4,441,662	4,229,377	3,930,807	4,498,239	5,514,441	5,610,472
Total general fund	<u>\$ 9,157,310</u>	<u>\$ 8,303,702</u>	<u>\$ 4,642,073</u>	<u>\$ 4,925,982</u>	<u>\$ 4,441,662</u>	<u>\$ 4,229,377</u>	<u>\$ 3,930,807</u>	<u>\$ 4,498,239</u>	<u>\$ 5,595,484</u>	<u>\$ 5,689,370</u>
All Other Governmental Funds										
Reserved for:										
Program purposes	\$ 783,596	\$ 498,423	\$ 483,423	\$ 695,213	\$ 567,096	\$ 604,021	\$ 327,925	\$ 411,956	\$ 520,769	\$ 496,976
Capital improvements	2,689,804	940,323	3,886,391	3,583,589	4,211,718	9,834,405	1,520,510	1,342,071	467,765	388,065
Encumbrances	-	-	-	-	-	-	-	-	9,537	2,903
Unreserved, reported in:										
Special revenue funds	758,017	1,039,854	770,453	1,080,043	714,972	1,247,619	1,402,554	825,094	1,254,083	659,980
Debt service funds	32,364	9,805	30,243	46,051	244,724	232,640	935,605	1,050,400	1,127,758	1,198,704
Total all other governmental funds	<u>\$ 4,263,781</u>	<u>\$ 2,488,405</u>	<u>\$ 5,170,510</u>	<u>\$ 5,404,896</u>	<u>\$ 5,738,510</u>	<u>\$ 11,918,685</u>	<u>\$ 4,186,594</u>	<u>\$ 3,629,521</u>	<u>\$ 3,379,912</u>	<u>\$ 2,746,628</u>

(1) Significant increase in general fund balance due to reclassification for prior year omitted license and tax receivables in the amount of \$3,870,992.

(2) Significant increase in capital improvements fund balance due to \$9,290,000 bond issue for convention and arts center construction.

TABLE 4
CITY OF PADUCAH, KENTUCKY
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2006	2005	2004	2003 (1)	2002	2001 (2)	2000	1999	1998	1997
Revenues:										
Taxes	\$ 6,204,686	\$ 6,016,570	\$ 5,871,229	\$ 5,773,871	\$ 5,377,865	\$ 4,881,408	\$ 4,659,202	\$ 4,770,784	\$ 4,582,205	\$ 4,710,687
Licenses	23,432,565	19,368,765	18,423,244	17,900,739	17,299,400	16,705,030	15,970,996	15,584,674	14,985,551	14,007,138
Charges for services	654,059	625,281	668,659	743,826	1,452,732	1,332,280	1,073,577	1,167,741	1,154,319	1,152,628
Intergovernmental	1,529,879	1,192,724	1,029,307	1,186,306	590,372	450,412	428,698	449,686	458,006	435,995
Grants	5,797,500	3,758,041	4,002,721	4,900,775	3,990,245	3,761,900	3,736,837	3,182,544	4,217,395	3,346,149
Interest	402,943	251,302	190,350	316,794	541,277	515,299	485,883	503,275	553,341	571,325
Miscellaneous	1,844,285	1,377,175	3,781,034	1,803,408	963,956	1,110,447	942,077	1,503,984	1,055,444	907,952
Total revenues	39,865,917	32,589,858	33,966,544	32,625,719	30,215,847	28,756,776	27,297,270	27,162,688	27,006,261	25,131,874
Expenditures:										
General government	4,286,431	4,171,662	3,891,251	3,943,031	3,446,408	3,386,330	3,436,701	4,296,935	3,531,033	3,539,738
Public safety	14,366,846	14,376,161	12,963,685	12,535,382	12,293,481	11,579,654	11,499,408	11,475,934	11,178,439	11,359,363
Public service	7,418,656	5,947,105	6,914,523	5,995,396	7,163,787	5,923,130	4,260,125	5,209,051	4,009,198	4,312,281
Parks and recreation	1,044,299	1,045,024	1,026,297	975,361	897,060	738,401	1,661,562	1,661,119	1,476,446	1,476,238
Planning and development	2,545,227	2,267,774	2,570,473	2,204,395	2,231,628	2,784,725	2,208,864	2,292,407	2,839,121	2,001,739
Other	481,690	462,099	2,343,844	645,653	323,844	99,657	95,082	90,459	141,436	122,961
Capital outlay	5,003,091	4,870,136	10,987,184	4,172,978	7,579,179	3,850,565	2,785,069	2,202,828	1,977,737	524,686
Debt service:										
Principal requirement	594,047	552,938	428,613	379,229	362,275	140,636	134,295	170,615	150,709	4,119,275
Interest and fiscal requirement	949,537	745,676	471,625	428,578	413,364	25,752	30,536	35,891	46,829	431,669
Total expenditures	36,689,824	34,438,575	41,597,495	31,280,003	34,711,026	28,528,850	26,111,642	27,435,239	25,350,948	27,887,950
Other Financing Sources (Uses):										
Bonds issued	6,100,000	-	5,000,000	-	-	9,104,211	-	-	-	-
Long-term debt issued	-	275,000	3,500,000	-	-	-	-	-	-	-
Transfers in	6,034,070	3,394,420	3,939,188	2,074,459	1,788,462	3,632,867	3,473,339	3,924,453	2,866,960	2,680,771
Transfers out	(12,681,180)	(4,712,171)	(5,295,576)	(3,167,686)	(3,062,056)	(4,966,004)	(4,064,491)	(4,500,135)	(3,816,173)	(2,680,771)
Total other financing sources (uses)	(547,110)	(1,042,751)	7,143,612	(1,093,227)	(1,273,594)	7,771,074	(591,152)	(575,682)	(949,213)	-
Net change in fund balances	\$ 2,628,983	\$ (2,891,468)	\$ (487,339)	\$ 252,489	\$ (5,768,773)	\$ 7,999,000	\$ 594,476	\$ (848,233)	\$ 706,100	\$ (2,756,076)
Capital outlay (2)	\$ 3,779,542	\$ 3,981,143	\$ 9,144,907	\$ 1,907,998	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt service as a percentage of noncapital expenditures	4.69%	4.26%	2.77%	2.75%	2.86%	0.67%	0.71%	0.82%	0.85%	16.63% (3)

(1) The City implemented GASB 34, the new reporting standard, in fiscal year 2003.

(2) For reports after fiscal year 2002, capital outlay is reported on the reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

(3) Significant increase in debt service as a percentage of noncapital expenditures due to the retirement of 1996 public improvement debt.

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	Total Direct Tax Rate	Percent Assessed To Estimated Value	Exemptions
	Real Estate		Personal Property	Franchise	Total				
	Commercial	Residential							
1997	418,868,651	341,141,956	394,329,201	53,348,852	\$ 1,207,688,660	1,262,547,324	0.349	95.7%	54,858,664
1998	447,773,935	366,046,353	399,909,183	49,442,125	1,263,171,596	1,318,865,740	0.348	95.8%	55,694,144
1999	467,467,471	419,904,322	394,507,049	90,087,831	1,371,966,673	1,430,510,601	0.340	95.9%	58,258,356
2000	522,210,835	418,704,093	429,763,712	66,465,568	1,437,144,208	1,497,446,385	0.328	95.9%	59,328,314
2001	558,387,762	435,879,813	479,928,323	69,737,433	1,543,933,331	1,603,816,189	0.329	96.3%	58,908,995
2002	575,900,884	448,383,787	466,849,195	71,286,784	1,562,420,650	1,623,844,461	0.328	96.2%	60,449,948
2003	592,033,879	461,336,810	453,327,389	79,952,984	1,586,651,062	1,647,809,422	0.327	96.3%	60,184,497
2004	602,788,179	484,958,897	438,024,336	73,121,063	1,598,892,475	1,661,522,546	0.326	96.2%	61,656,208
2005	622,478,658	500,350,485	425,304,684	74,460,202	1,622,594,029	1,684,469,469	0.325	96.3%	60,901,557
2006	636,606,837	525,613,365	452,475,748	74,683,129	1,689,379,079	1,750,930,676	0.325	96.5%	61,551,597

Source: McCracken County Property Valuation Administrator

Notes: Property in McCracken County is reassessed once every four years on average.

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

Fiscal Year	City Direct Rates			Overlapping Rates									
	General Fund		Total Direct Rate	Public Library		McCracken Co. School Districts		City of Paducah School Districts		Paducah Junior College		McCracken County	
	Real Estate	Personal		Real Estate	Personal	Real Estate	Personal	Real Estate	Personal	Real Estate	Personal	Real Estate	Personal
1997	0.327	0.390	0.349	0.043	0.050	0.372	0.372	0.594	0.604	0.032	0.034	0.102	0.131
1998	0.327	0.390	0.348	0.043	0.050	0.372	0.372	0.585	0.607	0.032	0.034	0.103	0.123
1999	0.318	0.390	0.340	0.041	0.050	0.372	0.372	0.598	0.598	0.030	0.034	0.146	0.187
2000	0.300	0.390	0.328	0.040	0.050	0.385	0.385	0.590	0.599	0.029	0.034	0.146	0.187
2001	0.300	0.390	0.329	-	-	0.385	0.385	0.597	0.597	0.022	0.022	0.195	0.223
2002	0.300	0.390	0.328	-	-	0.385	0.385	0.600	0.603	0.022	0.022	0.196	0.237
2003	0.300	0.390	0.327	-	-	0.396	0.396	0.598	0.605	0.022	0.022	0.196	0.221
2004	0.300	0.390	0.326	-	-	0.394	0.394	0.617	0.617	0.021	0.021	0.190	0.199
2005	0.300	0.390	0.325	-	-	0.448	0.448	0.618	0.619	0.021	0.021	0.196	0.226
2006	0.300	0.390	0.325	-	-	0.433	0.433	0.631	0.631	0.020	0.021	0.197	0.236

Source: McCracken County Property Valuation Administrator and City Tax Levy Ordinance.

**TABLE 7
CITY OF PADUCAH, KENTUCKY
PRINCIPAL TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

Taxpayer	2006		1997	
	(1) Assessed Valuation	Percentage of Total Assessed Valuation	(2) Assessed Valuation	Percentage of Total Assessed Valuation
Kentucky Oaks Mall	\$ 50,900,262	3.13%	\$ 44,131,900	4.05%
Wal-Mart	33,968,895	2.09%	43,140,500	3.96%
Amerisource	23,261,290	1.43%	47,771,075	4.38%
Lourdes Medical Pavilion	18,686,197	1.15%	-	
Sams East Inc	16,601,600	1.02%	-	
Computer Services, Inc.	15,086,571	0.93%	-	
Ducmall LLC	14,225,000	0.87%	-	
Paducah Medical Investors	13,440,090	0.83%	-	
Lowe's	13,949,835	0.86%	14,459,988	1.33%
H.B. Fuller	12,519,145	0.77%	11,689,252	1.07%
South Central Bell			29,612,682	2.72%
Drury Inns, Inc.			15,545,579	1.43%
Smith Development, Inc.			12,500,000	1.15%
Citizens Bank & Turst Co.			11,815,719	1.08%
Comcast Cable			9,942,815	0.91%
TOTALS	<u>\$212,638,885</u>	<u>13.08%</u>	<u>\$ 240,609,510</u>	<u>22.08%</u>

(1) Source - Property Valuation Administration; Assessed value as of January 1, 2006.

(2) Source - Property Valuation Administration; Assessed value as of January 1, 1997.

**TABLE 8
CITY OF PADUCAH, KENTUCKY
SECURED TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30,	(1) Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections to Date	
		(1) Amount of Collections	Percent of Levy Collected	Collections in Subsequent Years	Total Collections	Percent of Levy Collected
1997	\$ 4,361,298	\$ 4,350,475	99.8%	\$ 461	\$ 4,350,936	99.8%
1998	4,417,910	4,373,272	99.0%	312	\$ 4,373,584	99.0%
1999	4,614,749	4,602,800	99.7%	489	\$ 4,603,289	99.8%
2000	4,428,970	4,384,681	99.0%	998	\$ 4,385,679	99.0%
2001	4,549,413	4,406,600	96.9%	3,420	\$ 4,410,020	96.9%
2002	4,679,795	4,532,885	96.9%	6,019	\$ 4,538,904	97.0%
2003	4,653,264	4,631,782	99.5%	8,935	\$ 4,640,717	99.7%
2004	4,890,723	4,866,871	99.5%	22,199	\$ 4,889,070	100.0%
2005	4,765,051	4,725,999	99.2%	39,052	\$ 4,765,051	100.0%
2006	4,960,947	4,887,983	98.5%	-	\$ 4,887,983	98.5%

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

**TABLE 9
CITY OF PADUCAH, KENTUCKY
EMPLOYEE LICENSE TAX COLLECTIONS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>(1) Taxes Collected</u>	<u>Direct Tax Rate</u>
1997	\$ 7,799,922	1.50%
1998	8,657,001	1.50%
1999	8,911,588	1.50%
2000	9,451,473	1.50%
2001	9,603,106	1.50%
2002	9,873,201	1.50%
2003	10,301,231	1.50%
2004	10,616,222	1.50%
2005	11,183,157	1.50%
2006	<u>14,947,835</u>	2.00% (2)
	<u>\$101,344,736</u>	

(1) Source - City of Paducah Finance Department - Actual collections during the fiscal year.

(2) Effective October 1, 2005, employee license tax rate increased from 1.5% to 2.0%.

**TABLE 10
CITY OF PADUCAH, KENTUCKY
PRINCIPAL EMPLOYEE LICENSE TAXPAYERS
CURRENT YEAR***

Taxpayers By Range	2006			
	Number of Filers	Percentage of Total	(1) Taxes Collected	Percentage of Total Employee License Tax
\$0 - \$50,000	1,603	97.80%	\$ 7,462,359	54.97%
\$50,001 - \$100,000	19	1.16%	1,326,451	9.77%
\$100,001 - \$500,000	15	0.92%	2,907,406	21.42%
Greater than \$500,000	2	0.12%	1,879,464	13.84%
TOTALS	<u>1,639</u>	<u>100.00%</u>	<u>\$ 13,575,680</u>	<u>100.00%</u>

(1) Source - City of Paducah Finance Department - Actual collections during the fiscal year.

* Comparative taxpayers by range information is not available at this time. This information will be presented in future years.

**TABLE 11
CITY OF PADUCAH, KENTUCKY
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Governmental Activities			Business Activities		Total Primary Government	(1) Ratio of Net Debt to Actual Value	(2) Net Debt Per Capita
	Net General Obligation Bonds	Public Improvement Debt	Capital Lease	Net Public Improvement Debt	Net Refunding Revenue Bonds			
1997	\$ -	\$ -	\$ -	\$ 1,533,052	\$ 977,732	\$ 2,510,784	0.20	\$ 92
1998	-	-	-	1,435,581	792,924	2,228,505	0.17	82
1999	-	-	-	1,331,220	701,819	2,033,039	0.14	75
2000	-	-	-	-	-	-	-	-
2001	9,057,359	-	381,330	-	-	9,438,689	0.59	359
2002	8,830,276	-	234,054	-	-	9,064,330	0.56	345
2003	8,803,949	-	79,825	-	-	8,883,774	0.54	338
2004	13,589,757	3,428,855	-	-	-	17,018,612	1.02	647
2005	13,210,195	3,503,274	-	-	-	16,713,469	0.99	635
2006	18,877,636	3,319,227	-	-	-	22,196,863	1.27	844

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) See Table 5 for estimated actual property value. This ratio is calculated using estimated property value for the prior year.

(2) See Table 16 for population data.

TABLE 12
CITY OF PADUCAH, KENTUCKY
RATIO OF NET GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding				Less Resources Restricted for Debt Service	Total	(1) Ratio of Net Bonds to Actual Value	(2) Net Bonds Per Capita
	Convention and Art Center Bonds	Police and Fire Pension Fund Bonds	Infiniti Media Building Bonds					
1997	\$ -	\$ -	\$ -		\$ -	\$ -	-	\$ -
1998	-	-	-		-	-	-	-
1999	-	-	-		-	-	-	-
2000	-	-	-		-	-	-	-
2001	9,290,000	-	-		232,641	9,057,359	0.56	344
2002	9,075,000	-	-		244,724	8,830,276	0.54	336
2003	8,850,000	-	-		46,051	8,803,949	0.53	335
2004	8,620,000	-	5,000,000		30,243	13,589,757	0.82	517
2005	8,380,000	-	4,840,000		9,805	13,210,195	0.78	502
2006	8,130,000	6,100,000	4,680,000		32,364	18,877,636	1.08	718

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) See Table 5 for estimated actual property value. This ratio is calculated using estimated property value for the prior year.

(2) See Table 16 for population data.

TABLE 13
CITY OF PADUCAH, KENTUCKY
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2006

	<u>Net Debt Outstanding</u>	<u>(1) Percentage Applicable to the City</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
City of Paducah	<u>\$ 22,196,863</u>	<u>100.0%</u>	<u>\$ 22,196,863</u>
Paducah Independent School District	6,530,000	100.0%	6,530,000
McCracken County	12,793,156	45.3%	5,795,300
McCracken County Board of Education	<u>26,566,579</u>	<u>22.7%</u>	<u>6,030,613</u>
Overlapping Debt	<u>45,889,735</u>		<u>18,355,913</u>
Total direct and overlapping debt	<u><u>\$ 68,086,598</u></u>		<u><u>\$ 40,552,776</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 14
CITY OF PADUCAH, KENTUCKY
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Net assessed value		\$ 1,689,379,079
Add exemption		<u>61,551,597</u>
Total assessed value		<u>\$ 1,750,930,676</u>
Debt limit - 10% of total assessed value (1)		\$ 175,093,068
Debt outstanding:		
General obligation bonds outstanding	18,910,000	
Notes payable	3,319,227	
Less debt not subject to limit	<u>-</u>	
Gross bonded debt	22,229,227	
Less amount available in debt service funds	<u>32,364</u>	
Net bonded indebtedness subject to limit		<u>22,196,863</u>
Legal Debt Margin		<u>\$ 152,896,205</u>

Fiscal Year

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Debt Limit	#####	\$ 168,349,559	\$ 166,054,868	\$ 164,683,556	\$ 162,287,060	\$ 160,284,233	\$ 149,647,252	\$ 143,022,503	\$ 131,886,574	\$ 126,254,732
Total net debt applicable to limit	<u>22,196,863</u>	<u>16,713,469</u>	<u>17,018,612</u>	<u>8,883,774</u>	<u>9,064,330</u>	<u>9,438,689</u>	-	-	-	-
Legal debt margin	#####	<u>\$ 151,636,090</u>	<u>\$ 149,036,256</u>	<u>\$ 155,799,782</u>	<u>\$ 153,222,730</u>	<u>\$ 150,845,544</u>	<u>\$ 149,647,252</u>	<u>\$ 143,022,503</u>	<u>\$ 131,886,574</u>	<u>\$ 126,254,732</u>
Total net debt applicable to the limit as a percentage of debt limit	12.68%	9.93%	10.25%	5.39%	5.59%	5.89%	0.00%	0.00%	0.00%	0.00%

(1) "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 15
CITY OF PADUCAH, KENTUCKY
SCHEDULE OF SEWER REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	(1) Gross Revenue	(2) Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1997	3,479,257	1,917,660	1,561,597	205,000	52,570	257,570	6.06x
1998	3,382,994	1,873,558	1,509,436	210,000	45,190	255,190	5.91x
1999	3,369,358	2,081,507	1,287,851	110,000	37,105	147,105	8.75x
2000	*	*	*	*	*	*	*
2001	*	*	*	*	*	*	*
2002	*	*	*	*	*	*	*
2003	*	*	*	*	*	*	*
2004	*	*	*	*	*	*	*
2005	*	*	*	*	*	*	*
2006	*	*	*	*	*	*	*

(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 after 1999 as 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 16
CITY OF PADUCAH, KENTUCKY
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	(1) Population	(1) Personal Income	(1) Per Capita Income	(1) Median Age	(2) School Enrollment	(3) Unemployment Rate
1996-1997	27,256	\$ 324,837,008	\$ 11,918	36.6	3,312	5.8%
1997-1998	27,256	324,837,008	11,918	36.6	3,244	4.6%
1998-1999	27,256	324,837,008	11,918	36.6	3,195	4.1%
1999-2000	27,256	324,837,008	11,918	36.6	3,289	4.4%
2000-2001	26,307	324,837,008	11,918	39.9	3,037	5.0%
2001-2002	26,307	484,496,019	18,417	39.9	2,909	6.3%
2002-2003	26,307	484,496,019	18,417	39.9	2,887	7.2%
2003-2004	26,307	484,496,019	18,417	39.9	2,977	5.8%
2004-2005	26,307	484,496,019	18,417	39.9	2,819	6.4%
2005-2006	26,307	484,496,019	18,417	39.9	2,834	5.7%

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 17
CITY OF PADUCAH, KENTUCKY
PRINCIPAL EMPLOYERS
CURRENT YEAR***

<u>Employer (1)</u>	<u>2006</u>	
	<u>Employees</u>	<u>Percentage of Total Employment (2)</u>
Western Baptist Hospital	1,660	5.55%
Lourdes Hospital	1,500	5.01%
Paducah Public Schools	600	2.01%
Wal Mart	570	1.91%
LYNX Services	390	1.30%
State of Kentucky	390	1.30%
City of Paducah	380	1.27%
Paxton Media Group	285	0.95%
NRE Acquisitions	280	0.94%
West KY Community & Technical College	270	0.90%
TOTALS	<u>6,325</u>	<u>21.14%</u>

(1) Source – Paducah Area Chamber of Commerce

(2) State of Kentucky - Office of Employment and Training. Ratio based on employment within the County of McCracken.

* Comparative information is unavailable.

TABLE 18
CITY OF PADUCAH, KENTUCKY
CITY FULL-TIME EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
<u>Governmental Activities</u>										
General government										
General administration	8	7	7	7	5	7	7	8	8	8
Finance	14	14	13	13	13	12	12	12	12	12
Planning	11	11	11	11	11	11	12	11	11	9
Human resources	3	4	3	3	3	4	4	4	3	5
Inspection	13	12	12	12	11	14	12	12	11	11
Information Systems	3	3	3	3	2	1	1	1		
Risk Management	1	1								
Public safety										
Police	93	96	94	95	94	95	94	94	83	89
Fire	76	75	76	76	77	81	86	86	96	90
Public service										
Streets	31	31	30	30	25	29	29	29	30	25
Facilities	34	34	34	34	31	29	30	24	25	28
Engineering	9	9	8	7	7	8	8	5	4	5
Other	5	5	5	5	8	5	5	5	5	5
Parks and recreation	5	5	5	5	8	7	5	5	4	5
Planning and development	11	11	11	11	11	11	12	11	11	9
Other										
Fleet maintenance	7	7	6	6	6	7	6	8	10	11
<u>Business-type Activities</u>										
Solid waste	29	29	29	29	27	30	29	29	31	28
Sewer/wastewater	*	*	*	*	*	*	*	23	24	23
Total Primary Government	353	354	347	347	339	351	352	367	368	363

* This information is not applicable for fiscal years after 1999 as 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 19
CITY OF PADUCAH, KENTUCKY
OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government										
Building and electrical permits issued	1,362	1,376	*	*	*	*	*	*	*	*
Business licenses issued	3,700	*	*	*	*	*	*	*	*	*
Public safety										
Police										
Adult arrests	3,827	*	*	*	*	*	*	*	*	*
Murder	-	*	*	*	*	*	*	*	*	*
Rape	15	*	*	*	*	*	*	*	*	*
Robberies	35	*	*	*	*	*	*	*	*	*
Burglary	211	*	*	*	*	*	*	*	*	*
Auto theft	104	*	*	*	*	*	*	*	*	*
Arson	7	*	*	*	*	*	*	*	*	*
Traffic accidents	1,815	*	*	*	*	*	*	*	*	*
Traffic violations	7,468	*	*	*	*	*	*	*	*	*
Fire										
Emergency responses	2,546	3,219	3,638	3,569	2,845	1,665	1,651	937	*	*
Fires extinguished	181	176	189	198	194	177	247	131	*	*
Structure fires	53	49	64	70	72	66	69	52	*	*
Incidents with reported losses	91	97	106	111	129	102	94	60	*	*
Medical/rescue	1,589	1,997	2,266	2,290	1,551	370	319	40	*	*
Tours/in-services/training hours	485	485	485	485	468	558	430	*	*	*
Inspections	1,418	1,188	965	1,058	804	1,619	1,625	*	*	*
Refuse collection										
Residential										
Refuse collected (tons per day)	100	*	*	*	*	*	*	*	*	*
Customers served	9,368	*	*	*	*	*	*	*	*	*
Commercial										
Customers served	801	*	*	*	*	*	*	*	*	*
Public service										
911 calls received	167,847	168,712	168,427	173,536	164,661	*	*	*	*	*
Police	76,144	103,500	104,622	110,310	106,244	*	*	*	*	*
Fire	4,168	3,537	3,305	3,387	4,045	*	*	*	*	*
Other	87,535	61,675	60,500	59,839	54,372	*	*	*	*	*

* Information not available.

TABLE 20
CITY OF PADUCAH, KENTUCKY
CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Fiscal Years

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	5	5	5	5	5	5	5	5	5	5
Refuse collection										
Collection trucks										
Residential	8	8	#	#	#	#	#	#	#	#
Commercial	4	4	#	#	#	#	#	#	#	#
Other public works										
Sanitary sewers (miles)	*	*	*	*	*	*	*	125	125	125
Combination sewers (miles)	*	*	*	*	*	*	*	56	56	56
Storm sewers (miles)	*	*	*	*	*	*	*	36	36	36
Streets (miles paved)	214	214	213	209	209	209	209	209	209	209
Sidewalks (miles)	45	45	45	45	45	45	45	45	41	41
Traffic signals	11	11	10	0	0	0	0	0	0	0
Parks and recreation										
Parks	14	14	14	20	20	20	13	13	13	13
Acreage	280	280	280	320	320	320	230	230	230	230
Community centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	1	1	1	3	3	3	3	3	3	3
Public tennis courts	6	6	6	6	6	6	10	10	10	10
Public golf courses	2	2	2	2	2	2	2	2	2	2

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

Information not available.

CITY OF PADUCAH, KENTUCKY

SINGLE AUDIT SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

CITY OF PADUCAH, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<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	\$ 1,722,984
Passed-through Kentucky Housing Corporation:			
Public Housing Capital Fund	14.872	N/A	34,611
HOME Investment Partnerships Program	14.239	HR04-0198-01	6,704
Total Department of Housing and Urban Development			<u>1,764,299</u>
Department of Justice:			
Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJBX-0259	31,339
Bulletproof Vest Partnership Program	16.607	V1820700150400	2,464
Total Department of Justice			<u>33,803</u>
Department of Agriculture:			
Passed-through Kentucky Department of Education:			
Summer Food Service Program for Children	10.559	N/A	45,397
Total Department of Agriculture			<u>45,397</u>
Department of Homeland Security:			
Passed-through Division of Disaster and Emergency Services:			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-15498	10,909
	97.044	EMW-2005-FG-03666	2,290
Passed-through Kentucky Department of Military Affairs:			
Homeland Security Grant Program	97.067	M-0624979	9,760
Buffer Zone Protection Plan	97.078	M-05489235	90,852
State Domestic Preparedness Equipment Support Program	97.004	M-03453577	2,025
Total Department of Homeland Security			<u>115,836</u>

(Continued)

CITY OF PADUCAH, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<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 the Interior:			
Passed-through Kentucky Governor's Office of Local Development Outdoor Recreation_Acquisition, Development and Planning	15.916	N/A	<u>93,289</u>
Total Department of the Interior			<u>93,289</u>
Department of Transportation:			
Direct Programs:			
Airport Improvement Program	20.106	N/A	110,831
Passed-through Kentucky Governor's Office of Local Development			
Recreational Trails Program	20.219	N/A	25,034
Occupant Protection	20.602	N/A	4,866
Passed-through to River Heritage Museum			
Highway Planning and Construction	20.205	N/A	<u>25,364</u>
Total Department of Transportation			<u>166,095</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,218,719</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, 2006

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 subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Paducah Board of Education	10.559	45,397
River Heritage Museum	20.205	<u>25,364</u>
		<u>\$ 70,761</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, 2006, which collectively comprise the City of Paducah, Kentucky's basic financial statements and have issued our report thereon dated October 13, 2006. 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 13, 2006.

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 13, 2006.

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

Paducah, Kentucky

October 13, 2006

333 Broadway Suite 1001 ■ Paducah, KY 42001

Phone (270) 443-4400 Fax (270) 443-0963 kempercpa.com

**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, 2006. The City of Paducah, Kentucky's major federal programs are 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, 2006.

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.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
October 13, 2006

CITY OF PADUCAH, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

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
Airport Improvement Program	20.106

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