

**CITY OF VERSAILLES**  
**Versailles, Kentucky**

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**FINANCIAL STATEMENTS**  
**June 30, 2013**

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City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2013

Our discussion and analysis of the City of Versailles's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read the following in conjunction with the auditors' report on page 12 and the City's financial statements, which begin on page 14.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 14 and 15) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefits of those outside the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 3 of this Management's Discussion and Analysis. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the net assets of the City and the changes in them. One can think of the City's net Position—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

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

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

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

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 7. The fund financial statements begin on page 16 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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The City has two kinds of funds:

**Governmental Fund**—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom the governmental funds statement that explains the relationship (or differences) between them.

**Proprietary Fund**—When the City charges customers for the services it provides--whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's water, sewer and sanitation fund (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

The City is the trustee for its payroll and expendable cemetery trust. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain requirement supplementary information concerning budgetary comparison schedules for the general fund.

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Financial Analysis of the City as a Whole

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

Table A-1  
Net Assets (In Millions)

|                                | Governmental<br>Activities |                | Business-Type<br>Activities |                | Total Primary<br>Government |                |
|--------------------------------|----------------------------|----------------|-----------------------------|----------------|-----------------------------|----------------|
|                                | <u>2013</u>                | <u>2012</u>    | <u>2013</u>                 | <u>2012</u>    | <u>2013</u>                 | <u>2012</u>    |
| Current & Other Assets         | \$ 4.4                     | \$ 4.4         | \$ 3.4                      | \$ 2.9         | \$ 7.8                      | \$ 7.3         |
| Capital Assets                 | 18.2                       | 7.3            | 48.4                        | 51.6           | 66.6                        | 58.9           |
| Total Assets                   | <u>\$ 22.6</u>             | <u>\$ 11.7</u> | <u>\$ 51.8</u>              | <u>\$ 54.5</u> | <u>\$ 74.4</u>              | <u>\$ 66.2</u> |
| Long Term Debt Outstanding     | \$ 0.5                     | \$ 0.5         | \$ 19.7                     | \$ 22.0        | \$ 20.2                     | \$ 22.5        |
| Current Liabilities            | 0.4                        | 0.6            | 2.0                         | 2.1            | 2.4                         | 2.7            |
| Total Liabilities              | <u>0.9</u>                 | <u>1.1</u>     | <u>21.7</u>                 | <u>24.1</u>    | <u>22.6</u>                 | <u>25.2</u>    |
| Net invested in capital assets | 17.8                       | 7.0            | 23.6                        | 23.1           | 41.4                        | 30.1           |
| Restricted                     | 0.9                        | 0.8            | 3.2                         | 3.6            | 4.1                         | 4.4            |
| Unrestricted                   | 3.0                        | 2.8            | 3.3                         | 3.7            | 6.3                         | 6.5            |
| Total Net Position             | <u>\$ 21.7</u>             | <u>\$ 10.6</u> | <u>\$ 30.1</u>              | <u>\$ 30.4</u> | <u>\$ 51.8</u>              | <u>\$ 41.0</u> |

The City's total governmental net assets increased from \$10.6 million at 2012 to \$21.7 million at 2013. This increase is due to the recognition additional infrastructure assets. Reference Note 14 of the financial statements to provide further explanation of this increase.

In the business-type activity (Enterprise Fund), total net assets remained relatively consistent. The City did dispose of partial tracts of the Grassy Springs property resulting in a decrease in capital assets and long-term debt.

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Changes in net assets are presented in Table A-2, which is also followed by an explanation of the results. Both activity types are presented on the accrual-basis.

|                                  | Governmental<br>Activities |               | Business-Type<br>Activities |               | Total Primary<br>Government |               |
|----------------------------------|----------------------------|---------------|-----------------------------|---------------|-----------------------------|---------------|
|                                  | <u>2013</u>                | <u>2012</u>   | <u>2013</u>                 | <u>2012</u>   | <u>2013</u>                 | <u>2012</u>   |
| Revenues:                        |                            |               |                             |               |                             |               |
| Program Revenues                 |                            |               |                             |               |                             |               |
| Charges for services             | \$ 0.1                     | \$ 0.1        | \$ 6.0                      | \$ 6.1        | \$ 6.1                      | \$ 6.2        |
| Operating Grants & Contributions | 2.0                        | 1.7           | -                           | -             | 2.0                         | 1.7           |
| Capital Grants & Contributions   | 2.4                        | 1.2           | -                           | 1.7           | 2.4                         | 2.9           |
| Investment Earnings              | 0.1                        | 0.1           | -                           | 0.1           | 0.1                         | 0.2           |
| General Revenues                 |                            |               |                             |               |                             |               |
| Taxes                            | 0.6                        | 0.6           | -                           | -             | 0.6                         | 0.6           |
| Licenses                         | 5.5                        | 5.4           | -                           | -             | 5.5                         | 5.4           |
| Intergovernmental                | 0.5                        | 0.5           | -                           | -             | 0.5                         | 0.5           |
| Other Revenues                   | <u>0.1</u>                 | <u>0.3</u>    | <u>(0.6)</u>                | <u>-</u>      | <u>(0.5)</u>                | <u>0.3</u>    |
| Total Revenue                    | <u>11.3</u>                | <u>9.9</u>    | <u>5.4</u>                  | <u>7.9</u>    | <u>16.7</u>                 | <u>17.8</u>   |
| Expenses:                        |                            |               |                             |               |                             |               |
| Program Expenses                 |                            |               |                             |               |                             |               |
| General Government               | 1.5                        | 1.4           | -                           | -             | 1.5                         | 1.4           |
| Police & 911                     | 4.8                        | 4.5           | -                           | -             | 4.8                         | 4.5           |
| Fire                             | 1.2                        | 1.0           | -                           | -             | 1.2                         | 1.0           |
| Streets                          | 1.6                        | 1.1           | -                           | -             | 1.6                         | 1.1           |
| Cemetery                         | 0.3                        | 0.3           | -                           | -             | 0.3                         | 0.3           |
| Water/Sewer/Sanitation           | -                          | -             | 5.6                         | 4.9           | 5.6                         | 4.9           |
| Total Expenses                   | <u>9.4</u>                 | <u>8.3</u>    | <u>5.6</u>                  | <u>4.9</u>    | <u>15.0</u>                 | <u>13.2</u>   |
| Change in Net Position           | <u>\$ 1.9</u>              | <u>\$ 1.6</u> | <u>\$ (0.2)</u>             | <u>\$ 3.0</u> | <u>\$ 1.7</u>               | <u>\$ 4.6</u> |

Governmental activity revenue increased by approximately \$1.4 million from 2012 to 2013 as shown in Table A-2. The increase in revenue is largely attributable to additional grant revenue related to the Crossfield Drive project. .

Business-type activity (enterprise) revenues decreased from \$7.9 million in 2012 to \$5.4 million in 2013, due to a decrease in grant revenue and federal funding for the river wall stabilization project. The City as previously mentioned did dispose of Grassy Springs property, however this property was sold at a loss compared to the City's cost of the property

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**Governmental Activities**

Table A-3 details a condensed statement of the fiscal year's governmental activities according to the governmental fund statements shown on pages 16 and 17 and in the supplementary information on page 40.

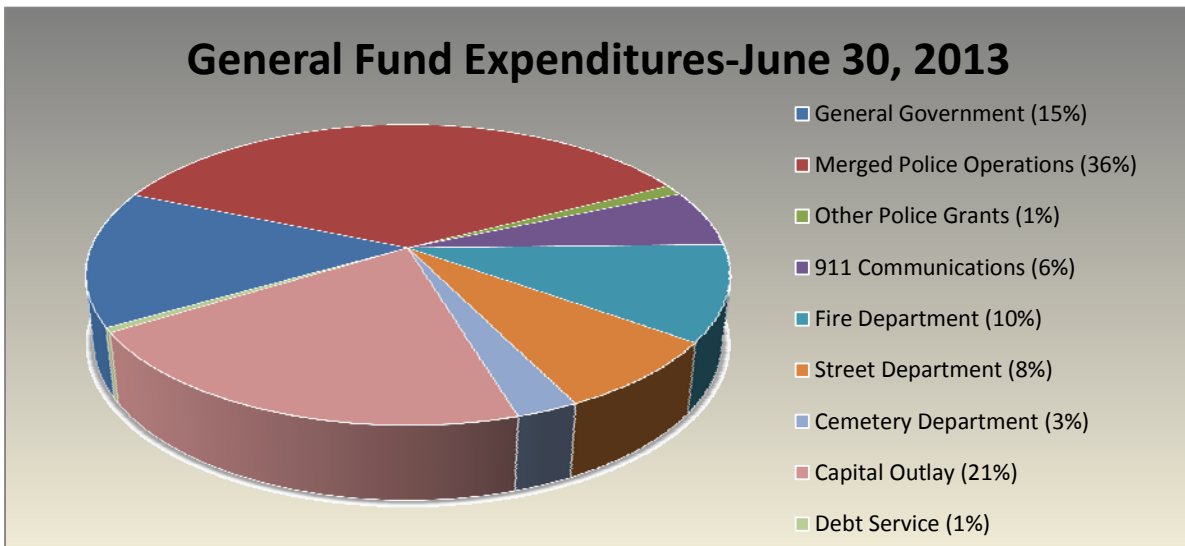
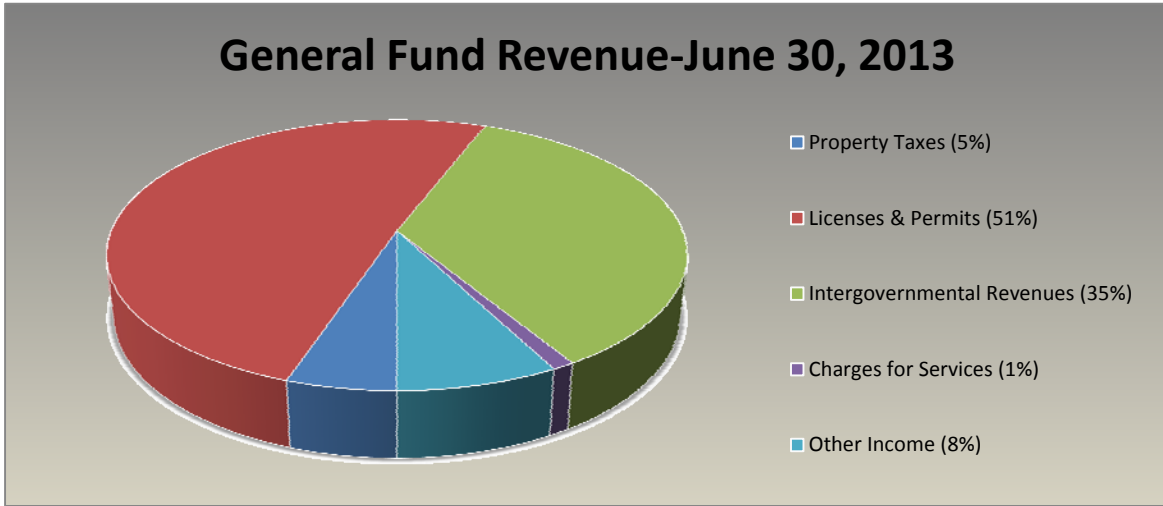
Table A-3  
Condensed Governmental Activities - Revenues and Expenditures

|                                | <u>2013</u>                 | <u>2012</u>                | Change<br>Favorable<br>(Unfavorable) |
|--------------------------------|-----------------------------|----------------------------|--------------------------------------|
| <b>Revenues</b>                |                             |                            |                                      |
| Taxes                          | \$573,438                   | \$562,947                  | \$ 10,491                            |
| Licenses and permits           | 5,610,448                   | 5,448,871                  | 161,577                              |
| Intergovernmental revenues     | 3,923,456                   | 2,946,423                  | 977,033                              |
| Charges for services           | 116,935                     | 77,966                     | 38,969                               |
| Other income                   | 846,753                     | 875,991                    | (29,238)                             |
| <b>Total Revenues</b>          | <b><u>\$ 11,071,030</u></b> | <b><u>\$ 9,912,198</u></b> | <b><u>\$ 1,158,832</u></b>           |
| <b>Expenditures</b>            |                             |                            |                                      |
| General government             | \$1,552,450                 | \$1,400,473                | \$ (151,977)                         |
| Merged police operations       | 3,816,371                   | 3,536,931                  | (279,440)                            |
| Other police operations/grants | 117,694                     | 77,475                     | (40,219)                             |
| 911 communications             | 647,590                     | 621,942                    | (25,648)                             |
| Fire department                | 1,089,054                   | 952,736                    | (136,318)                            |
| Street department              | 954,580                     | 905,984                    | (48,596)                             |
| Cemetery department            | 285,039                     | 287,975                    | 2,936                                |
| Capital outlay                 | 2,201,745                   | 1,380,252                  | (821,493)                            |
| Debt service                   | 53,840                      | 79,431                     | 25,591                               |
| <b>Total Expenditures</b>      | <b><u>\$ 10,718,363</u></b> | <b><u>\$ 9,243,199</u></b> | <b><u>\$ (1,475,164)</u></b>         |

The information above shows that revenues for governmental fund increased by \$1,158,832 from 2012 to 2013.

Once again, this is due in part from additional revenues derived from an increase in occupational tax revenues, which had previously been impacted by the economic downfall, however, collections show that industrial/economic stability is on the incline. Another contributing factor was revenue derived as a result of the grant reimbursed Crossfield Drive project. Overall governmental expenses were up by \$1,475,164 over the prior year and most attributable to the additional expense in capital outlay, which were mostly attributable to the Crossfield Drive project and the costs associated with the developer bond calls for road paving.

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**Budget Highlights**

Overall, expenses of both governmental activities and business-type activities slightly increased due to the overall inflationary factors. Capital outlays increased due to various large projects such as Crossfield Drive and depreciation expense related to taking in City streets as a result of developer bond calls.

The City budgeted \$10.3 million in revenues for 2013 and generated \$10.8 million. Licenses and permits revenue showed an increase of \$245,448, in part, as a result of economic improvement. Intergovernmental revenues increased by \$296,723 mainly attributable to the new reporting requirements for KLEF reimbursement revenues for police and fire incentive pay..



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Table A-4  
General Fund - Budget & Actual

|                                | <u>Budget</u>               | <u>Actual</u>               | Difference<br>Favorable<br>(Unfavorable) |
|--------------------------------|-----------------------------|-----------------------------|--|
| <b>Revenues</b>                |                             |                             |  |
| Taxes                          | \$573,000                   | \$573,438                   | \$ 438                                   |
| Licenses and permits           | 5,365,000                   | 5,610,448                   | 245,448                                  |
| Intergovernmental revenues     | 3,626,733                   | 3,923,456                   | 296,723                                  |
| Charges for services           | 56,500                      | 116,935                     | 60,435                                   |
| Other income                   | 729,300                     | 621,352                     | (107,948)                                |
| <b>Total Revenues</b>          | <u><u>\$ 10,350,533</u></u> | <u><u>\$ 10,845,629</u></u> | <u><u>\$ 495,096</u></u>                 |
| <b>Expenditures</b>            |                             |                             |  |
| General government             | \$ 1,557,132                | \$1,552,450                 | \$ 4,682                                 |
| Merged police operations       | 3,827,288                   | 3,816,371                   | 10,917                                   |
| Other police operations/grants | -                           | 117,694                     | (117,694)                                |
| 911 communications             | 702,480                     | 647,590                     | 54,890                                   |
| Fire department                | 1,001,955                   | 1,089,054                   | (87,099)                                 |
| Street department              | 942,850                     | 822,603                     | 120,247                                  |
| Cemetery department            | 341,702                     | 281,515                     | 60,187                                   |
| Capital outlay                 | 2,300,500                   | 2,201,745                   | 98,755                                   |
| Debt service                   | 54,000                      | 53,840                      | 160                                      |
| <b>Total Expenditures</b>      | <u><u>\$ 10,727,907</u></u> | <u><u>\$ 10,582,862</u></u> | <u><u>\$ 145,045</u></u>                 |

The City budgeted \$10.7 million in expenditures, but actually expended only \$10.5. Contributing factors to expenses being decreased as a whole was partly due department heads being fiscally responsible with the budgets, as well as capital outlay line-items not being expended in full.

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**Table A-5**  
Enterprise Fund - Revenue - Budget & Actual

|                       | <u>Budget</u>              | <u>Actual</u>              | <u>Difference</u>        |
|-----------------------|----------------------------|----------------------------|--------------------------|
| Charges for Services  | \$ 5,444,000               | \$ 5,796,005               | \$ 352,005               |
| Grants/Bond Sources   | -                          | 36,870                     | 36,870                   |
| Interest Income       | 10,000                     | 13,632                     | 3,632                    |
| Refuse Collection     | 108,000                    | 103,476                    | (4,524)                  |
| Other Income          | 76,000                     | 96,677                     | 20,677                   |
| <b>Total Revenues</b> | <b><u>\$ 5,638,000</u></b> | <b><u>\$ 6,046,660</u></b> | <b><u>\$ 408,660</u></b> |

Note: Tables A-6, A-7, and A-8 do not include expense accounts, such as depreciation, debt service, and interest.

Table A-6  
Enterprise Fund - Water Department Expenditures - Budget & Actual

|                            | <u>Budget</u>              | <u>Actual</u>              | <u>Difference</u>       |
|----------------------------|----------------------------|----------------------------|-------------------------|
| Salaries                   | \$ 534,400                 | \$ 533,984                 | \$ (416)                |
| Payroll Taxes              | 46,100                     | 37,634                     | (8,466)                 |
| Employee benefits          | 155,090                    | 153,262                    | (1,828)                 |
| Advertising and printing   | 7,000                      | 9,247                      | 2,247                   |
| Professional and technical | 15,000                     | 16,172                     | 1,172                   |
| Repairs and maintenance    | 139,000                    | 126,364                    | (12,636)                |
| Utilities                  | 320,000                    | 390,350                    | 70,350                  |
| Telephone and postage      | 25,400                     | 24,697                     | (703)                   |
| Insurance                  | 54,200                     | 44,416                     | (9,784)                 |
| Chemicals                  | 170,000                    | 160,914                    | (9,086)                 |
| Uniforms                   | 3,500                      | 2,942                      | (558)                   |
| Motor fuel                 | 23,000                     | 26,959                     | 3,959                   |
| Office supplies            | 4,000                      | 3,600                      | (400)                   |
| Other materials            | 40,500                     | 40,784                     | 284                     |
| Other expenses             | 145,000                    | 136,597                    | (8,403)                 |
| Purchase of water          | 15,000                     | 11,510                     | (3,490)                 |
| Training/travel            | 5,000                      | 5,339                      | 339                     |
| Lab analysis               | 15,000                     | 13,274                     | (1,726)                 |
| Purchase of water meters   | 20,000                     | 32,450                     | 12,450                  |
| Misc expense               | 20,000                     | 12,032                     | (7,968)                 |
| <b>Total Expenditures</b>  | <b><u>\$ 1,757,190</u></b> | <b><u>\$ 1,782,527</u></b> | <b><u>\$ 25,337</u></b> |

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Table A-7  
Enterprise Fund - Sewer Department Expenditures - Budget & Actual

|                            | <u>Budget</u>       | <u>Actual</u>       | <u>Difference</u>   |
|----------------------------|---------------------|---------------------|---------------------|
| Salaries                   | \$ 469,500          | \$ 425,131          | \$ (44,369)         |
| Payroll Taxes              | 40,500              | 29,620              | (10,880)            |
| Employee benefits          | 142,500             | 128,026             | (14,474)            |
| Advertising and printing   | 6,000               | 9,555               | 3,555               |
| Professional and technical | 15,000              | 16,700              | 1,700               |
| Repairs and maintenance    | 222,000             | 176,266             | (45,734)            |
| Utilities                  | 177,000             | 201,539             | 24,539              |
| Telephone and postage      | 23,400              | 22,118              | (1,282)             |
| Insurance                  | 33,000              | 25,099              | (7,901)             |
| Chemicals                  | 46,000              | 45,763              | (237)               |
| Uniforms                   | 2,500               | 2,486               | (14)                |
| Motor fuel                 | 20,000              | 21,647              | 1,647               |
| Other materials            | 28,500              | 18,214              | (10,286)            |
| Other expenses             | 660,000             | 260,115             | (399,885)           |
| Sludge removal             | 66,000              | 76,491              | 10,491              |
| Misc expense               | 309,000             | 4,646               | (304,354)           |
| Training/travel            | 4,000               | 3,822               | (178)               |
| Lab analysis               | 20,000              | 25,257              | 5,257               |
| Dumpster collection        | 2,500               | 2,275               | (225)               |
| Total Expenditures         | <u>\$ 2,287,400</u> | <u>\$ 1,494,770</u> | <u>\$ (792,630)</u> |

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Table A-8  
Enterprise Fund - Sanitation Department Expenditures - Budget & Actual

|                         | <u>Budget</u>     | <u>Actual</u>     | <u>Difference</u>  |
|-------------------------|-------------------|-------------------|--------------------|
| Salaries                | \$ 38,160         | \$ 33,547         | \$ (4,613)         |
| Payroll Taxes           | 2,500             | 2,611             | 111                |
| Employee benefits       | 11,029            | 10,407            | (622)              |
| Repairs and maintenance | 3,710             | 3,709             | (1)                |
| Uniforms                | 40                | 38                | (2)                |
| Motor fuel              | 6,550             | 6,529             | (21)               |
| Other materials         | 11,000            | 10,591            | (409)              |
| Landfill expense        | 31,000            | 78,743            | (47,743)           |
| Total Expenditures      | <u>\$ 103,989</u> | <u>\$ 146,175</u> | <u>\$ (53,300)</u> |

Capital Assets

Table A-1 showed summary totals for a broad range of capital assets, including police and fire equipment and vehicles, buildings, land, roads, storm sewers, and all of the equipment and materials involved in the operation of water, sewer and sanitary utilities. Table A-9 shows the breakdown of capital assets net of depreciation for both governmental and business-type activities.

Capital Assets at Year-End, Net of Depreciation (In Millions)

|                          | Governmental<br>Activities |               | Business-Type<br>Activities |                | Total Primary<br>Government |                |
|--------------------------|----------------------------|---------------|-----------------------------|----------------|-----------------------------|----------------|
|                          | <u>2013</u>                | <u>2012</u>   | <u>2013</u>                 | <u>2012</u>    | <u>2013</u>                 | <u>2012</u>    |
| Land                     | \$ 2.0                     | \$ 2.0        | \$ 0.8                      | \$ 2.1         | \$ 2.8                      | \$ 4.1         |
| Infrastructure           | 9.6                        | -             | -                           | -              | 9.6                         | -              |
| Buildings & improvements | 0.3                        | 0.9           | 43.3                        | 27.9           | 43.6                        | 28.8           |
| Equipment                | 0.5                        | 0.7           | 0.3                         | 0.4            | 0.8                         | 1.1            |
| Vehicles                 | 0.7                        | 0.7           | 0.2                         | 0.1            | 0.9                         | 0.8            |
| Construction in progress | 5.0                        | 3.1           | -                           | 16.6           | 5.0                         | 19.7           |
| Total Capital Assets     | <u>\$ 18.1</u>             | <u>\$ 7.4</u> | <u>\$ 44.6</u>              | <u>\$ 47.1</u> | <u>\$ 62.7</u>              | <u>\$ 54.5</u> |

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Debt

Table A-10  
Table A-10 provides a summary of all the City's outstanding indebtedness

|                        | Governmental<br>Activities |                | Business-Type<br>Activities |                 | Total Primary<br>Government |                 |
|------------------------|----------------------------|----------------|-----------------------------|-----------------|-----------------------------|-----------------|
|                        | 2013                       | 2012           | 2013                        | 2012            | 2013                        | 2012            |
| Notes payable          | \$ -                       | \$ -           | \$ 0.58                     | \$ 1.48         | \$ 0.58                     | \$ 1.48         |
| Leases payable         | 0.30                       | 0.34           | -                           | -               | 0.30                        | 0.34            |
| Bonds payable          | -                          | -              | 22.36                       | 22.92           | 22.36                       | 22.92           |
| Total Debt Outstanding | <u>\$ 0.30</u>             | <u>\$ 0.34</u> | <u>\$ 22.94</u>             | <u>\$ 24.40</u> | <u>\$ 23.24</u>             | <u>\$ 24.74</u> |

Economic Factors and Next Year's Budget and Rates

The City's Finance Committee, Mayor and Council considered many factors when setting the fiscal year 2013-14 budget. Some of the contributing factors were the local economy and trend, anticipated grant revenues and related expenses, and the ever-rising costs of retirement and health insurance expenses. Also, all City personnel received a 3% cost of living increase which in turn increases salaries and benefits.

Contacting the City's Financial Management

This financial report is designed to provide the citizens of the City, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact Allison White at 196 South Main Street, Versailles, Kentucky.

**INDEPENDENT AUDITORS' REPORT**

Mayor and the City Council  
City of Versailles  
Versailles, Kentucky

**Report on the Financial Statements**

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 Versailles, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively, comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1–11 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Versailles, Kentucky's basic financial statements. The combining nonmajor governmental fund statements and long-term debt schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2013, on our consideration of the City of Versailles, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Versailles, Kentucky's internal control over financial reporting and compliance.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley, & Company, PLLC

December 26, 2013

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

|   | Primary Government         |                             |                      | Component Unit<br>Public<br>Properties |
|---|----------------------------|-----------------------------|----------------------|--|
|   | Governmental<br>Activities | Business-type<br>Activities | Total                |  |
| <b>ASSETS</b>                                       |                            |                             |                      |  |
| Current assets                                      |                            |                             |                      |  |
| Cash and cash equivalents                           | \$ 1,430,120               | \$ 1,330,675                | \$ 2,760,795         | \$ 1,809                               |
| Investments   | 2,538,741                  | -                           | 2,538,741            | -                                      |
| Accounts receivable (net)                           | 1,460,770                  | 751,536                     | 2,212,306            | -                                      |
| Grants receivable                                   | 107,071                    | -                           | 107,071              | -                                      |
| Current lease receivable (net)                      | -                          | -                           | -                    | 443,726                                |
| Other receivables                                   | 212,799                    | -                           | 212,799              | -                                      |
| Inventories   | -                          | 97,167                      | 97,167               | -                                      |
| Internal balances                                   | (1,278,594)                | 1,278,594                   | -                    | -                                      |
| Total current assets                                | <u>4,470,907</u>           | <u>3,457,972</u>            | <u>7,928,879</u>     | <u>445,535</u>                         |
| Noncurrent assets                                   |                            |                             |                      |  |
| Restricted cash and cash equivalents                | -                          | 1,716,877                   | 1,716,877            | 796,166                                |
| Restricted investments                              | -                          | 1,551,307                   | 1,551,307            | -                                      |
| Capital assets                                      |                            |                             |                      |  |
| Construction in progress                            | 4,972,726                  | 7,353                       | 4,980,079            | -                                      |
| Land and improvements                               | 2,037,672                  | 815,931                     | 2,853,603            | -                                      |
| Plant and utility systems, net                      | -                          | 43,827,907                  | 43,827,907           | -                                      |
| Depreciable buildings, property, and equipment, net | 1,565,266                  | -                           | 1,565,266            | -                                      |
| Infrastructure, net                                 | 9,568,322                  | -                           | -                    | -                                      |
| Long-term lease receivable (net)                    | -                          | -                           | -                    | 4,805,408                              |
| Other assets  | -                          | 450,013                     | 450,013              | 101,328                                |
| Total noncurrent assets                             | <u>18,143,986</u>          | <u>48,369,388</u>           | <u>66,513,374</u>    | <u>5,702,902</u>                       |
| Total assets  | <u>\$ 22,614,893</u>       | <u>\$ 51,827,360</u>        | <u>\$ 74,442,253</u> | <u>\$ 6,148,437</u>                    |
| <b>LIABILITIES</b>                                  |                            |                             |                      |  |
| Current liabilities                                 |                            |                             |                      |  |
| Accounts payable                                    | \$ 194,087                 | \$ 203,884                  | \$ 397,971           | \$ -                                   |
| Accrued leave payable                               | 4,949                      | -                           | 4,949                | -                                      |
| Accrued payroll liabilities                         | 84,017                     | 19,776                      | 103,793              | -                                      |
| Accrued taxes payable                               | -                          | 36,300                      | 36,300               | -                                      |
| Accrued interest payable                            | 11,854                     | 42,280                      | 54,134               | 42,144                                 |
| Deposits  | -                          | 247,453                     | 247,453              | -                                      |
| Deferred revenue                                    | 84,505                     | -                           | 84,505               | 538,945                                |
| Other accrued liabilities                           | -                          | 49,466                      | 49,466               | -                                      |
| Current portion of long-term obligations            | 41,986                     | 1,430,915                   | 1,472,901            | 401,228                                |
| Total current liabilities                           | <u>421,398</u>             | <u>2,030,074</u>            | <u>2,451,472</u>     | <u>982,317</u>                         |
| Noncurrent liabilities                              |                            |                             |                      |  |
| Noncurrent portion of long-term obligations         |                            |                             |                      |  |
| Compensated absences                                | 274,214                    | 44,117                      | 318,331              | -                                      |
| Bonds and notes payable                             | 259,957                    | 19,616,951                  | 19,876,908           | 5,086,051                              |
| Total liabilities                                   | <u>955,569</u>             | <u>21,691,142</u>           | <u>22,646,711</u>    | <u>6,068,368</u>                       |
| <b>NET POSITION</b>                                 |                            |                             |                      |  |
| Net investment in capital assets                    | 17,842,043                 | 23,570,014                  | 41,412,057           | -                                      |
| Restricted for                                      |                            |                             |                      |  |
| Debt service and construction                       | -                          | 3,253,684                   | 3,253,684            | -                                      |
| Other purposes                                      | 867,883                    | -                           | 867,883              | 80,069                                 |
| Unrestricted  | 2,949,398                  | 3,312,520                   | 6,261,918            | -                                      |
| Total net position                                  | <u>21,659,324</u>          | <u>30,136,218</u>           | <u>51,795,542</u>    | <u>80,069</u>                          |
| Total liabilities and net position                  | <u>\$ 22,614,893</u>       | <u>\$ 51,827,360</u>        | <u>\$ 74,442,253</u> | <u>\$ 6,148,437</u>                    |

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



**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
for the year ended June 30, 2013

| Functions/Programs                      | Expenses             | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |                    | Component Unit Public Properties |
|---|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------|----------------------------------|
|   |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government                                |                          |                    |                                  |
|   |                      |                      |                                    |                                  | Governmental Activities                           | Business-type Activities | Total              |                                  |
| <b>Primary government</b>               |                      |                      |                                    |                                  |   |                          |                    |                                  |
| <b>Governmental activities</b>          |                      |                      |                                    |                                  |   |                          |                    |                                  |
| General government                      | \$ 1,557,442         | \$ -                 | \$ -                               | \$ -                             | \$ (1,557,442)                                    | \$ -                     | \$ (1,557,442)     |                                  |
| Police operations                       | 4,158,435            | 2,243                | 1,805,399                          | 98,981                           | (2,251,812)                                       | -                        | (2,251,812)        |                                  |
| Disptach                                | 665,830              | -                    | -                                  | -                                | (665,830)   | -                        | (665,830)          |                                  |
| Fire department                         | 1,200,343            | 37,088               | 46,116                             | 8,250                            | (1,108,889)                                       | -                        | (1,108,889)        |                                  |
| Street department                       | 1,599,462            | -                    | 190,043                            | 2,352,210                        | 942,791   | -                        | 942,791            |                                  |
| Cemetery                                | 295,309              | 84,184               | -                                  | -                                | (211,125)   | -                        | (211,125)          |                                  |
| Interest on long-term debt              | 11,854               | -                    | -                                  | -                                | (11,854)  | -                        | (11,854)           |                                  |
| Total governmental activities           | 9,488,675            | 123,515              | 2,041,558                          | 2,459,441                        | (4,864,161)                                       | -                        | (4,864,161)        |                                  |
| <b>Business-type activities</b>         |                      |                      |                                    |                                  |   |                          |                    |                                  |
| Utilities - Water, sewer and sanitation | 5,587,825            | 5,996,158            | -                                  | 36,870                           | -   | 445,203                  | 445,203            |                                  |
| Total business-type activities          | 5,587,825            | 5,996,158            | -                                  | 36,870                           | -   | 445,203                  | 445,203            |                                  |
| <b>Total primary government</b>         | <b>\$ 15,076,500</b> | <b>\$ 6,119,673</b>  | <b>\$ 2,041,558</b>                | <b>\$ 2,496,311</b>              | <b>(4,864,161)</b>                                | <b>445,203</b>           | <b>(4,418,958)</b> |                                  |
| <b>Component Unit</b>                   |                      |                      |                                    |                                  |   |                          |                    |                                  |
| Public Properties Corporation           | \$ 841,701           | \$ 591,276           | \$ -                               | \$ -                             |   |                          |                    | \$ (250,425)                     |

|   |  |  |  |                      |                      |                      |                  |  |
|---|--|--|--|----------------------|----------------------|----------------------|------------------|--|
| General revenue                             |  |  |  |                      |                      |                      |                  |  |
| Taxes                                       |  |  |  |                      |                      |                      |                  |  |
| Property taxes, levied for general purposes |  |  |  | 583,438              | -                    | 583,438              | -                |  |
| License fees                                |  |  |  |                      |                      |                      |                  |  |
| Franchise                                   |  |  |  | 284,749              | -                    | 284,749              | -                |  |
| Payroll                                     |  |  |  | 3,578,983            | -                    | 3,578,983            | -                |  |
| Insurance premiums                          |  |  |  | 1,326,275            | -                    | 1,326,275            | -                |  |
| Net profits                                 |  |  |  | 355,852              | -                    | 355,852              | -                |  |
| Occupational                                |  |  |  | 64,589               | -                    | 64,589               | -                |  |
| E911 wireless funding fees                  |  |  |  | 517,447              | -                    | 517,447              | -                |  |
| Investment earnings                         |  |  |  | 50,401               | 13,632               | 64,033               | 209,958          |  |
| Miscellaneous                               |  |  |  | 82,280               | -                    | 82,280               | -                |  |
| Total general revenues                      |  |  |  | 6,844,014            | 13,632               | 6,857,646            | 209,958          |  |
| Gain (loss) on disposal of assets           |  |  |  | 2,122                | (626,412)            | (624,290)            | -                |  |
| Total general revenues and gains (losses)   |  |  |  | 6,846,136            | (612,780)            | 6,233,356            | 209,958          |  |
| Change in Net Position                      |  |  |  | 1,981,975            | (167,577)            | 1,814,398            | (40,467)         |  |
| Net position, beginning, restated           |  |  |  | 19,677,349           | 30,303,795           | 49,981,144           | 120,536          |  |
| <b>NET POSITION, ENDING</b>                 |  |  |  | <b>\$ 21,659,324</b> | <b>\$ 30,136,218</b> | <b>\$ 51,795,542</b> | <b>\$ 80,069</b> |  |

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

**CITY OF VERSAILLES, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

|                                    | General<br>Fund     | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|------------------------------------|---------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                      |                     |                                |                                |
| Cash and cash equivalents          | \$ 1,111,085        | \$ 319,035                     | \$ 1,430,120                   |
| Investments                        | 2,008,254           | 530,487                        | 2,538,741                      |
| Accounts receivable, net           | 1,417,409           | 18,361                         | 1,435,770                      |
| Other receivables                  | 212,799             | -                              | 212,799                        |
| Grants receivable                  | 107,071             | -                              | 107,071                        |
| Due from other funds               | -                   | -                              | -                              |
|                                    | <u>\$ 4,856,618</u> | <u>\$ 867,883</u>              | <u>\$ 5,724,501</u>            |
| <b>LIABILITIES</b>                 |                     |                                |                                |
| Accounts payable                   | \$ 194,087          | \$ -                           | \$ 194,087                     |
| Accrued payroll liabilities        | 84,017              | -                              | 84,017                         |
| Compensated absences               | 4,949               | -                              | 4,949                          |
| Deferred revenue                   | 84,505              | -                              | 84,505                         |
| Due to other funds                 | 1,278,594           | -                              | 1,278,594                      |
|                                    | <u>1,646,152</u>    | <u>-</u>                       | <u>1,646,152</u>               |
| <b>FUND BALANCE</b>                |                     |                                |                                |
| Fund balance                       |                     |                                |                                |
| Restricted                         | -                   | 867,883                        | 867,883                        |
| Unassigned                         | 3,210,466           | -                              | 3,210,466                      |
|                                    | <u>3,210,466</u>    | <u>867,883</u>                 | <u>4,078,349</u>               |
| Total fund balance                 | <u>3,210,466</u>    | <u>867,883</u>                 | <u>4,078,349</u>               |
| Total liabilities and fund balance | <u>\$ 4,856,618</u> | <u>\$ 867,883</u>              | <u>\$ 5,724,501</u>            |

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

Fund balances reported above \$ 4,078,349

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 18,143,986

Accrued interest on long-term debt is not payable in the current period and therefore is not reported in the funds. (11,854)

Long-term receivables for property taxes are not current financial resources and are therefore are not reported in the funds. 25,000

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (576,157)

Net position \$ 21,659,324

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2013**

|  | <u>General<br/>Fund</u>        | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|--------------------------------|---|---|
| <b>REVENUES</b>                                  |                                |   |   |
| Taxes  | \$ 573,438                     | \$ -                                    | \$ 573,438                              |
| Licenses and permits                             | 5,610,448                      | -                                       | 5,610,448                               |
| Intergovernmental revenues                       | 3,923,456                      | 190,043                                 | 4,113,499                               |
| Charges for services                             | 116,935                        | 6,580                                   | 123,515                                 |
| Other income                                     | <u>621,352</u>                 | <u>28,778</u>                           | <u>650,130</u>                          |
| <br>Total Revenues                               | <br><u>10,845,629</u>          | <br><u>225,401</u>                      | <br><u>11,071,030</u>                   |
| <b>EXPENDITURES</b>                              |                                |   |   |
| Current  |                                |   |   |
| General government                               | 1,552,450                      | -                                       | 1,552,450                               |
| Merged police operations                         | 3,816,371                      | -                                       | 3,816,371                               |
| Other police operations/grants                   | 117,694                        | -                                       | 117,694                                 |
| 911 communications                               | 647,590                        | -                                       | 647,590                                 |
| Fire department                                  | 1,089,054                      | -                                       | 1,089,054                               |
| Street department                                | 822,603                        | 131,977                                 | 954,580                                 |
| Cemetery department                              | 281,515                        | 3,524                                   | 285,039                                 |
| Capital outlay                                   | 2,201,745                      | -                                       | 2,201,745                               |
| Debt service                                     | <u>53,840</u>                  | <u>-</u>                                | <u>53,840</u>                           |
| <br>Total Expenditures                           | <br><u>10,582,862</u>          | <br><u>135,501</u>                      | <br><u>10,718,363</u>                   |
| <br>Excess of Revenues Over (Under) Expenditures | <br>262,767                    | <br>89,900                              | <br>352,667                             |
| Other Sources                                    |                                |   |   |
| Transfers in (out)                               | 14,394                         | (14,394)                                | -                                       |
| Proceeds from sale of assets                     | <u>2,122</u>                   | <u>-</u>                                | <u>2,122</u>                            |
| <br>Net change in fund balances                  | <br>279,283                    | <br>75,506                              | <br>354,789                             |
| <br>Fund Balance, beginning of year, restated    | <br><u>2,931,183</u>           | <br><u>792,377</u>                      | <br><u>3,723,560</u>                    |
| <br><b>Fund Balance, end of year</b>             | <br><b><u>\$ 3,210,466</u></b> | <br><b><u>\$ 867,883</u></b>            | <br><b><u>\$ 4,078,349</u></b>          |
| <br>Net change in fund balances                  |                                |   | \$ 354,789                              |
| Add: Capital outlay                              |                                |   | 2,201,745                               |
| Add: Debt service                                |                                |   | 53,840                                  |
| Less: Change in long-term compensated absences   |                                |   | (19,943)                                |
| Add: Long-term property taxes receivable         |                                |   | 10,000                                  |
| Add: Contributed assets                          |                                |   | 387,500                                 |
| Less: Depreciation on governmental activities    |                                |   | (994,102)                               |
| Less: Interest on long-term debt                 |                                |   | <u>(11,854)</u>                         |
| <br>Change in net position                       |                                |   | <br><b><u>\$ 1,981,975</u></b>          |

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2013**

|  | <b>Business Type<br/>Activities</b>      |
|--|--|
|  | <b>Water, Sewer<br/>&amp; Sanitation</b> |
| <b>ASSETS</b>                                |  |
| Current assets                               |  |
| Cash and cash equivalents                    | \$ 1,330,675                             |
| Accounts receivable, net                     | 751,536                                  |
| Due from other funds                         | 1,278,594                                |
| Inventory                                    | 97,167                                   |
| Total current assets                         | 3,457,972                                |
| Noncurrent assets                            |  |
| Restricted assets                            |  |
| Cash and cash equivalents                    | 1,716,877                                |
| Investments                                  | 1,551,307                                |
| Construction in progress                     | 7,353                                    |
| Land   | 815,931                                  |
| Property and equipment                       | 57,751,065                               |
| Less: accumulated depreciation               | (13,923,158)                             |
| Other assets                                 | 450,013                                  |
| Total noncurrent assets                      | 48,369,388                               |
| Total assets                                 | \$ 51,827,360                            |
| <b>LIABILITIES</b>                           |  |
| Current liabilities                          |  |
| Accounts payable                             | \$ 203,884                               |
| Accrued leave                                | -  |
| Accrued payroll                              | 19,776                                   |
| Taxes payable                                | 36,300                                   |
| Accrued interest                             | 42,280                                   |
| Deposits payable                             | 247,453                                  |
| Other accrued liabilities                    | 49,466                                   |
| Current portion, long-term debt              | 1,430,915                                |
| Total current liabilities                    | 2,030,074                                |
| Noncurrent liabilities                       |  |
| Compensated absences                         | 44,117                                   |
| Long-term debt                               | 19,616,951                               |
| Total noncurrent liabilities                 | 19,661,068                               |
| Total liabilities                            | 21,691,142                               |
| <b>NET POSITION</b>                          |  |
| Net investment in capital assets             | 23,570,014                               |
| Restricted for debt service and construction | 3,253,684                                |
| Unrestricted                                 | 3,312,520                                |
| Total net position                           | 30,136,218                               |
| Total liabilities and net position           | \$ 51,827,360                            |

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET FUND POSITION**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2013**

|  | <u>Business Type</u><br><u>Activities</u><br><u>Water, Sewer</u><br><u>&amp; Sanitation</u> |
|--|---|
| <b>OPERATING REVENUES</b>                              |   |
| Charges for services                                   | \$ 5,796,005  |
| Franchise fees   | 103,476   |
| Other revenues   | <u>96,677</u>   |
| Total operating revenues                               | <u>5,996,158</u>  |
| <b>OPERATING EXPENSES</b>                              |   |
| Salaries   | 992,662   |
| Payroll taxes  | 69,865  |
| Employee benefits                                      | 291,695   |
| Advertising and printing                               | 18,802  |
| Professional and technical                             | 43,463  |
| Repairs and maintenance                                | 306,339   |
| Utilities  | 589,582   |
| Telephone and postage                                  | 46,815  |
| Insurance  | 89,108  |
| Chemicals  | 206,677   |
| Technical supplies                                     | 1,296   |
| Uniforms   | 5,466   |
| Motor fuel   | 57,442  |
| Office supplies  | 3,600   |
| Other materials  | 48,998  |
| Other expenses   | 399,501   |
| Purchase of water                                      | 11,510  |
| Landfill expense                                       | 78,743  |
| Sludge removal   | 76,491  |
| Depreciation   | 1,473,428   |
| Training/travel  | 9,161   |
| Lab analysis   | 38,531  |
| Purchase of water meters                               | 32,450  |
| Dumpster collection                                    | <u>2,275</u>  |
| Total operating expenses                               | <u>4,893,900</u>  |
| Operating income                                       | <u>1,102,258</u>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                |   |
| Investment income                                      | 13,632  |
| Interest expense                                       | (662,750)   |
| Amortization expense                                   | (31,175)  |
| State reimbursements                                   | 36,870  |
| Loss on sale of assets                                 | <u>(626,412)</u>  |
| (Deficiency) of nonoperating revenues<br>over expenses | <u>(1,269,835)</u>  |
| <b>Net income (loss)</b>                               | (167,577)   |
| <b>Net position, beginning</b>                         | <u>30,303,795</u>   |
| <b>NET POSITION, ENDING</b>                            | <u>\$ 30,136,218</u>  |

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2013**

|   | <u><b>Business Type<br/>Activities</b></u><br><b>Water, Sewer<br/>&amp; Sanitation</b> |
|---|--|
| <b>Cash flows from operating activities:</b>  |  |
| Receipts from customers   | \$ 6,073,575   |
| Cash payments to employees  | (1,356,692)  |
| Internal activity - payments to other funds   | (74,052)   |
| Cash payments to others for services  | <u>(1,937,866)</u>   |
| Net cash provided by operating activities   | <u>2,704,965</u>   |
| <b>Cash flows from capital and related financing activities:</b>                                      |  |
| Purchase of construction in progress  | (724,025)  |
| Purchase of property, plant and equipment   | (75,379)   |
| Proceeds from sale of assets  | 891,175  |
| Grant revenue   | 188,081  |
| Payment of bond and note payable principal  | (2,960,981)  |
| Payment for advance refunding   | (7,835,000)  |
| Proceeds from issuance of revenue bonds   | 7,835,000  |
| Proceeds from issuance of note payable  | 600,000  |
| Interest expense  | <u>(523,644)</u>   |
| Net cash (used) by capital and related financing activities   | <u>(2,604,773)</u>   |
| <b>Cash flows from investing activities:</b>  |  |
| Sale of investments   | 918,944  |
| Purchase of investments   | (1,049,641)  |
| Investment income   | <u>35,094</u>  |
| Net cash provided by in investing activities  | <u>(95,603)</u>  |
| <b>Net increase in cash and cash equivalents</b>  | <b>4,589</b>   |
| Cash and cash equivalents, July 1, 2012   | <u>3,042,963</u>   |
| <b>Cash and cash equivalents, June 30, 2013</b>   | <b><u>\$ 3,047,552</u></b>   |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities         |  |
| Operating income  | \$ 1,102,258   |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: |  |
| Depreciation and amortization   | 1,473,428  |
| Changes in assets and liabilities:  |  |
| Receivables, net  | 77,417   |
| Due from other funds  | -  |
| Inventory   | 30,469   |
| Accounts payable  | 24,970   |
| Payroll liabilities   | (2,470)  |
| Other liabilities   | 72,945   |
| Due to other funds  | <u>(74,052)</u>  |
| Net cash provided by operating activities   | <u>\$ 2,704,965</u>  |
| Reconciliation of total cash and cash equivalents   |  |
| Current assets - cash and cash equivalents  | \$ 1,330,675   |
| Restricted assets - cash and cash equivalents   | <u>1,716,877</u>   |
| Total cash and cash equivalents   | <u>\$ 3,047,552</u>  |
| Amortization expense  | <u>\$ 31,175</u>   |

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2013**

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|   | <u>Agency<br/>Fund</u> | <u>Private<br/>Purpose<br/>Trust</u> | <u>Totals</u>     |
|---|------------------------|--------------------------------------|-------------------|
| <b>ASSETS</b>                                   |                        |                                      |                   |
| Cash and cash equivalents                       | \$ 274,779             | \$ -                                 | \$ 274,779        |
| Investments                                     | <u>-</u>               | <u>86,183</u>                        | <u>86,183</u>     |
| Total assets                                    | <u>\$ 274,779</u>      | <u>\$ 86,183</u>                     | <u>\$ 360,962</u> |
| <b>LIABILITIES</b>                              |                        |                                      |                   |
| Accounts payable                                | \$ 42,189              | \$ -                                 | \$ 42,189         |
| Other liabilities                               | <u>230,654</u>         | <u>-</u>                             | <u>230,654</u>    |
| Total liabilities                               | <u>272,843</u>         | <u>-</u>                             | <u>272,843</u>    |
| <b>NET ASSETS</b>                               |                        |                                      |                   |
| Held in trust for payroll<br>and other purposes | <u>\$ 1,936</u>        | <u>\$ 86,183</u>                     | <u>\$ 88,119</u>  |

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**for the year ended June 30, 2013**

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|                           | Agency<br>Fund | Private<br>Purpose<br>Trust | Totals    |
|---------------------------|----------------|-----------------------------|-----------|
| <b>ADDITIONS</b>          |                |                             |           |
| Investment income         | \$ (1)         | \$ 3,030                    | \$ 3,029  |
| Total investment earnings | (1)            | 3,030                       | 3,029     |
| Less: investment expense  |                |                             |           |
| Trust fees                | -              | 700                         | 700       |
| Miscellaneous             | -              | 2,078                       | 2,078     |
| Total investment expenses | -              | 2,778                       | 2,778     |
| Net investment earnings   | (1)            | 252                         | 251       |
| Total additions           | (1)            | 252                         | 251       |
| Net assests, beginning    | 1,937          | 85,931                      | 87,868    |
| Net assests, ending       | \$ 1,936       | \$ 86,183                   | \$ 88,119 |

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



**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Versailles, Kentucky (the city) operates under the City Council form of government and has budgetary authority over the following functional areas: public safety, public service, water and sewer, general administration, and for financial reporting purposes, all funds and account groups that are controlled by or dependent on the City, as determined on the basis of budget adoption, management oversight responsibility, and taxing authority. The accounting policies of the City of Versailles conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

**A. Reporting Entity**

The financial statements of the City of Versailles, Kentucky include the funds, account groups and entities over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Government Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, and participate in fiscal management and the scope of public service. Based on these criteria there are no affiliated entities. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

**Discretely Presented Component Units** – The component units column in the government-wide financial statements includes the financial data of the City's discretely presented 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 City's reporting entity because the primary government is able to impose its will on the organizations.

The City of Versailles Public Properties Corporation is included in the Government's reporting entity as a discretely presented component unit because the Government appoints all of the governing body and the City has the ability to impose its will on the Corporation. The Corporation is involved in holding, developing and managing property leased to the Kentucky Community and Technical College System.

**B. Basis of Presentation**

The City's financial statements consists of the following:

- Management's discussion and analysis (required supplementary information);
- Basic Financial Statements
  - Government-wide financial statements
  - Fund financial statements
  - Notes to the financial statements

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (continued)**

**Government-wide Financial Statements**

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

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds, each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

Governmental Funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures.

The following funds are used by the City of Versailles:

**Governmental Funds**

**General Fund** – The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** – The special revenue funds of the City are used to account for proceeds of specific revenue sources that are legally restricted to disbursements for specified purposes. The City has one special revenue fund – Road Fund that accounts for the municipal road aid program.

**Permanent Fund** – The permanent fund is used to account for the Versailles Cemetery Perpetual and Rose Crest income and expenditures. This fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the program.

**Proprietary Funds**

Proprietary Funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (continued)**

**Proprietary Funds (continued)**

Enterprise Funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City enterprise operations include the following:

**Enterprise Fund** – The enterprise fund is used to account for water, sewer, sanitation, the operations of which are financed by user charges.

**Fiduciary Fund** – The fiduciary funds consist of Agency Funds and Private Purpose Trusts. The agency fund is used to report information from the payroll fund. The private purpose fund provides information for the expendable cemetery trust.

**C. Basis of Accounting**

The basis of accounting refers to when revenues and expenditures are recognized in the accounts and recognized in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

**Government-wide Financial Statements**

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

**Fund Financial Statements**

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized at the time the liability occurs.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Basis of Accounting (continued)**

Fund Financial Statements, continued

Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available in all funds.

**D. Budgeting**

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

Budgeted amounts in the financial statements are as adopted by ordinance of the City.

**E. Cash and Cash Equivalents**

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

**F. Accounts Receivable**

The Water and Sewer accounts receivable are for services to customers. If a customer fails to pay their bill by the 25<sup>th</sup> of the month, their service is cutoff and is not reinstated until the individual pays a reconnect fee. Deposits are applied to customers' final bill and any unpaid balance after applying the deposit is fully reserved and carried on the books for a period of five years.

**G. Restricted Cash and Investments**

The City has restricted cash and investments to satisfy bond issue requirements. The City also has restricted cash accounts related to their use for bond payments and capital expenditures.

**H. Investments**

Investments are carried at fair value, except for short-term government obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market prices.

**I. Inventory**

Inventory consists of water and sewer supplies. Inventory amounts are stated at cost.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Capital Assets**

Capital assets are reported at cost. Donated assets are valued at their fair market value on the date of donation. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset as follows:

|                            |             |
|----------------------------|-------------|
| Buildings and improvements | 25-40 years |
| Land improvements          | 10-20 years |
| Machinery and equipment    | 5-10 years  |
| Vehicles                   | 5-20 years  |
| Utility systems            | 25-40 years |
| Infrastructure             | 5-40 years  |

**K. Interfund Balances**

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

**L. Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources.

Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**M. Compensated Absences**

City employees are allowed to accumulate unlimited sick leave and vacation time equal to one and one-half times the employee's current vacation leave allowed. Regular full-time employees (40 hours per week) receive 8 hours of sick time per month while those expected to work 24-hour shifts receive 12 hours per month. Vacation time is accrued at the rate of 1/12<sup>th</sup> of the annual rate per month of employment.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Fund Balances**

Fund balances of the governmental funds are classified as follows:

*Nonspendable* — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* — amounts that can be used only for specific purposes determined by a formal action of Versailles. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

*Unassigned* — all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions.

As of June 30, 2013, fund balances are composed of the following:

|                         | <b>General<br/>Fund</b> | <b>Nonmajor<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|-------------------------|-------------------------|--|---|
| Restricted:             |                         |  |   |
| Road surface repairs    | \$ -                    | \$ 337,396                                 | \$ 337,396                              |
| Cemetery permanent fund |                         | 530,487                                    | 530,487                                 |
| Unassigned              | <u>3,210,466</u>        | <u>-</u>                                   | <u>3,210,466</u>                        |
| Total fund balances     | <u>\$ 3,210,466</u>     | <u>\$ 867,883</u>                          | <u>\$ 4,078,349</u>                     |

**O. Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

**P. Proprietary Revenues**

Proprietary funds report all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Estimates**

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

**R. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through December 26, 2013, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2013, have not been evaluated by the City.

**2. CASH AND INVESTMENTS**

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency. In addition, trust funds may invest in uninsured corporate securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the City held investments in three municipal bonds. Ratings of the municipal bonds were as follows :

| <u>Municipal Security</u>                                     | <u>Rating</u> |
|---|---------------|
| Kentucky Bond Corporation Financing Program Revenue Bonds     | AA-           |
| Kentucky State Property and Buildings Commission Agency Bonds | A+            |
| New Jersey State Higher Education Assistance Authority        | Aa3           |
| New York Housing Development Corporation Multi-Family Housing | AA            |
| Wayne County Michigan Taxable-LTD                             | SP-1          |

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the City's policy requires a collateralized level of 103% of market value, plus accrued interest.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2013

**2. CASH AND INVESTMENTS (CONTINUED)**

PRIMARY GOVERNMENT

The City's bank deposits were substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$8,567,720 and the bank balances totaled \$8,547,311. As of June 30, 2013, \$7,269,576 was held as collateral by the custodial banks in the City's name.

COMPONENT UNIT

The Public Properties Corporation's bank deposits were substantially covered by federal depository insurance or by collateral held by the custodial banks in the Corporation's name. The carrying amount of the Corporation's deposits totaled \$797,975, and the bank balances totaled \$798,669. As of June 30, 2013, \$291,448 was held as collateral by the custodial banks in the Corporation's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that, with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 20% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution.

The City's investments at June 30, 2013, are as follows:

| <u>Investment Type</u>  | <u>Fair Value</u>   | <u>Investment Maturities (in Years)</u> |                     |             |                     |
|-------------------------|---------------------|---|---------------------|-------------|---------------------|
|                         |                     | <u>1 year or less</u>                   | <u>1-5</u>          | <u>6-10</u> | <u>More Than 10</u> |
| Certificates of deposit | \$ 2,053,221        | \$ 1,919,967                            | \$ 133,254          | \$ -        | \$ -                |
| U.S. govt. obligations  | 45,346              | 45,346                                  | -                   | -           | -                   |
| Mutual funds            | 418,625             | 418,625                                 | -                   | -           | -                   |
| Municipal bonds         | <u>1,572,856</u>    | <u>511,980</u>                          | <u>1,060,876</u>    | -           | -                   |
| Total                   | <u>\$ 4,090,048</u> | <u>\$ 2,895,918</u>                     | <u>\$ 1,194,130</u> | <u>\$ -</u> | <u>\$ -</u>         |

**3. ACCOUNTS RECEIVABLE**

Receivables at year end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

|                                   | <b>General Fund</b> | <b>Nonmajor Funds</b> | <b>Governmental Funds Total</b> |
|-----------------------------------|---------------------|-----------------------|---------------------------------|
| Governmental Funds:               |                     |                       |                                 |
| Taxes                             | \$ 53,502           | \$ -                  | \$ 53,502                       |
| Licenses, permits, billings       | 1,378,727           | -                     | 1,378,727                       |
| Intergovernmental                 | <u>28,180</u>       | <u>18,361</u>         | <u>46,541</u>                   |
| Gross receivables                 | 1,460,409           | 18,361                | 1,478,770                       |
| Less: allowance for uncollectible | <u>(43,000)</u>     | -                     | <u>(43,000)</u>                 |
| Net receivables                   | <u>\$ 1,417,409</u> | <u>\$ 18,361</u>      | <u>\$ 1,435,770</u>             |
| Business Type Activities:         | <u>Total</u>        |                       |                                 |
| Customer                          | \$ 742,589          |                       |                                 |
| Other                             | 15,947              |                       |                                 |
| Less: allowance for uncollectible | <u>(7,000)</u>      |                       |                                 |
| Net receivables                   | <u>\$ 751,536</u>   |                       |                                 |



**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**4. CAPITAL ASSETS**

A summary of the Primary Government's capital asset activity during the fiscal year follows:

| <u>Governmental activities</u>               | <u>Balance</u><br><u>July 1, 2012</u> | <u>Additions</u>     | <u>Deductions</u>      | <u>Balance</u><br><u>June 30, 2013</u> |
|--|---------------------------------------|----------------------|------------------------|--|
| Capital assets not being depreciated:        |                                       |                      |                        |  |
| Land   | \$ 2,037,672                          | \$ -                 | \$ -                   | \$ 2,037,672                           |
| Construction in progress                     | <u>2,974,961</u>                      | <u>1,997,765</u>     | <u>-</u>               | <u>4,972,726</u>                       |
| Total  | <u>5,012,633</u>                      | <u>1,997,765</u>     | <u>-</u>               | <u>7,010,398</u>                       |
| Capital assets being depreciated:            |                                       |                      |                        |  |
| Buildings and Improvements                   | 2,093,282                             | 77,677               | -                      | 2,170,959                              |
| Equipment                                    | 2,348,342                             | 55,208               | -                      | 2,403,550                              |
| Vehicles                                     | 3,122,621                             | 131,447              | 62,770                 | 3,191,298                              |
| Infrastructure                               | <u>11,101,494</u>                     | <u>428,488</u>       | <u>-</u>               | <u>11,529,982</u>                      |
| Total  | <u>18,665,739</u>                     | <u>692,820</u>       | <u>62,770</u>          | <u>19,295,789</u>                      |
| Total capital assets                         | <u>23,678,372</u>                     | <u>2,690,585</u>     | <u>62,770</u>          | <u>26,306,187</u>                      |
| Less: accumulated depreciation               |                                       |                      |                        |  |
| Buildings and improvements                   | 1,742,522                             | 120,292              | -                      | 1,862,814                              |
| Equipment                                    | 1,720,990                             | 175,847              | -                      | 1,896,837                              |
| Vehicles                                     | 2,288,208                             | 215,452              | 62,770                 | 2,440,890                              |
| Infrastructure                               | <u>1,377,809</u>                      | <u>583,851</u>       | <u>-</u>               | <u>1,961,660</u>                       |
| Total accumulated depreciation               | <u>7,129,529</u>                      | <u>1,095,442</u>     | <u>62,770</u>          | <u>8,162,201</u>                       |
| Governmental activities capital assets, net  | <u>\$ 16,548,843</u>                  | <u>\$ 1,595,143</u>  | <u>\$ -</u>            | <u>\$ 18,143,986</u>                   |
| <br><u>Business-Type Activities</u>          |                                       |                      |                        |  |
| Capital assets not depreciated:              |                                       |                      |                        |  |
| Land   | \$ 2,106,509                          | \$ -                 | \$ (1,290,578)         | \$ 815,931                             |
| Construction in progress                     | <u>16,604,751</u>                     | <u>438,206</u>       | <u>(17,035,604)</u>    | <u>7,353</u>                           |
| Total  | <u>18,711,260</u>                     | <u>438,206</u>       | <u>(18,326,182)</u>    | <u>823,284</u>                         |
| Capital assets being depreciated:            |                                       |                      |                        |  |
| Buildings                                    | 15,575,100                            | 1,625,056            | (77,677)               | 17,122,479                             |
| Equipment                                    | 1,349,675                             | 48,840               | (589,604)              | 808,911                                |
| Vehicles                                     | 241,601                               | 193,005              | (18,946)               | 415,660                                |
| Plant and utility systems                    | <u>24,449,776</u>                     | <u>15,244,084</u>    | <u>(289,845)</u>       | <u>39,404,015</u>                      |
| Total  | <u>41,616,152</u>                     | <u>17,110,985</u>    | <u>(976,072)</u>       | <u>57,751,065</u>                      |
| Total capital assets                         | <u>60,327,412</u>                     | <u>17,549,191</u>    | <u>(19,302,254)</u>    | <u>58,574,349</u>                      |
| Less: accumulated depreciation               |                                       |                      |                        |  |
| Buildings                                    | 2,423,030                             | 363,465              | (77,677)               | 2,708,818                              |
| Equipment                                    | 946,321                               | 58,447               | (474,432)              | 530,336                                |
| Vehicles                                     | 170,929                               | 31,351               | (14,536)               | 187,744                                |
| Plant and utility systems                    | <u>9,658,508</u>                      | <u>1,008,906</u>     | <u>(171,154)</u>       | <u>10,496,260</u>                      |
| Total accumulated depreciation               | <u>13,198,788</u>                     | <u>1,462,169</u>     | <u>(737,799)</u>       | <u>13,923,158</u>                      |
| Business-type activities capital assets, net | <u>\$ 47,128,624</u>                  | <u>\$ 16,087,022</u> | <u>\$ (18,564,455)</u> | <u>\$ 44,651,191</u>                   |

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**4. CAPITAL ASSETS (CONTINUED)**

During 2013, the City transferred \$101,340 of fully depreciated capital assets to the General Fund from the Water and Sewer Fund.

Depreciation expense was charged as direct expense to programs of the primary government as follows:

|                          |                   |                           |                     |
|--------------------------|-------------------|---------------------------|---------------------|
| Governmental activities: |                   | Business-type activities: |                     |
| General government       | \$ 8,736          | Water                     | \$ 686,435          |
| Police operations        | 199,176           | Sewer                     | 775,731             |
| Dispatch                 | 19,993            | Sanitation                | <u>11,262</u>       |
| Fire department          | 111,858           | Total                     | <u>\$ 1,473,428</u> |
| Street department        | 641,498           |                           |                     |
| Cemetery                 | <u>12,841</u>     |                           |                     |
| Total                    | <u>\$ 994,102</u> |                           |                     |

Under GASB 34, the City of Versailles has elected to not report major infrastructure retroactively. Capital assets acquired are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

|                         |             |
|-------------------------|-------------|
| Infrastructure          | 5-40 years  |
| Buildings               | 25-40 years |
| Improvements            | 10-20 years |
| Vehicles                | 5-20 years  |
| Machinery and equipment | 5-10 years  |

**5. LONG TERM DEBT**

**GOVERNMENTAL ACTIVITIES**

NOTES AND LEASES PAYABLE

On January 14, 2011, the City entered into a lease agreement for a fire truck. The lease bears interest at a rate of 3.92% with principal and interest payments to be made annually for a term of 8 years. The first lease payment was made on July 1, 2011, and the lease is scheduled to mature on July 1, 2018. The lease is collateralized by the fire truck. The book value of the fire truck at June 30, 2013, was \$314,486.

The annual requirements to amortize all notes and leases outstanding as of June 30, 2013, are as follows:

| <u>June 30</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|----------------|-------------------|------------------|-------------------|
| 2014           | \$ 41,986         | \$ 11,854        | \$ 53,840         |
| 2015           | 43,634            | 10,206           | 53,840            |
| 2016           | 45,347            | 8,493            | 53,840            |
| 2017           | 47,127            | 6,713            | 53,840            |
| 2018           | 48,978            | 4,862            | 53,840            |
| 2019           | <u>74,871</u>     | <u>2,939</u>     | <u>77,810</u>     |
|                | <u>\$ 301,943</u> | <u>\$ 45,067</u> | <u>\$ 347,010</u> |

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**5. LONG TERM DEBT (CONTINUED)**

The changes in general long-term debt during 2013 are as follows:

|                      | <u>July 1, 2012</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2013</u> |
|----------------------|---------------------|------------------|--------------------|----------------------|
| Fire Truck Lease     | \$ 342,343          | \$ -             | \$ 40,400          | \$ 301,943           |
| Compensated Absences | <u>254,271</u>      | <u>19,943</u>    | <u>-</u>           | <u>274,214</u>       |
| Total                | <u>\$ 596,614</u>   | <u>\$ 19,943</u> | <u>\$ 40,400</u>   | <u>\$ 576,157</u>    |

**BUSINESS-TYPE ACTIVITIES**

**BONDS AND NOTES PAYABLE**

On July 14, 2011, the City issued \$6,460,000 of Water and Sewer Refunding Revenue Bonds, Series 2011 to advance refund previously issued 2001 Water and Sewer Revenue Bonds. The net proceeds of \$6,561,601 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2001 Series bonds. As a result, the 2001 Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The new issue will reduce debt service payments by \$662,674 and has a net economic gain of \$351,034. At June 30, 2013, \$5,420,000 of the defeased bonds are still outstanding.

On May 31, 2012, the City issued \$9,825,000 of Water and Sewer Revenue Refunding and Improvement Bonds, Series 2012. The proceeds were used to advance refund previously issued 2004 Water and Sewer Revenue Bonds and provide \$800,000 for construction associated with the Sewer System Evaluation Survey and Wastewater Plant Expansion projects. The net proceeds of \$8,831,935 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Series bonds. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The new issue will reduce debt service payments by \$407,020 and has a net economic gain of \$347,073. At June 30, 2013, \$7,650,000 of the defeased bonds are still outstanding.

On March 14, 2013, the City issued \$7,835,000 of Water and Sewer Refunding Revenue Bonds, Series 2013. The proceeds were used to advance refund previously issued 2005 Water and Sewer Revenue Bonds. The net proceeds of \$7,654,920 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005 Series bonds. As a result, the 2005 Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The new issue will reduce debt service payments by \$254,329 and has a net economic gain of \$220,077. At June 30, 2013, \$6,925,000 of the defeased bonds are still outstanding.

On February 27, 2013, the City executed a promissory note with a local bank for \$600,000 to refinance the outstanding balance of the \$1,525,000 promissory note used to purchase land previously operated by the City as a landfill. The new note bears interest at a variable rate with an initial rate of 2.36%. The interest rate is subject to change once every three years and is based on the 3 YEAR CMT Index. The note is due in 28 monthly payments of \$23,336, with the final payment due on February 27, 2020.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**5. LONG TERM DEBT (CONTINUED)**

At June 30, 2013, the business-type activities had the following bonds and notes payable outstanding:

| <u>Description</u>                 | <u>Series</u> | <u>Amount</u>        | <u>Current<br/>Portion</u> |
|------------------------------------|---------------|----------------------|----------------------------|
| Revenue Bonds                      | 2011          | \$ 5,385,000         | \$ 535,000                 |
| Revenue Bonds                      | 2012          | 9,225,000            | 360,000                    |
| Revenue Bonds                      | 2013          | 7,750,000            | 615,000                    |
| Note Payable (\$600,000)           |               | <u>580,166</u>       | <u>80,172</u>              |
| Total payable at par               |               | 22,940,166           | 1,600,172                  |
| Less: unamortized defeasance costs |               | <u>(1,892,300)</u>   | <u>(169,257)</u>           |
|                                    |               | 21,047,866           | <u>\$ 1,430,915</u>        |
| Less: current portion payable      |               | <u>(1,430,915)</u>   |                            |
| Total long-term portion            |               | <u>\$ 19,616,951</u> |                            |

The annual requirements to amortize all revenue bonds and notes outstanding as of June 30, 2013, are as follows:

| <b>June 30</b> | <b>Principal</b>     | <b>Interest</b>     | <b>Total</b>         |
|----------------|----------------------|---------------------|----------------------|
| 2014           | \$ 1,600,172         | \$ 470,664          | \$ 2,070,836         |
| 2015           | 1,622,107            | 446,366             | 2,068,474            |
| 2016           | 1,644,068            | 420,170             | 2,064,238            |
| 2017           | 1,671,119            | 393,504             | 2,064,624            |
| 2018           | 1,698,199            | 363,988             | 2,062,186            |
| 2019-2023      | 8,854,501            | 1,242,616           | 10,097,116           |
| 2024-2026      | <u>5,850,000</u>     | <u>213,986</u>      | <u>6,063,986</u>     |
|                | <u>\$ 22,940,166</u> | <u>\$ 3,551,294</u> | <u>\$ 26,491,460</u> |

The changes in long-term debt during 2013 are as follows:

|                      | <u>July 1, 2012</u>  | <u>Additions</u>    | <u>Retirements</u>  | <u>June 30, 2013</u> |
|----------------------|----------------------|---------------------|---------------------|----------------------|
| W & S Revenue Bonds  | \$ 22,915,000        | \$ 7,835,000        | \$ 8,390,000        | \$ 22,360,000        |
| Notes Payable        | 1,476,145            | 600,000             | 1,495,979           | 580,166              |
| Compensated Absences | <u>44,220</u>        | <u>-</u>            | <u>103</u>          | <u>44,117</u>        |
| Total                | <u>\$ 24,435,365</u> | <u>\$ 8,435,000</u> | <u>\$ 9,886,082</u> | <u>\$ 22,984,283</u> |

**COMPLIANCE WITH BOND ORDINANCES**

The bond ordinance for each series is consistent in that certain restricted accounts are required to be established. A summary of the required accounts and their significant provisions in order of priority follows:

Water and Sewer Revenue Bond and Interest Redemption Account

Amounts sufficient to pay the current principal and interest requirements of the outstanding revenue bonds are to be set aside monthly in this account. The monthly payment is to be equal to one-sixth of the next interest payment and one-twelfth of the next principal payment as long as the required minimum balance, as noted below, has been met. If the required minimum balance has not been met the monthly payment must be equal to one-fifth of the next interest payment and one-tenth of the next principal payment.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**5. LONG-TERM DEBT (CONTINUED)**

Water and Sewer Revenue Debt Reserve Account

Amounts sufficient to pay the maximum amount of principal and interest becoming due in any one year must be set aside in this account as a required minimum balance.

Water and Sewer Maintenance and Operation Account

The bond ordinance established this account to pay operating expenses and the account is reflected in the accompanying financial statements as non-restricted. The bond ordinance provides for monthly deposits from the Revenue Account equal to the anticipated expenses of operating and maintaining the system for the following month.

Water and Sewer Depreciation Account

Monthly deposits of not less than 10% of the fund remaining in the Enterprise Fund are to be made into this fund so long as the unexpended balance in the depreciation fund is less than \$100,000. The City further agrees to deposit the proceeds from the sale of any equipment no longer usable or needed, all fees or charges collected from potential customers and any proceeds received from property damage insurance. These funds are to be used for paying the cost of unusual or extraordinary maintenance, repairs, renewals, replacements and the cost of constructing additions and improvements to the system which will either enhance its revenue-producing capacity or provide a higher degree of service.

If the Bond and Interest Redemption Account and Debt Service Account are not sufficient to pay the next maturing interest and/or principal on any November 30 or May 31, the City shall transfer from the Depreciation Account such amounts as are necessary to eliminate the deficiency and avoid default.

If there are surplus monies after the above required transfers and payments have been made, and there is a balance in the Revenue Account in excess of the estimated amounts required to be transferred and paid into the special accounts during the next succeeding three months, such surplus funds or any part thereof may be transferred to the Depreciation Account or may be used to purchase or retire bonds or may be used to pay the interest on, or principal of, other obligations of the City incurred in connection with the system or for any other lawful purpose.

**COMPONENT UNITS**

On June 14, 2006, the Public Properties Corporation issued \$6,050,000 in Series 2006 bonds to advance refund previously issued 2003 Kentucky Area Development District debt. The net proceeds of \$5,918,851 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 Series bonds. As a result, the 2003 Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt.

On October 19, 2006, the Public Properties Corporation issued \$1,970,000 in Series 2006B Revenue Bonds to continue complete Phase II on the building leased to the Kentucky Community and Technical College System. The bonds are a fixed rate debt with the first principal and interest payment beginning on July 1, 2007.

Principal payments on the outstanding on the Revenue Bonds, Series 2006, are payable on December 1 of each year and interest is payable on December 1 and June 1. Interest payments are due on January 1 and July 1 for the Revenue Bonds, Series 2006B, bond and principal is payable on January 1.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**5. LONG TERM DEBT (CONTINUED)**

At June 30, 2013, the Corporation had the following bonds outstanding:

| Description                        | Series | Amount              | Current Portion   |
|------------------------------------|--------|---------------------|-------------------|
| Revenue Bonds                      | 2006   | \$ 4,195,000        | \$ 310,000        |
| Revenue Bonds                      | 2006B  | <u>1,380,000</u>    | <u>100,000</u>    |
| Total payable at par               |        | 5,575,000           | 410,000           |
| Less: unamortized defeasance costs |        | <u>(87,721)</u>     | <u>(8,772)</u>    |
|                                    |        | 5,487,279           | <u>\$ 401,228</u> |
| Less: current portion payable      |        | <u>(401,228)</u>    |                   |
| Total long-term portion            |        | <u>\$ 5,086,051</u> |                   |

The annual requirements to amortize all revenue bonds and leases outstanding as of June 30, 2013, are as follows:

| June 30   | Principal           | Interest            | Total               |
|-----------|---------------------|---------------------|---------------------|
| 2014      | \$ 410,000          | \$ 218,406          | \$ 628,406          |
| 2015      | 425,000             | 201,806             | 626,806             |
| 2016      | 445,000             | 184,506             | 629,506             |
| 2017      | 465,000             | 166,406             | 631,406             |
| 2018      | 480,000             | 147,606             | 627,606             |
| 2019-2023 | 2,730,000           | 425,431             | 3,155,431           |
| 2024      | <u>620,000</u>      | <u>15,986</u>       | <u>635,986</u>      |
|           | <u>\$ 5,575,000</u> | <u>\$ 1,360,147</u> | <u>\$ 6,935,147</u> |

The changes in long-term debt during 2013 are as follows:

|                     | July 1, 2012        | Additions   | Retirements       | June 30, 2013       |
|---------------------|---------------------|-------------|-------------------|---------------------|
| KCTCS Revenue Bonds | <u>\$ 5,970,000</u> | <u>\$ -</u> | <u>\$ 395,000</u> | <u>\$ 5,575,000</u> |

**6. PROJECT FINANCING**

In June 2006, the City issued \$6,050,000 of City of Versailles, Kentucky Public Properties Corporation First Mortgage Revenue Refunding Bonds, Series 2006, to refund in advance of maturity the outstanding principal of the original \$6,330,000 Lease Purchase Agreement dated March 25, 2003, between the City of Versailles Public Properties Corporation and the Kentucky Area Development Districts Financing. The original financing was used for acquisition, construction, and installation of necessary improvements on real property for the occupancy of KCTCS. In October 2006, the City issued \$1,970,000 of City of Versailles, Kentucky Public Properties Corporation First Mortgage Revenue Bonds, Series 2006B, to finance the cost of additional improvements on real property for the occupancy of KCTCS. Both bond issues are payable solely from rental income derived from a biennially renewable Lease Purchase Agreement between the Public Properties Corporation and the Kentucky Community and Technical College System (KCTCS). The original lease dated March 25, 2003, was amended and restated on October 31, 2006.

The restated lease commenced on July 1, 2007, and is automatically renewed for seven additional periods of two years each. During 2010, additional payments were made on the lease resulting in the lease ending on May 1, 2023. KCTCS agrees to pay to the Public Properties Corporation monthly payments equal to the principal and interest due on both bond series. The lease is an absolute net lease under which KCTCS pays, in addition to rent, any and all expenses related to the leased premises. The property shall become the property of KCTCS upon performance of all obligations under the lease.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**6. PROJECT FINANCING (CONTINUED)**

Minimum lease payments to be received under the lease agreement, for which lease receivables and deferred revenue have been recorded, are as follows:

| <u>June 30</u>                          |                     |
|---|---------------------|
| 2014                                    | \$ 637,020          |
| 2015                                    | 637,020             |
| 2016                                    | 637,020             |
| 2017                                    | 637,020             |
| 2018                                    | 637,020             |
| 2019-2023                               | <u>3,132,015</u>    |
| Net minimum lease payments              | 6,317,115           |
| Less: amount representing interest      | <u>(1,067,980)</u>  |
| Present value of minimum lease payments | <u>\$ 5,249,135</u> |

**7. RETIREMENT PLAN**

**County Employees' Retirement System**

The City of Versailles is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

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

Contributions – For the year ended June 30, 2013, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% of each employee's wages for non-hazardous classifications and 37.60% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**7. RETIREMENT PLAN (CONTINUED)**

The required contribution (employee and employer) and the actual percentage contributed for the City for the current and previous two years are as follows:

| Year | Required Contribution | Percentage Contributed |
|------|-----------------------|------------------------|
| 2013 | \$ 1,642,881          | 100%                   |
| 2012 | \$ 1,571,386          | 100%                   |
| 2011 | \$ 1,496,888          | 100%                   |

**Kentucky Deferred Compensation Plan**

The City of Versailles also allows its employees to participate in the Kentucky Deferred Compensation (KDC) plan, which is authorized under Kentucky Revised Statutes 18A.230 – 18A.275. All state, public school and university employees, and employees of local political subdivisions that have elected to participate are eligible to join this tax-deferred supplemental retirement plan. The Kentucky Public Employees' Deferred Compensation Authority administers KDC, under the direction of a Board of Trustees. Employees are allowed to contribute to a 457 retirement plan or to a variety of 401(k) retirement plans. The plan consists only of employee contributions. Participating employees are required to contribute a minimum monthly contribution of \$30. During the fiscal year, employees contributed \$51,254 to the plan.

**8. COMMITMENTS AND CONTINGENCIES**

On February 1, 2000, the City entered into an interlocal cooperation agreement with the County of Woodford, Kentucky ("County"). The City and the County have agreed to share on an equal basis the costs of construction, acquisition, installation, maintenance, operation and financing of a community recreation and fine arts complex to be situated in the City, within the County. The agreement cannot be terminated by either party so long as debt and/or interest thereon, remains outstanding and unpaid.

**9. CONCENTRATIONS**

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Five industrial companies generated approximately 49% of the City's occupational tax revenue. Three users generated approximately 24% of the utility operation's service revenue. Also, at June 30, 2013, approximately 14% of the utility operation's accounts receivable was due from three users.

**10. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2013 were levied in September 2012 on the assessed property located in the City of Versailles as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

| Description                   | Date                                  |
|-------------------------------|---------------------------------------|
| 1. Due date for payment       | October 31                            |
| 2. Face value payment period  | October 1 – October 31                |
| 3. Past due date, 10% penalty | November 1                            |
| 4. Lien Date                  | January 1 of year following Levy Date |



**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**11. INSURANCE AND RISK MANAGEMENT**

The City is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the City's experience to date.

**12. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables as of June 30, 2013, are as follows:

|                     | <b>Interfund<br/>Receivables</b> | <b>Interfund<br/>Payables</b> |
|---------------------|----------------------------------|-------------------------------|
| Governmental funds  | \$ -                             | \$ 1,278,594                  |
| Business-type funds | <u>1,278,594</u>                 | <u>-</u>                      |
|                     | <u>\$ 1,278,594</u>              | <u>\$ 1,278,594</u>           |

**13. POLICE OPERATING EXPENDITURES**

The City entered into an Interlocal Cooperation Agreement pertaining to the operation of police services covering the County with the Woodford Fiscal Court in September of 2007. The agreement was renewed in March 2010. The agreement calls for the County to reimburse the City for 38% of all police operating expenditures and 50% of all capital expenditures. Police department expenditures that qualify under this agreement are as follows:

|                               | <b>Original Budget</b> | <b>Actual</b>       | <b>Variance<br/>Favorable<br/>(Unfavorable)</b> |
|-------------------------------|------------------------|---------------------|---|
| Police Operating              | \$ 3,837,288           | \$ 3,752,591        | \$ 84,697                                       |
| Police Capital                | <u>200,000</u>         | <u>197,961</u>      | <u>2,039</u>                                    |
| Total cost shared with County | <u>\$ 4,037,288</u>    | <u>\$ 3,950,552</u> | <u>\$ 86,736</u>                                |

**14. RESTATEMENT OF FUND BALANCE**

General Fund

The beginning fund balance of the General Fund has been restated on the fund basis financial statements to record a prior period adjustment to correct capital and other street expenditures incurred on contributed infrastructure assets and the related revenue funded through the street developer's bond. A reconciliation of the prior period ending fund balance to the current year beginning fund balance for the General Fund is as follows:

|   |                     |
|---|---------------------|
| Beginning fund balance  | \$ 3,095,137        |
| Adjustment to correct capital and other street development expenditures | (224,322)           |
| Adjustment to correct other income                                      | <u>60,370</u>       |
| Beginning fund balance, as restated                                     | <u>\$ 2,931,185</u> |

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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**14. RESTATEMENT OF FUND BALANCE (CONTINUED)**

Governmental Activities

The beginning net position of the governmental activities in the government-wide Statement of Net Position has also been restated to record a prior period adjustment to correct the related capital contributions of infrastructure assets, net of depreciation. These assets were constructed by local developers and contributed to the City in prior years. A reconciliation of the prior period ending net position to the current year beginning net position for the governmental activities is as follows:

|  |                      |
|--|----------------------|
| Beginning net position   | \$ 10,646,824        |
| Adjustment to correct capital contributions, net of depreciation | 8,993,932            |
| Other street development expenses                                | (23,777)             |
| Adjustment to correct other income                               | <u>60,370</u>        |
| Beginning net position, as restated                              | <u>\$ 19,677,349</u> |

**15. SUBSEQUENT EVENTS**

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Versailles' unfunded liability would be approximately \$15,000,000, based on the 2011 actuarial analysis. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

Water and Sewer Revenue Bonds

The City is scheduled to sell \$5,710,000 (subject to adjustment) of Water and Sewer Revenue Bonds on January 14, 2014. The Bonds are authorized by an Ordinance dated November 5, 2013. The bonds will fund improvements to the sewer system. The bonds are scheduled for delivery on January 28, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF VERSAILLES, KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISONS**  
**GENERAL FUND**  
**for the year ended June 30, 2013**

|   | Original<br>Budget  | Final<br>Budget     | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|---|---------------------|---------------------|---------------------|--|
| <b>Revenues</b>   |                     |                     |                     |  |
| Property taxes  | \$ 573,000          | \$ 573,000          | \$ 573,438          | \$ 438                                 |
| License and permits   | 5,388,000           | 5,365,000           | 5,610,448           | 245,448                                |
| Intergovernmental revenues  | 3,010,433           | 3,626,733           | 3,923,456           | 296,723                                |
| Charges for services  | 56,500              | 56,500              | 116,935             | 60,435                                 |
| Other income  | 649,300             | 729,300             | 621,352             | (107,948)                              |
| <b>Total revenues</b>   | <u>9,677,233</u>    | <u>10,350,533</u>   | <u>10,845,629</u>   | <u>495,096</u>                         |
| <b>Expenditures</b>   |                     |                     |                     |  |
| <b>Current</b>  |                     |                     |                     |  |
| General government  | 1,546,692           | 1,557,132           | 1,552,450           | 4,682                                  |
| Merged police operations  | 3,837,288           | 3,827,288           | 3,816,371           | 10,917                                 |
| Other police operations/grants  | -                   | -                   | 117,694             | (117,694)                              |
| 911 communications  | 702,480             | 702,480             | 647,590             | 54,890                                 |
| Fire department   | 1,001,955           | 1,001,955           | 1,089,054           | (87,099)                               |
| Street department   | 800,150             | 942,850             | 822,603             | 120,247                                |
| Cemetery department   | 339,702             | 341,702             | 281,515             | 60,187                                 |
| Capital outlay  | 1,685,500           | 2,300,500           | 2,201,745           | 98,755                                 |
| Debt service  | 54,000              | 54,000              | 53,840              | 160                                    |
| <b>Total expenditures</b>   | <u>9,967,767</u>    | <u>10,727,907</u>   | <u>10,582,862</u>   | <u>145,045</u>                         |
| <b>Excess of Revenues Over<br/>(Under) Expenditures</b>                   | <u>(290,534)</u>    | <u>(377,374)</u>    | <u>262,767</u>      | <u>640,141</u>                         |
| <b>Other Financing Sources (uses)</b>                                     |                     |                     |                     |  |
| Proceeds from Sale of Assets  | -                   | -                   | 2,122               | 2,122                                  |
| Transfers   | -                   | -                   | 14,394              | 14,394                                 |
| <b>Total Other Financing Sources (uses)</b>                               | <u>-</u>            | <u>-</u>            | <u>16,516</u>       | <u>16,516</u>                          |
| <b>Excess of Revenues and Other<br/>Sources Over (Under) Expenditures</b> | <u>(290,534)</u>    | <u>(377,374)</u>    | <u>279,283</u>      | <u>656,657</u>                         |
| Fund Balance, July 1, 2012, restated                                      | <u>2,931,183</u>    | <u>2,931,183</u>    | <u>2,931,183</u>    | <u>-</u>                               |
| Fund Balance, June 30, 2013   | <u>\$ 2,640,649</u> | <u>\$ 2,553,809</u> | <u>\$ 3,210,466</u> | <u>\$ 656,657</u>                      |

## **SUPPLEMENTARY INFORMATION**

**CITY OF VERSAILLES, KENTUCKY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2013**

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|  | Municipal<br>Road Aid<br>Fund | Permanent<br>Fund | Total<br>Non-Major<br>Governmental |
|--|-------------------------------|-------------------|------------------------------------|
| <b>ASSETS</b>                          |                               |                   |                                    |
| Cash and cash equivalents              | \$ 319,035                    | \$ -              | \$ 319,035                         |
| Investments                            | -                             | 530,487           | 530,487                            |
| Accounts receivable                    | 18,361                        | -                 | 18,361                             |
| <br>Total assets                       | <br>\$ 337,396                | <br>\$ 530,487    | <br>\$ 867,883                     |
| <b>LIABILITIES</b>                     |                               |                   |                                    |
| Accounts payable                       | \$ -                          | \$ -              | \$ -                               |
| <br>Total liabilities                  | <br>-                         | <br>-             | <br>-                              |
| <b>FUND BALANCE</b>                    |                               |                   |                                    |
| Restricted                             | 337,396                       | 530,487           | 867,883                            |
| Unrestricted                           | -                             | -                 | -                                  |
| <br>Total fund balance                 | <br>337,396                   | <br>530,487       | <br>867,883                        |
| <br>Total liabilities and fund balance | <br>\$ 337,396                | <br>\$ 530,487    | <br>\$ 867,883                     |

**CITY OF VERSAILLES, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2013**

|  | Municipal<br>Road Aid<br>Fund | Permanent<br>Fund        | Total<br>Non-Major<br>Governmental |
|--|-------------------------------|--------------------------|------------------------------------|
| <b>REVENUES</b>  |                               |                          |                                    |
| Taxes  | \$ -                          | \$ -                     | \$ -                               |
| Licenses and permits   | -                             | -                        | -                                  |
| Intergovernmental revenues   | 190,043                       | -                        | 190,043                            |
| Charges for services   | -                             | 6,580                    | 6,580                              |
| Other income   | <u>2,134</u>                  | <u>26,644</u>            | <u>28,778</u>                      |
|  |                               |                          | -                                  |
| Total revenues   | <u>192,177</u>                | <u>33,224</u>            | <u>225,401</u>                     |
| <b>EXPENDITURES</b>  |                               |                          |                                    |
| General government   | -                             | -                        | -                                  |
| Police department  | -                             | -                        | -                                  |
| Fire department  | -                             | -                        | -                                  |
| Street department  | 131,977                       | -                        | 131,977                            |
| Cemetery department  | -                             | 3,524                    | 3,524                              |
| Program expenses   | -                             | -                        | -                                  |
| Debt Service   | -                             | -                        | -                                  |
| Capital outlay   | <u>-</u>                      | <u>-</u>                 | <u>-</u>                           |
| Total expenditures   | <u>131,977</u>                | <u>3,524</u>             | <u>135,501</u>                     |
| Excess of Revenues Over<br>(Under) Expenditures                      | <u>60,200</u>                 | <u>29,700</u>            | <u>89,900</u>                      |
| Other Sources  |                               |                          |                                    |
| Operating transfers in   | -                             | -                        | -                                  |
| Operating transfers out  | <u>-</u>                      | <u>(14,394)</u>          | <u>(14,394)</u>                    |
|  |                               |                          | -                                  |
| Total other sources  | <u>-</u>                      | <u>(14,394)</u>          | <u>(14,394)</u>                    |
| Excess of Revenues and<br>Other Sources Over (Under)<br>Expenditures | 60,200                        | 15,306                   | 75,506                             |
| Fund Balance, July 1, 2012   | <u>277,196</u>                | <u>515,181</u>           | <u>792,377</u>                     |
| <b>Fund Balance, June 30, 2013</b>                                   | <u><u>\$ 337,396</u></u>      | <u><u>\$ 530,487</u></u> | <u><u>\$ 867,883</u></u>           |

**CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND  
WATER AND SEWER REFUNDING REVENUE  
BOND AMORTIZATION SCHEDULE  
SERIES OF 2011**

| Fiscal<br>Year | Interest<br>Rate | Principal Payable<br>by December 1 | Interest Payable<br>by December 1 | Interest Payable<br>by June 1 | Total<br>Principal<br>and Interest |
|----------------|------------------|------------------------------------|-----------------------------------|-------------------------------|------------------------------------|
| 2013-14        | 2.000%           | \$ 545,000                         | \$ 68,188                         | \$ 62,738                     | \$ 675,925                         |
| 2014-15        | 2.000%           | 560,000                            | 62,738                            | 57,138                        | 679,875                            |
| 2015-16        | 2.000%           | 565,000                            | 57,138                            | 51,488                        | 673,625                            |
| 2016-17        | 2.000%           | 580,000                            | 51,488                            | 45,688                        | 677,175                            |
| 2017-18        | 2.500%           | 590,000                            | 45,688                            | 38,313                        | 674,000                            |
| 2018-19        | 2.500%           | 610,000                            | 38,313                            | 30,688                        | 679,000                            |
| 2019-20        | 3.000%           | 625,000                            | 30,688                            | 21,313                        | 677,000                            |
| 2020-21        | 3.000%           | 645,000                            | 21,313                            | 11,638                        | 677,950                            |
| 2021-22        | 3.500%           | <u>665,000</u>                     | <u>11,638</u>                     | <u>-</u>                      | <u>676,638</u>                     |
|                | Totals           | <u>\$ 5,385,000</u>                | <u>\$ 387,188</u>                 | <u>\$ 319,000</u>             | <u>\$ 6,091,188</u>                |



**CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND  
WATER AND SEWER REVENUE REFUNDING AND  
IMPROVEMENT BOND AMORTIZATION SCHEDULE  
SERIES OF 2012**

| <u>Fiscal Year</u> | <u>Interest Rate</u> | <u>Principal</u>    | <u>Interest Payable<br/>by December 1</u> | <u>Interest Payable<br/>by June 1</u> | <u>Total<br/>Principal<br/>and Interest</u> |
|--------------------|----------------------|---------------------|---|---------------------------------------|---|
| 2013-14            | 1.000%               | \$ 615,000          | \$ 93,199                                 | \$ 90,124                             | \$ 798,323                                  |
| 2014-15            | 1.500%               | 615,000             | 90,124                                    | 85,511                                | 790,635                                     |
| 2015-16            | 1.500%               | 630,000             | 85,511                                    | 80,786                                | 796,298                                     |
| 2016-17            | 1.500%               | 635,000             | 80,786                                    | 76,024                                | 791,810                                     |
| 2017-18            | 1.500%               | 645,000             | 76,024                                    | 71,186                                | 792,210                                     |
| 2018-19            | 2.000%               | 655,000             | 71,186                                    | 64,636                                | 790,823                                     |
| 2019-20            | 2.000%               | 675,000             | 64,636                                    | 57,886                                | 797,523                                     |
| 2020-21            | 2.000%               | 685,000             | 57,886                                    | 51,036                                | 793,923                                     |
| 2021-22            | 2.250%               | 700,000             | 51,036                                    | 43,161                                | 794,198                                     |
| 2022-23            | 2.375%               | 1,090,000           | 43,161                                    | 30,218                                | 1,163,379                                   |
| 2023-24            | 2.600%               | 1,125,000           | 30,218                                    | 15,593                                | 1,170,810                                   |
| 2024-25            | 2.700%               | <u>1,155,000</u>    | <u>15,593</u>                             | <u>-</u>                              | <u>1,170,593</u>                            |
|                    | Totals               | <u>\$ 9,225,000</u> | <u>\$ 759,360</u>                         | <u>\$ 666,161</u>                     | <u>\$ 10,650,521</u>                        |

**CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND  
WATER AND SEWER REFUNDING REVENUE BOND AMORTIZATION SCHEDULE  
SERIES OF 2013**

| <u>Fiscal Year</u> | <u>Interest Rate</u> | <u>Principal Payable by December 1</u> | <u>Interest Payable by December 1</u> | <u>Interest Payable by June 1</u> | <u>Total Principal and Interest</u> |
|--------------------|----------------------|--|---------------------------------------|-----------------------------------|-------------------------------------|
| 2013-14            | 1.000%               | \$ 360,000                             | \$ 72,522                             | \$ 70,722                         | \$ 503,244                          |
| 2014-15            | 1.000%               | 365,000                                | 70,722                                | 68,897                            | 504,619                             |
| 2015-16            | 1.000%               | 365,000                                | 68,897                                | 67,072                            | 500,969                             |
| 2016-17            | 1.000%               | 370,000                                | 67,072                                | 65,222                            | 502,294                             |
| 2017-18            | 1.500%               | 375,000                                | 65,222                                | 62,409                            | 502,631                             |
| 2018-19            | 1.500%               | 385,000                                | 62,409                                | 59,522                            | 506,931                             |
| 2019-20            | 1.500%               | 390,000                                | 59,522                                | 56,597                            | 506,119                             |
| 2020-21            | 2.000%               | 390,000                                | 56,597                                | 52,697                            | 499,294                             |
| 2021-22            | 2.000%               | 400,000                                | 52,697                                | 48,697                            | 501,394                             |
| 2022-23            | 2.000%               | 780,000                                | 48,697                                | 40,897                            | 869,594                             |
| 2023-24            | 2.125%               | 795,000                                | 40,897                                | 32,450                            | 868,347                             |
| 2024-25            | 2.250%               | 805,000                                | 32,450                                | 23,394                            | 860,844                             |
| 2025-26            | 2.375%               | <u>1,970,000</u>                       | <u>23,394</u>                         | <u>-</u>                          | <u>1,993,394</u>                    |
|                    | Totals               | <u>\$ 7,750,000</u>                    | <u>\$ 721,098</u>                     | <u>\$ 648,576</u>                 | <u>\$ 9,119,674</u>                 |

**CITY OF VERSAILLES, KENTUCKY  
 COMPONENT UNIT - PUBLIC PROPERTIES CORPORATION  
 REVENUE BONDS  
 SERIES OF 2006**

| <u>Fiscal Year</u> | <u>Interest Rate</u> | <u>Principal Payable<br/>by December 1</u> | <u>Interest Payable<br/>by December 1</u> | <u>Interest Payable<br/>by June 1</u> | <u>Total<br/>Principal<br/>and Interest</u> |
|--------------------|----------------------|--|---|---------------------------------------|---|
| 2013-14            | 4.000%               | \$ 310,000                                 | \$ 84,191                                 | \$ 77,991                             | \$ 472,182                                  |
| 2014-15            | 4.000%               | 320,000                                    | 77,991                                    | 71,591                                | 469,582                                     |
| 2015-16            | 4.000%               | 335,000                                    | 71,591                                    | 64,891                                | 471,482                                     |
| 2016-17            | 4.000%               | 350,000                                    | 64,891                                    | 57,891                                | 472,782                                     |
| 2017-18            | 4.000%               | 360,000                                    | 57,891                                    | 50,691                                | 468,582                                     |
| 2018-19            | 4.000%               | 375,000                                    | 50,691                                    | 43,191                                | 468,882                                     |
| 2019-20            | 4.000%               | 395,000                                    | 43,191                                    | 35,291                                | 473,482                                     |
| 2020-21            | 4.000%               | 415,000                                    | 35,291                                    | 26,991                                | 477,282                                     |
| 2021-22            | 4.000%               | 425,000                                    | 26,991                                    | 18,491                                | 470,482                                     |
| 2022-23            | 4.000%               | 445,000                                    | 18,491                                    | 9,591                                 | 473,082                                     |
| 2023-24            | 4.125%               | <u>465,000</u>                             | <u>9,591</u>                              | <u>-</u>                              | <u>474,591</u>                              |
|                    |                      | <u>\$ 4,195,000</u>                        | <u>\$ 540,801</u>                         | <u>\$ 456,610</u>                     | <u>\$ 5,192,411</u>                         |

**CITY OF VERSAILLES, KENTUCKY  
 COMPONENT UNIT - PUBLIC PROPERTIES CORPORATION  
 REVENUE BONDS  
 SERIES OF 2006B**

| <u>Fiscal Year</u> | <u>Interest Rate</u> | <u>Principal Payable<br/>by January 1</u> | <u>Interest Payable<br/>by January 1</u> | <u>Interest Payable<br/>by July 1</u> | <u>Total<br/>Principal<br/>and Interest</u> |
|--------------------|----------------------|---|--|---------------------------------------|---|
| 2013-14            | 4.000%               | \$ 100,000                                | \$ 28,113                                | \$ 28,113                             | \$ 156,226                                  |
| 2014-15            | 4.000%               | 105,000                                   | 26,113                                   | 26,113                                | 157,226                                     |
| 2015-16            | 4.000%               | 110,000                                   | 24,013                                   | 24,013                                | 158,026                                     |
| 2016-17            | 4.000%               | 115,000                                   | 21,813                                   | 21,813                                | 158,626                                     |
| 2017-18            | 4.100%               | 120,000                                   | 19,513                                   | 19,513                                | 159,026                                     |
| 2018-19            | 4.100%               | 125,000                                   | 17,053                                   | 17,053                                | 159,106                                     |
| 2019-20            | 4.100%               | 130,000                                   | 14,490                                   | 14,490                                | 158,980                                     |
| 2020-21            | 4.100%               | 135,000                                   | 11,825                                   | 11,825                                | 158,650                                     |
| 2021-22            | 4.100%               | 140,000                                   | 9,058                                    | 9,058                                 | 158,116                                     |
| 2022-23            | 4.125%               | 145,000                                   | 6,188                                    | 6,188                                 | 157,376                                     |
| 2023-24            | 4.125%               | <u>155,000</u>                            | <u>3,197</u>                             | <u>3,197</u>                          | <u>161,394</u>                              |
|                    | Totals               | <u>\$ 1,380,000</u>                       | <u>\$ 181,376</u>                        | <u>\$ 181,376</u>                     | <u>\$ 1,742,752</u>                         |



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

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

To the Mayor and City Council  
City of Versailles  
Versailles, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively the comprise City of Versailles, Kentucky's basic financial statements, and have issued our report thereon dated December 26, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Versailles, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Versailles, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Versailles, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2013-1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Ray, Foley, Hensley, & Company*

Ray, Foley, Hensley, & Company, PLLC  
December 26, 2013

**CITY OF VERSAILLES, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2013**

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**FINDING:**  
2013-1

The City is required to have internal controls over the period-end financial reporting process that enable the City to record and process year-end journal entries to produce financial records that are in accordance with generally accepted accounting principles.

The City lacks proper oversight over period-end financial reporting, which results in misstated accounting records prior to audit.

The City relied on auditor prepared accounting adjustments to ensure the financial records are properly stated in accordance with generally accepted accounting principles. The City reviewed, approved and accepted responsibility for the accounting adjustments; as the auditor cannot be a component of the City's internal controls.

We recommend management review the period-end financial reporting process and implement an additional analytical review and analysis of year end balances prior to the start of the audit. This additional oversight of the year-end financial records should ensure that any accounting errors are detected and corrected prior to the audit.

**RESPONSE:**

The City concurs with this finding and further agrees that in the future, period-end accounting adjustments should be completed prior to audit. This finding has been discussed between the City Treasurer and the outside CPA firm engaged as a consultant to review and assist with such period-end adjustments of fixed assets, depreciation expense, accruals, etc. Both parties agree and understand going forward, we must communicate and conduct a more in-depth analysis of those year-end balances, whereby such adjustments by the auditor's during the actual audit period are very minimal, if not at all. We also believe that in complying with this recommendation, that prior to the actual audit, we communicate and convey those period-end adjustments and the justifications of such adjustments, directly with the auditor so as to eliminate any questions as to pre-audit adjustments.