

CITY OF VERSAILLES
Versailles, Kentucky



FINANCIAL STATEMENTS
June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 3–13 and 44–48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Versailles, Kentucky's basic financial statements. The combining and individual nonmajor fund financial 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 and individual nonmajor fund financial statements and the 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 and individual nonmajor fund financial statements and the 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 November 21, 2016, 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 the City of Versailles, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
November 21, 2016

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2016

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, 2016. Please read the following in conjunction with the auditors' report on page 1-2 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 position of the City and the changes in it. One can think of the City's net Position—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net position is 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.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

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.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

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.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current & Other Assets	\$ 5.7	\$ 4.8	\$ 4.2	\$ 4.1	\$ 9.9	\$ 8.9
Capital Assets	23.6	24.7	51.0	52.0	74.6	76.7
Total Assets	<u>\$ 29.3</u>	<u>\$ 29.5</u>	<u>\$ 55.2</u>	<u>\$ 56.1</u>	<u>\$ 84.5</u>	<u>\$ 85.6</u>
Deferred outflows	1.8	0.7	1.8	1.7	3.6	2.4
Non-Current Liabilities	9.9	7.8	23.8	24.8	33.7	32.6
Current Liabilities	0.5	0.4	2.4	3.0	2.9	3.4
Total Liabilities	<u>10.4</u>	<u>8.2</u>	<u>26.2</u>	<u>27.8</u>	<u>36.6</u>	<u>36.0</u>
Deferred Inflows	-	0.6		0.1	-	0.7
Net invested in Capital Assets	23.5	24.5	25.3	24.9	48.8	49.4
Restricted	0.8	0.8	3.7	3.7	4.5	4.5
Unrestricted	(3.6)	(3.9)	1.8	1.3	(1.8)	(2.6)
Total Net Position	<u>\$ 20.7</u>	<u>\$ 21.4</u>	<u>\$ 30.8</u>	<u>\$ 29.9</u>	<u>\$ 51.5</u>	<u>\$ 51.3</u>

In FY 2015, the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension. As a result of the new standard, the City has reported its proportionate share of the net pension liability, pension expense, and deferred outflows and inflows related to the City's participation in the County's Employees Retirement System. See Note 7 for more details and summary of changes impacting FY 2016.

The City's total governmental net position decreased from \$21.4 million at 2015 to \$20.7 million at 2016. This decrease is primarily due to the change in the net pension liability from \$7.2 million in 2015 to \$9.5 million in 2016 as well as an \$80,000 increase in depreciation expense from the previous year.

In the business-type activity (Enterprise Fund), total net position increased from \$29.9 million in 2015 to \$30.8 million in 2016 primarily due to operating revenues exceeding expenditures by approximately \$900,000 which is consistent with 2015. The City implemented a rate increase in January 2015 in anticipation of the 2016 bond refunding and financing which occurred after June 30, 2016. Current liabilities have decreased approximately \$600,000 primarily due to decreases in accounts payable related to ongoing projects – SSES Phase 2 and water line replacement. Non-Current liabilities decreased approximately \$1.0 million primarily due to scheduled debt service payments on bonds payable.

For governmental activities, the City had \$855,979 of restricted net position related to municipal road aid and the cemetery. For business-type activities, the City had \$3,668,453 of restricted net assets related to debt service.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

The City's deferred outflow of resources which consist of unamortized bond defeasance costs and pension contributions for future periods increased from 2015 to \$3.6 million.

Changes in net position 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 Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues						
Charges for services	\$ 0.1	\$ 0.1	\$ 6.8	\$ 6.4	\$ 6.9	\$ 6.5
Operating Grants & Contributions	1.9	2.0	-	-	1.9	2.0
Capital Grants & Contributions	0.1	3.2	-	-	0.1	3.2
General Revenues						
Taxes	0.6	0.6	-	-	0.6	0.6
Licenses	6.4	6.1	-	-	6.4	6.1
Intergovernmental	0.5	0.5	-	-	0.5	0.5
Other Revenues / (Losses)	0.2	0.6	(0.2)	-	-	0.6
Total Revenue	9.8	13.1	6.6	6.4	16.4	19.5
Expenses:						
Program Expenses						
General Government	1.7	1.6	-	-	1.7	1.6
Police & 911	4.9	4.7	-	-	4.9	4.7
Fire	1.4	1.2	-	-	1.4	1.2
Streets	2.2	2.5	-	-	2.2	2.5
Cemetery	0.3	0.3	-	-	0.3	0.3
Water/Sewer/Sanitation	-	-	5.7	5.7	5.7	5.7
Total Expenses	10.5	10.3	5.7	5.7	16.2	16.0
Change in Net Position	\$ (0.7)	\$ 2.8	\$ 0.9	\$ 0.7	\$ 0.2	\$ 3.5

Governmental activity revenue decreased by approximately \$3.3 million from 2015 to 2016 as shown in Table A-2. The decrease in revenue is largely attributable to a decrease in capital contributions from \$3.2 million in 2015 to \$0.1 million in 2016. The capital contributions related to the acquisition of the new street developments including the Huntertown Glen and Estates, Cedar Ridge and Rose Ridge developments. In addition license revenue increased from \$6.1 million in 2015 to \$6.4 million in 2016 primarily related to increases in the payroll tax, improved enforcement of the net profit tax and a full year of the new franchise agreement with Columbia Gas. The City also recognized \$295,000 in ordinance violation income in 2015 (demolition of Versailles Center) which did not reoccur in 2016.

Governmental activity expenses increased from \$10.3 million in 2015 to \$10.5 million in 2016 primarily due to increases in the police and fire departments. The Police and Fire Department's expenses increased by approximately \$400,000 primarily as a result of changes in the net pension liability.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

Business-type activity (enterprise) revenues remained consistent with 2015 at \$6.6 million. Business-type activity (enterprise) expenses remained consistent with the prior year as well at \$5.7 million.

Governmental Funds

Table A-3 details a condensed statement of the fiscal year's revenues and expenses 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 Funds - Revenues and Expenditures

	<u>2016</u>	<u>2015</u>	Change Favorable (Unfavorable)
Revenues			
Taxes	\$ 615,321	\$ 607,268	\$ 8,053
Licenses and permits	6,355,761	6,056,981	298,780
Intergovernmental revenues	1,983,891	2,265,954	(282,063)
Charges for services	97,497	133,749	(36,252)
Other income	782,161	1,084,237	(302,076)
Total Revenues	<u>\$ 9,834,631</u>	<u>\$ 10,148,189</u>	<u>\$ (313,558)</u>
Expenditures			
General government	\$ 1,642,524	\$ 1,616,853	\$ (25,671)
Merged police operations	3,636,499	3,906,303	269,804
Other police operations/grants	114,099	115,884	1,785
911 communications	617,326	668,288	50,962
Fire department	1,187,153	1,121,954	(65,199)
Street department	862,302	868,958	6,656
Cemetery department	301,779	299,644	(2,135)
Capital outlay	672,117	1,318,051	645,934
Debt service	53,840	53,840	-
Total Expenditures	<u>\$ 9,087,639</u>	<u>\$ 9,969,775</u>	<u>\$ 882,136</u>

The information above shows that revenues for governmental funds decreased by \$313,558 from 2015 to 2016.

License and permit revenue increased by approximately 5% primarily related to increases in the payroll tax revenue, improved enforcement of the net profit tax and a full year of the new franchise agreement with Columbia Gas. Other revenue increased as a result of recognition of \$295,000 in ordinance violation income in FY 2015 which did not reoccur in 2016. Intergovernmental revenues decreased slightly primarily related to one-time grant funding for streetscape.

The information above shows that expenses for governmental funds decreased by \$882,136 from 2015 to 2016.

The decrease is primarily attributable to capital outlays which decreased by approximately \$650,000 as a result of streetscape projects, street paving, new computer software, police vehicles and fire equipment. Merged police operation expenses decreased by approximately \$270,000 as a result of a decrease in salaries from utilizing more part-time staff rather than full-time staff.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

Table A-4
General Fund - Budget & Actual

	<u>Budget</u>	<u>Actual</u>	Difference Favorable (Unfavorable)
Revenues			
Taxes	\$ 624,500	\$ 615,321	\$ (9,179)
Licenses and permits	5,838,500	6,355,761	517,261
Intergovernmental revenues	1,890,170	1,813,918	(76,252)
Charges for services	92,500	88,917	(3,583)
Other income	975,300	754,302	(220,998)
Total Revenues	<u>\$ 9,420,970</u>	<u>\$ 9,628,219</u>	<u>\$ 207,249</u>
Expenditures			
General government	\$ 1,866,201	\$ 1,642,524	\$ 223,677
Merged police operations	3,947,235	3,636,499	310,736
Other police operations/grants	-	114,099	(114,099)
911 communications	705,010	617,326	87,684
Fire department	1,212,092	1,187,153	24,939
Street department	851,993	856,370	(4,377)
Cemetery department	320,631	298,033	22,598
Capital outlay	704,434	524,214	180,220
Debt service	54,000	53,840	160
Total Expenditures	<u>\$ 9,661,596</u>	<u>\$ 8,930,058</u>	<u>\$ 731,538</u>

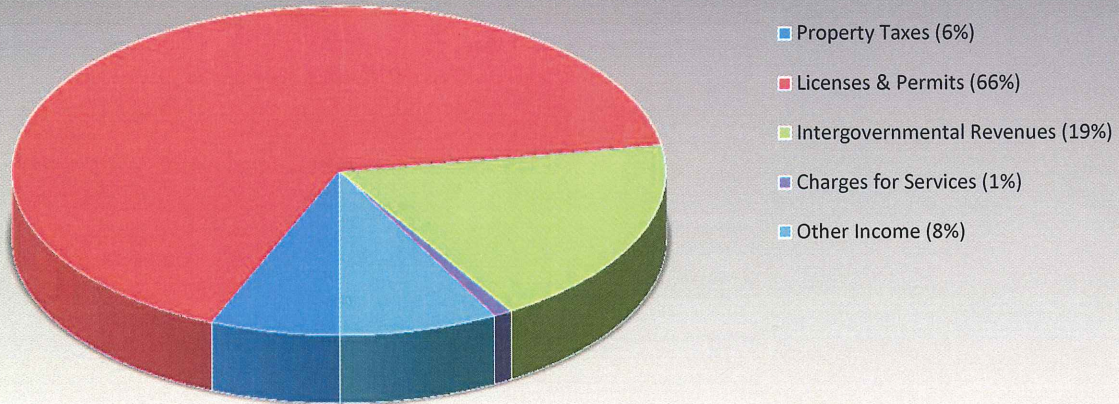
Budget Highlights

The City budgeted \$9.4 million in revenues for 2016 and generated \$9.6 million. Actual licenses and permits revenue was more than budgeted balance by \$517,261, in part, as a result of conservative budget forecasts, economic improvement and improved enforcement. Other income was under budget as a result of ordinance violation income that was recognized as income in 2015.

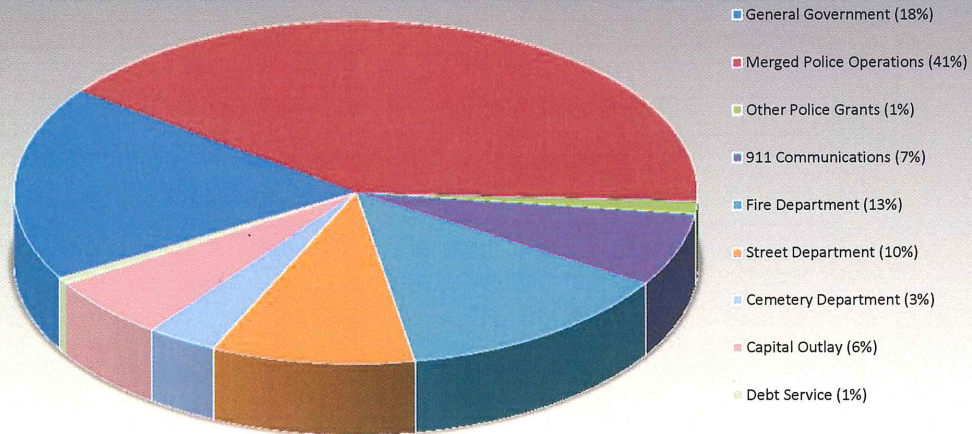
The City budgeted \$9.7 million in expenditures, but actually expended only \$8.9. Contributing factors to expenses being decreased as a whole was partly due to department heads being fiscally responsible with the budgets, as well as capital outlay line-items not being expended in full such as the storm drainage project. The General government department, including the Council, Mayor and Clerk departments, was under budget in several categories including repairs, computer equipment and software, insurance and professional fees. The Merged police operations department was under budget in salaries due to utilizing part-time staff over full-time. The Cemetery department was under budget in fuel and insurance expense.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

General Fund Revenue-June 30, 2016



General Fund Expenditures-June 30, 2016



City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

	Budget	Actual	Difference
Charges for Services	\$ 6,791,500	\$ 6,463,514	\$ (327,986)
Grants/Bond Sources	850,000	-	(850,000)
Interest Income	65,000	39,629	(25,371)
Refuse Collection	140,000	160,692	(4,524)
Other Income	101,000	120,753	19,753
Total Revenues	\$ 7,947,500	\$ 6,784,588	\$ (1,162,912)

The City budgeted \$7.9 million in revenues for 2016 and generated \$6.8 million for the Enterprise Fund. The budget included \$850,000 in grant revenue for the River Slippage Phase II Project however the project was not started in FY 2016. Actual charges for services for water and sewer were \$300,000 below management's estimate.

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

	Budget	Actual	Difference
Salaries	\$ 632,500	\$ 610,744	\$ (21,756)
Payroll Taxes	48,387	43,103	(5,284)
Employee benefits	189,494	255,559	66,065
Advertising and printing	17,500	17,709	209
Professional and technical	13,000	16,164	3,164
Repairs and maintenance	144,000	122,902	(21,098)
Utilities	430,000	404,960	(25,040)
Telephone and postage	20,000	18,986	(1,014)
Insurance	58,700	59,221	521
Chemicals	150,000	115,242	(34,758)
Uniforms	4,200	3,611	(589)
Motor fuel	24,000	16,440	(7,560)
Office supplies	4,000	3,406	(594)
Other materials	33,102	29,574	(3,528)
Other expenses	214,000	201,864	(12,136)
Purchase of water	22,000	18,431	(3,569)
Training/travel	5,000	4,383	(617)
Lab analysis	16,000	16,010	10
Purchase of water meters	25,000	26,974	1,974
Total Expenditures	\$ 2,050,883	\$ 1,985,283	\$ (65,600)

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

	Budget	Actual	Difference
Salaries	\$ 569,200	\$ 505,919	\$ (63,281)
Payroll Taxes	43,555	35,721	(7,834)
Employee benefits	164,917	227,146	62,229
Advertising and printing	8,000	10,028	2,028
Professional and technical	10,000	4,717	(5,283)
Repairs and maintenance	89,000	76,142	(12,858)
Utilities	210,000	206,102	(3,898)
Telephone and postage	25,000	25,372	372
Insurance	49,400	43,596	(5,804)
Chemicals	45,000	48,344	3,344
Technical supplies	2,000	1,800	(200)
Uniforms	3,500	2,542	(958)
Motor fuel	27,500	18,434	(9,066)
Other materials	14,972	5,695	(9,277)
Other expenses	14,000	12,788	(1,212)
Sludge removal	65,000	83,170	18,170
Training/travel	7,000	7,888	888
Lab analysis	14,000	20,979	6,979
Dumpster collection	3,000	2,829	(171)
Total Expenditures	\$ 1,365,044	\$ 1,339,212	\$ (25,832)

The Water Department budgeted \$2.1 million in expenses for 2016 and generated \$2.0 million. Salaries, repairs chemicals and utilities were under budget. Employee benefits were over budget primarily due to net pension liability.

The Sewer Department budgeted \$1.4 million in expenses for 2016 and generated \$1.3 million. Salaries, repairs and other expenses were under budget. Sludge removal was over budget as a result of an emergency clean-out. Employee benefits were over budget primarily due to net pension liability.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

Capital Assets

Table A-8 shows the breakdown of capital assets net of depreciation for both governmental and business-type activities. Infrastructure decreased as a result of annual depreciation expense. Construction in progress for business-type activities includes the SSES Phase III and WWTP expansion. Buildings and improvements include large additions in FY 2016 related to the water line replacement projects, SSES phase I and II and lift stations.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
	Land	\$ 2.1	\$ 2.0	\$ 0.3	\$ 0.5	\$ 2.4
Infrastructure	20.1	21.1	-	-	20.1	21.1
Buildings & improvements	0.3	0.3	44.0	42.8	44.3	43.1
Equipment	0.5	0.6	0.3	0.3	0.8	0.9
Vehicles	0.7	0.7	0.2	0.2	0.9	0.9
Construction in progress		-	1.2	1.3	1.2	1.3
Total Capital Assets	\$ 23.7	\$ 24.7	\$ 46.0	\$ 45.1	\$ 69.7	\$ 69.8

Debt

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
	Notes payable	\$ -	\$ -	\$ -	\$ 0.15	\$ -
Leases payable	0.17	0.20	-	-	0.17	0.20
Bonds payable	-	-	23.45	25.00	23.45	25.00
Total Debt Outstanding	\$ 0.17	\$ 0.20	\$ 23.45	\$ 25.15	\$ 23.62	\$ 25.35

No new debt was issued in fiscal year 2016. The City made debt service payments as scheduled.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2016

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 2015-16 budget. Some of the contributing factors were the rising costs of insurance and personnel expense. All City personnel received a 3% cost of living increase which in turn increases salaries and benefits.

The fiscal year 2016-17 general fund budget does not include significantly large capital projects. Internally, management has taken measures to monitor and control costs including reviewing all agreements with outside agencies for proper cost sharing and scrutinizing department budgets to prioritize essential services. The City is expecting an increase in net profit and payroll tax revenue as a result of recent economic growth. The City has established a \$250,000 public safety escrow account to help fund a new police station in the future.

The City has recently completed the 2016 bond refunding and financing for mandated improvements to the Waste Water Treatment Plant. The FY 2017 water and sewer fund budget includes large capital projects to complete SSES phase III and phase IV, river slippage and the WWTP.

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.

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Unit Public Properties
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,051,994	\$ 2,438,366	\$ 4,490,360	\$ 1,809
Investments	2,597,377	-	2,597,377	-
Accounts receivable, net	1,545,282	898,639	2,443,921	-
Grants receivable	10,900	-	10,900	-
Current lease receivable, net	-	-	-	497,660
Other receivables	221,611	-	221,611	-
Inventories	-	128,677	128,677	-
Internal balances	(757,193)	757,193	-	-
Total current assets	<u>5,669,971</u>	<u>4,222,875</u>	<u>9,892,846</u>	<u>499,469</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	3,443,213	3,443,213	679,957
Restricted investments	-	1,513,507	1,513,507	-
Capital assets				
Construction in progress	-	1,196,436	1,196,436	-
Land and improvements	2,097,672	320,124	2,417,796	-
Plant and utility systems, net	-	44,486,693	44,486,693	-
Depreciable buildings, property, and equipment, net	1,519,014	-	1,519,014	-
Infrastructure, net	20,054,445	-	20,054,445	-
Long-term lease receivable, net	-	-	-	3,367,735
Total noncurrent assets	<u>23,671,131</u>	<u>50,959,973</u>	<u>74,631,104</u>	<u>4,047,692</u>
Total assets	<u>29,341,102</u>	<u>55,182,848</u>	<u>84,523,950</u>	<u>4,547,161</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	1,802,339	426,220	2,228,559	-
Defeasance on refunding	-	1,384,530	1,384,530	61,405
Total assets and deferred outflows of resources	<u>\$ 31,143,441</u>	<u>\$ 56,993,598</u>	<u>\$ 88,137,039</u>	<u>\$ 4,608,566</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 106,977	\$ 342,718	\$ 449,695	\$ -
Compensated absences	4,949	-	4,949	-
Accrued payroll liabilities	120,151	32,306	152,457	-
Accrued taxes payable	-	28,026	28,026	-
Accrued interest payable	6,713	50,324	57,037	32,044
Deposits	-	306,378	306,378	-
Unearned revenue	247,735	-	247,735	396,384
Other accrued liabilities	-	96,779	96,779	-
Current portion of long-term obligations	47,127	1,585,000	1,632,127	465,000
Total current liabilities	<u>533,652</u>	<u>2,441,531</u>	<u>2,975,183</u>	<u>893,428</u>
Noncurrent liabilities				
Compensated absences	315,787	50,997	366,784	-
Bonds and notes payable	123,849	21,748,970	21,872,819	3,812,858
Net pension liability	9,457,572	1,968,240	11,425,812	-
Total liabilities	<u>10,430,860</u>	<u>26,209,738</u>	<u>36,640,598</u>	<u>4,706,286</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	-	-	-	-
NET POSITION				
Net investment in capital assets	23,500,155	25,357,373	48,857,528	-
Restricted for				
Debt service and construction	-	3,668,453	3,668,453	-
Other purposes	855,979	-	855,979	(97,720)
Unrestricted	(3,643,553)	1,758,034	(1,885,519)	-
Total net position	<u>20,712,581</u>	<u>30,783,860</u>	<u>51,496,441</u>	<u>(97,720)</u>
Total liabilities, net position and deferred inflows	<u>\$ 31,143,441</u>	<u>\$ 56,993,598</u>	<u>\$ 88,137,039</u>	<u>\$ 4,608,566</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, 2016

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		Total	
					Governmental Activities	Business-type Activities		
Primary government								
Governmental activities								
General government	\$ 1,692,902	\$ -	\$ -	\$ -	\$ (1,692,902)	\$ -	\$ (1,692,902)	
Police operations	4,165,637	2,079	1,675,496	75,009	(2,413,053)	-	(2,413,053)	
Disptach	662,856	-	-	-	(662,856)	-	(662,856)	
Fire department	1,363,855	914	52,513	-	(1,310,428)	-	(1,310,428)	
Street department	2,242,840	-	180,873	-	(2,061,967)	-	(2,061,967)	
Cemetery	337,915	94,504	-	-	(243,411)	-	(243,411)	
Interest on long-term debt	6,713	-	-	-	(6,713)	-	(6,713)	
Total governmental activities	10,472,718	97,497	1,908,882	75,009	(8,391,330)	-	(8,391,330)	
Business-type activities								
Utilities - Water, sewer and sanitation	5,693,391	6,744,959	-	-	-	1,051,568	1,051,568	
Total primary government	\$ 16,166,109	\$ 6,842,456	\$ 1,908,882	\$ 75,009	(8,391,330)	1,051,568	(7,339,762)	
Component Unit								
Public Properties Corporation	\$ 403,141	\$ 209,082	\$ -	\$ -				\$ (194,059)

General revenue								
Taxes								
Property taxes, levied for general purposes				605,321	-	605,321	-	
License fees								
Franchise				518,725	-	518,725	-	
Payroll				3,687,115	-	3,687,115	-	
Insurance premiums				1,558,666	-	1,558,666	-	
Net profits				478,880	-	478,880	-	
Occupational				112,375	-	112,375	-	
E911 wireless funding fees				505,639	-	505,639	-	
Investment earnings				55,167	39,629	94,796	159,708	
Miscellaneous				221,355	-	221,355	-	
Total general revenues				7,743,243	39,629	7,782,872	159,708	
Gain (loss) on disposal of assets				(38,562)	(151,815)	(190,377)	-	
Total general revenues and gains (losses)				7,704,681	(112,186)	7,592,495	159,708	
Change in Net Position				(686,649)	939,382	252,733	(34,351)	
Net position, beginning				21,399,230	29,844,478	51,243,708	(63,369)	
NET POSITION, ENDING				\$ 20,712,581	\$ 30,783,860	\$ 51,496,441	\$ (97,720)	

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

**CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,873,314	\$ 178,680	\$ 2,051,994
Investments	2,008,254	589,123	2,597,377
Accounts receivable, net	1,509,555	20,727	1,530,282
Other receivables	221,611	-	221,611
Grants receivable	10,900	-	10,900
Due from other funds	-	-	-
Total assets	<u>\$ 5,623,634</u>	<u>\$ 788,530</u>	<u>\$ 6,412,164</u>
LIABILITIES			
Accounts payable	\$ 106,977	\$ -	\$ 106,977
Accrued payroll liabilities	120,151	-	120,151
Compensated absences	4,949	-	4,949
Unearned revenue	247,735	-	247,735
Due to other funds	757,193	-	757,193
Total liabilities	<u>1,237,005</u>	<u>-</u>	<u>1,237,005</u>
FUND BALANCE			
Fund balance			
Restricted	67,449	788,530	855,979
Unassigned	4,319,180	-	4,319,180
Total fund balance	<u>4,386,629</u>	<u>788,530</u>	<u>5,175,159</u>
Total liabilities and fund balance	<u>\$ 5,623,634</u>	<u>\$ 788,530</u>	<u>\$ 6,412,164</u>

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

Fund balances reported above \$ 5,175,159

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 23,671,131

Accrued interest on long-term debt is not payable in the current period and therefore is not reported in the funds. (6,713)

Long-term receivables for property taxes are not current financial resources and are therefore are not reported in the funds. 15,000

Long-term liabilities and related pension deferred inflows/outflows are not due and payable in the current period and therefore are not reported in the funds. (8,141,996)

Net position \$ 20,712,581

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, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 615,321	\$ -	\$ 615,321
Licenses and permits	6,355,761	-	6,355,761
Intergovernmental revenues	1,813,918	169,973	1,983,891
Charges for services	88,917	8,580	97,497
Other income	754,302	27,859	782,161
 Total Revenues	9,628,219	206,412	9,834,631
 EXPENDITURES			
Current			
General government	1,642,524	-	1,642,524
Merged police operations	3,636,499	-	3,636,499
Other police operations/grants	114,099	-	114,099
911 communications	617,326	-	617,326
Fire department	1,187,153	-	1,187,153
Street department	856,370	5,932	862,302
Cemetery department	298,033	3,746	301,779
Capital outlay	524,214	147,903	672,117
Debt service	53,840	-	53,840
 Total Expenditures	8,930,058	157,581	9,087,639
 Excess of Revenues Over (Under) Expenditures	698,161	48,831	746,992
 Other Sources			
Transfers in (out)	16,925	(16,925)	-
Proceeds from sale of assets	3,190	-	3,190
 Net change in fund balances	718,276	31,906	750,182
 Fund Balance, beginning of year	3,668,353	756,624	4,424,977
 Fund Balance, end of year	\$ 4,386,629	\$ 788,530	\$ 5,175,159
 Net change in fund balances			
Add: Capital outlay			\$ 750,182
Add: Debt service			672,117
Less: increase in current financial resources for property taxes			53,840
Less: Change in long-term compensated absences			(10,000)
Less: Proceeds from sale of assets			36,736
Less: Loss on disposal of assets			(3,190)
Less: Depreciation on governmental activities			(38,562)
Change in pension liability			(1,643,433)
Less: Interest on long-term debt			(497,626)
			(6,713)
 Change in net position			\$ (686,649)

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

Business-type
Activities
Water, Sewer
& Sanitation

ASSETS

Current assets

Cash and cash equivalents	\$ 2,438,366
Accounts receivable, net	898,639
Due from other funds	757,193
Inventory	128,677
	<u>4,222,875</u>

Total current assets

Noncurrent assets

Restricted assets

Cash and cash equivalents	3,443,213
Investments	1,513,507
Construction in progress	1,196,436
Land	320,124
Property and equipment	62,650,859
Less: accumulated depreciation	(18,164,166)
	<u>50,959,973</u>

Total noncurrent assets

Total assets

55,182,848

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows - pension	426,220
Defeasance on refunding	1,384,530
	<u>1,810,750</u>

Total assets and deferred outflows of resources

\$ 56,993,598

LIABILITIES

Current liabilities

Accounts payable	\$ 342,718
Accrued payroll	32,306
Taxes payable	28,026
Accrued interest	50,324
Deposits payable	306,378
Other accrued liabilities	96,779
Current portion, long-term debt	1,585,000
	<u>2,441,531</u>

Total current liabilities

Noncurrent liabilities

Compensated absences	50,997
Bonds and notes payable	21,748,970
Net pension liability	1,968,240
	<u>23,768,207</u>

Total noncurrent liabilities

Total liabilities

26,209,738

DEFERRED INFLOWS OF RESOURCES

Deferred inflows - pension	-
	<u>-</u>

NET POSITION

Net investment in capital assets	25,357,373
Restricted for debt service and construction	3,668,453
Unrestricted	1,758,034
	<u>30,783,860</u>

Total net position

30,783,860

Total liabilities, net position and deferred inflows of resources

\$ 56,993,598

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2016

	Business-type Activities
	Water, Sewer & Sanitation
OPERATING REVENUES	
Charges for services	\$ 6,463,514
Franchise fees	160,692
Other revenues	120,753
Total operating revenues	6,744,959
OPERATING EXPENSES	
Salaries	1,116,663
Payroll taxes	78,824
Employee benefits	482,705
Advertising and printing	27,737
Professional and technical	20,881
Repairs and maintenance	199,044
Utilities	611,062
Telephone and postage	44,358
Insurance	102,817
Chemicals	163,586
Technical supplies	1,800
Uniforms	6,153
Motor fuel	34,874
Office supplies	3,406
Other materials	35,269
Other expenses	214,652
Purchase of water	18,431
Sludge removal	83,170
Depreciation	1,570,488
Training/travel	12,271
Lab analysis	36,989
Purchase of water meters	26,974
Dumpster collection	2,829
Total operating expenses	4,894,983
Operating income	1,849,976
NONOPERATING REVENUES (EXPENSES)	
Investment income	39,629
Interest expense	(785,539)
Amortization expense	(12,869)
Loss on sale of assets	(151,815)
(Deficiency) of nonoperating revenues over expenses	(910,594)
Net income (loss)	939,382
Net position, beginning	29,844,478
NET POSITION, ENDING	\$ 30,783,860

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, 2016**

	Business-type Activities
	Water, Sewer & Sanitation
Cash flows from operating activities:	
Receipts from customers	\$ 6,584,660
Cash payments to employees	(1,517,262)
Cash payments to others for services	(1,640,236)
	3,427,162
Cash flows from capital and related financing activities:	
Purchase of construction in progress	(2,566,677)
Purchase of property, plant and equipment	(231,174)
Proceeds from sale of assets	212,005
Payment of bond and note payable principal	(1,707,029)
Interest expense	(618,316)
	(4,911,191)
Cash flows from investing activities:	
Sale/maturity of investments	303,934
Investment income	18,832
	322,766
Net increase in cash and cash equivalents	(1,161,263)
Cash and cash equivalents, July 1, 2015	7,042,842
Cash and cash equivalents, June 30, 2016	\$ 5,881,579
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income	\$ 1,849,976
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,570,488
Net pension liability	150,224
Changes in assets and liabilities:	
Receivables, net	(160,299)
Inventory	865
Accounts payable	(587,011)
Payroll liabilities	10,706
Due to/due from other funds	520,000
Other liabilities	72,213
	3,427,162
Net cash provided by operating activities	\$ 3,427,162
Reconciliation of total cash and cash equivalents	
Current assets - cash and cash equivalents	\$ 2,438,366
Restricted assets - cash and cash equivalents	3,443,213
	5,881,579
Total cash and cash equivalents	\$ 5,881,579
Amortization expense	\$ 12,869
Net change in capital assets payable	\$ 31,887

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	Agency Fund	Private Purpose Trust	Totals
ASSETS			
Cash and cash equivalents	\$ 384,860	\$ -	\$ 384,860
Investments	-	108,809	108,809
Total assets	384,860	108,809	493,669
LIABILITIES			
Accounts payable	382,923	-	382,923
Other liabilities	-	-	-
Total liabilities	382,923	-	382,923
NET POSITION			
Held in trust for payroll and other purposes	\$ 1,937	\$ 108,809	\$ 110,746

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
for the year ended June 30, 2016

	Agency Fund	Private Purpose Trust	Totals
ADDITIONS			
Investment income	\$ -	\$ 4,717	\$ 4,717
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Total additions	<u>-</u>	<u>4,717</u>	<u>4,717</u>
Less: investment expense			
Trust fees	-	1,036	1,036
Miscellaneous	<u>-</u>	<u>2,762</u>	<u>2,762</u>
Total investment expenses	<u>-</u>	<u>3,798</u>	<u>3,798</u>
Net increase (decrease) in net position	<u>-</u>	<u>919</u>	<u>919</u>
Net position, beginning	<u>1,937</u>	<u>107,890</u>	<u>109,827</u>
Net position, ending	<u>\$ 1,937</u>	<u>\$ 108,809</u>	<u>\$ 110,746</u>

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

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

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 unit is included in the City's reporting entity because the primary government is able to impose its will on the organization.

The City of Versailles Public Properties Corporation is included in the reporting entity as a discretely presented component unit because the City 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 consist 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, 2016

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. The Road Fund 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, 2016

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's enterprise operations include the following:

Enterprise Fund – The enterprise fund is used to account for water, sewer, and sanitation services. 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, 2016

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, Sewer and Sanitation Fund accounts receivable are for services to customers. If a customer fails to pay their bill by the 25th 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.

J. Interfund Balances

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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

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 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 1/12th of the annual rate per month of employment.

N. 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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, 2016, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:			
Road surface repairs	\$ -	\$ 199,407	\$ 199,407
Law enforcement	67,449	-	67,449
Cemetery permanent fund	-	589,123	589,123
Unassigned	<u>4,319,180</u>	<u>-</u>	<u>3,628,511</u>
 Total fund balances	 <u>\$ 4,386,629</u>	 <u>\$ 788,530</u>	 <u>\$ 5,175,159</u>

P. Proprietary Revenues

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

Q. Pensions

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. 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.

S. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through November 21, 2016, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2016, have not been evaluated by the City.

2. CASH AND INVESTMENTS

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, 2016, the City held investments in four 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 Housing Corporation Bonds	AAA/Aaa
New York Housing Development Corporation Multi-Family Housing	AA+/Aa2
New York State Urban Development Corporation Bonds	AAA/Aa1

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, 2016

2. CASH AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT

The carrying amount of the City's deposits totaled \$12,044,456 and the bank balances totaled \$12,144,870. As of June 30, 2016, \$7,992,641 was held as collateral by the custodial banks in the City's name and \$3,615,585 was held by the custodial banks but not in the City's name. As of June 30, 2016, the City had \$50,000 of deposits in excess of FDIC and/or collateralized amounts.

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 \$681,766, and the bank balances totaled \$681,766. As of June 30, 2016, \$148,193 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, 2016, are as follows:

<u>Investment Type</u>	<u>Carrying 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	\$ 2,008,254	\$ 1,425,000	\$ 583,254	\$ -	\$ -
U.S. govt. obligations	7,833	7,833	-	-	-
Mutual funds	437,783	437,783	-	-	-
Municipal bonds	<u>1,657,015</u>	<u>750,567</u>	<u>793,976</u>	<u>112,472</u>	-
Total	<u>\$ 4,110,885</u>	<u>\$ 2,621,183</u>	<u>\$ 1,377,230</u>	<u>\$ 112,472</u>	<u>\$ -</u>

Investment Valuation

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

For those investments measured at fair value, the investments' fair value measurements are as follows at June 30, 2016:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
U.S. Government Obligations	\$ 7,833	\$ 7,833	\$ -	\$ -
Mutual funds	437,783	437,783	-	-
Municipal bonds	<u>\$ 1,657,015</u>	<u>\$ -</u>	<u>\$ 1,657,015</u>	<u>\$ -</u>
Total	<u>\$ 2,102,631</u>	<u>\$ 445,616</u>	<u>\$ 1,657,015</u>	<u>\$ -</u>

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

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:

	General Fund	Nonmajor Funds	Governmental Funds
Governmental Funds:			
Taxes	\$ 31,723	\$ -	\$ 31,723
Licenses, permits, billings	1,463,217	-	1,463,217
Charges for service	5,850	-	5,850
Intergovernmental	40,765	20,727	61,492
Other	<u>-</u>	<u>-</u>	<u>-</u>
Gross receivables	1,541,555	20,727	1,562,282
Less: allowance for uncollectible	<u>(32,000)</u>	<u>-</u>	<u>(32,000)</u>
Net receivables	<u>\$ 1,509,555</u>	<u>\$ 20,727</u>	<u>\$ 1,530,282</u>
Business Type Activities:	Total		
Customer	\$ 889,330		
Other	16,309		
Less: allowance for uncollectible	<u>(7,000)</u>		
Net receivables	<u>\$ 898,639</u>		

4. CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 2,037,672	\$ 60,000	\$ -	\$ 2,097,672
Construction in progress	<u>35,819</u>	<u>30,413</u>	<u>(66,232)</u>	<u>-</u>
Total	<u>2,073,491</u>	<u>90,413</u>	<u>(66,232)</u>	<u>2,097,672</u>
Capital assets being depreciated:				
Buildings and improvements	2,228,810	66,232	(193,502)	2,101,540
Equipment	2,637,283	117,903	(932,661)	1,822,525
Vehicles	3,498,194	219,311	(477,600)	3,239,905
Infrastructure	<u>24,999,080</u>	<u>244,487</u>	<u>-</u>	<u>25,243,567</u>
Total	<u>33,363,367</u>	<u>647,933</u>	<u>(1,603,763)</u>	<u>32,407,537</u>
Total capital assets	<u>35,436,858</u>	<u>738,346</u>	<u>(1,669,995)</u>	<u>34,505,209</u>
Less: accumulated depreciation				
Buildings and improvements	1,949,609	46,237	(193,440)	1,802,406
Equipment	2,072,047	109,779	(892,033)	1,289,793
Vehicles	2,820,326	210,029	(477,600)	2,552,755
Infrastructure	<u>3,911,736</u>	<u>1,277,388</u>	<u>-</u>	<u>5,189,124</u>
Total accumulated depreciation	<u>10,753,718</u>	<u>1,643,433</u>	<u>(1,563,073)</u>	<u>10,834,078</u>
Governmental activities capital assets, net	<u>\$ 24,683,140</u>	<u>\$ (905,087)</u>	<u>\$ (106,922)</u>	<u>\$ 23,671,131</u>

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

4. CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets not depreciated:				
Land	\$ 493,287	\$ 94,372	\$ (267,535)	\$ 320,124
Construction in progress	<u>1,319,687</u>	<u>2,598,565</u>	<u>(2,721,816)</u>	<u>1,196,436</u>
Total	<u>1,812,974</u>	<u>2,692,937</u>	<u>(2,989,351)</u>	<u>1,516,560</u>
Capital assets being depreciated:				
Buildings	17,122,478	45,520	(55,110)	17,112,888
Equipment	936,612	65,976	(175,550)	827,039
Vehicles	512,741	25,306	(144,084)	393,963
Plant and utility systems	<u>41,595,157</u>	<u>2,721,816</u>	<u>-</u>	<u>44,316,973</u>
Total	<u>60,166,988</u>	<u>2,858,618</u>	<u>(374,747)</u>	<u>62,650,862</u>
Total capital assets	<u>61,979,962</u>	<u>5,551,554</u>	<u>(3,364,095)</u>	<u>64,167,422</u>
Less: accumulated depreciation				
Buildings	3,435,744	364,457	-	3,800,201
Equipment	647,598	72,592	(175,550)	544,640
Vehicles	279,190	59,987	(102,912)	236,265
Plant and utility systems	<u>12,509,611</u>	<u>1,073,452</u>	<u>-</u>	<u>13,583,063</u>
Total accumulated depreciation	<u>16,872,143</u>	<u>1,507,488</u>	<u>(278,462)</u>	<u>18,164,169</u>
Business-type activities capital assets, net	<u>\$ 45,107,819</u>	<u>\$ 3,981,067</u>	<u>\$ (3,085,633)</u>	<u>\$ 46,003,253</u>

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

Governmental activities:		Business-type activities:	
General government	\$ 20,324	Water	\$ 745,797
Police operations	169,043	Sewer	<u>824,691</u>
Dispatch	-	Total	<u>\$ 1,570,488</u>
Fire department	90,767		
Street department	1,347,313		
Cemetery	<u>15,986</u>		
Total	<u>\$ 1,643,433</u>		

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, 2016, was \$197,770.

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

5. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all notes and leases outstanding as of June 30, 2016, are as follows:

June 30,	Principal	Interest	Total
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>\$ 170,976</u>	<u>\$ 14,514</u>	<u>\$ 185,490</u>

The changes in general long-term debt during 2016 are as follows:

	July 1, 2015	Additions	Retirements	June 30, 2016
Fire truck lease	\$ 216,323	\$ -	\$ 45,347	\$ 170,976
Net pension liability	7,254,481	2,203,091	-	9,457,572
Compensated absences	<u>325,523</u>	<u>-</u>	<u>9,736</u>	<u>315,787</u>
Total	<u>\$ 7,796,327</u>	<u>\$ 2,203,091</u>	<u>\$ 55,083</u>	<u>\$ 9,944,335</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 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, 2016, \$3,850,000 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 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, 2016, \$6,335,000 of the defeased bonds are still outstanding.

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

5. LONG-TERM DEBT (CONTINUED)

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 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, 2016, \$6,130,000 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. The City paid off the note early during 2016.

On January 28, 2014, the City issued \$5,710,000 of Water and Sewer Revenue Bonds, Series 2014. The proceeds are being used for the purpose of rehabilitation and repairs of the sanitary sewer system.

At June 30, 2016, the business-type activities had the following bonds and notes payable outstanding:

Description	Series	Amount	Current Portion
Revenue Bonds	2011	\$ 3,715,000	\$ 580,000
Revenue Bonds	2012	7,365,000	635,000
Revenue Bonds	2013	6,660,000	370,000
Revenue Bonds	2014	5,710,000	-
Note Payable (\$600,000)		<u>-</u>	<u>-</u>
Total payable at par		23,450,000	1,585,000
Less: unamortized bond discount		(116,030)	
Less: current portion payable		<u>(1,585,000)</u>	
Total long-term portion		<u>\$ 21,748,970</u>	

The annual requirements to amortize all revenue bonds and notes outstanding as of June 30, 2016, are as follows:

June 30,	Principal	Interest	Total
2017	\$ 1,585,000	\$ 591,481	\$ 2,176,481
2018	1,610,000	564,044	2,174,044
2019	1,650,000	531,956	2,181,956
2020	1,690,000	495,844	2,185,844
2021	1,720,000	456,369	2,176,369
2022-2026	9,485,000	1,610,201	11,095,201
2027-2031	3,370,000	758,311	4,128,311
2032-2034	<u>2,340,000</u>	<u>140,880</u>	<u>2,480,880</u>
	<u>\$ 23,450,000</u>	<u>\$ 5,149,086</u>	<u>\$ 28,599,086</u>

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

5. LONG-TERM DEBT (CONTINUED)

The changes in long-term debt during 2016 are as follows:

	July 1, 2015	Additions	Retirements	June 30, 2016
W&S revenue bonds	\$ 25,010,000	\$ -	\$ 1,560,000	\$ 23,450,000
Notes payable	147,029	-	147,029	-
Net pension liability	1,415,183	553,057	-	1,968,240
Compensated absences	<u>44,617</u>	<u>6,380</u>	<u>-</u>	<u>50,997</u>
Total	<u>\$ 26,616,829</u>	<u>\$ 559,437</u>	<u>\$ 1,707,029</u>	<u>\$ 25,469,237</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:

COMPLIANCE WITH BOND ORDINANCES (CONTINUED)

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.

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.

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

5. LONG-TERM DEBT (CONTINUED)

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 UNIT

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 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 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.

At June 30, 2016, the Corporation had the following bonds outstanding:

Description	Series	Amount	Current Portion
Revenue Bonds	2006	\$ 3,230,000	\$ 350,000
Revenue Bonds	2006B	<u>1,065,000</u>	<u>115,000</u>
Total payable at par		4,295,000	465,000
Less: unamortized bond discount		<u>(17,142)</u>	
		4,277,858	
Less: current portion payable		<u>(465,000)</u>	
Total long-term portion		<u>\$ 3,812,858</u>	

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

5. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all revenue bonds and leases outstanding as of June 30, 2016, are as follows:

June 30	Principal	Interest	Total
2017	\$ 465,000	\$ 166,406	\$ 631,406
2018	480,000	147,606	627,606
2019	500,000	127,986	627,986
2020	525,000	107,461	632,461
2021	550,000	85,931	635,931
2022-2024	<u>1,775,000</u>	<u>120,039</u>	<u>1,895,039</u>
	<u>\$ 4,295,000</u>	<u>\$ 755,429</u>	<u>\$ 5,050,429</u>

The changes in long-term debt during 2016 are as follows:

	July 1, 2015	Additions	Retirements	June 30, 2016
KCTCS Revenue Bonds	<u>\$ 4,740,000</u>	<u>\$ -</u>	<u>\$ 445,000</u>	<u>\$ 4,295,000</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.

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

June 30,	
2017	\$ 637,020
2018	637,020
2019	637,020
2020	637,020
2021	637,020
2022-2024	<u>1,476,735</u>
Net minimum lease payments	4,661,835
Less: amount representing interest	<u>(796,440)</u>
Present value of minimum lease payments	<u>\$ 3,865,395</u>

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

7. RETIREMENT PLAN

CERS

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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions – For the year ended June 30, 2016, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.06% of each employee's wages for non-hazardous job classifications and 32.95% of each employee's wages for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2016, the City contributed \$279,608, or 100% of the required contribution for non-hazardous job classifications, and \$497,695, for the year ended June 30, 2016, or 100% of the required contribution for hazardous job classifications.

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

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

7. RETIREMENT PLAN (CONTINUED)

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87 Not available

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 11,425,812</u>	<u>\$ 4,008,936</u>	<u>\$ 7,416,876</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2015 was as follows:

Non-hazardous	Hazardous
.093242%	.483150%

The proportionate share at June 30, 2015 increased .004643% for non-hazardous and .000896% for hazardous to the proportionate share as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$1,213,887. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 194,406	\$ -
Changes of assumptions	1,045,196	-
Net difference between projected and actual earnings on Plan investments	82,515	-
Changes in proportion and differences between City contributions and proportionate share of contributions	129,138	-
City contributions subsequent to the measurement date	<u>777,304</u>	-
Total	<u>\$ 2,228,559</u>	<u>\$ -</u>

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

7. RETIREMENT PLAN (CONTINUED)

The \$777,304 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2017	\$ 396,107
2018	396,107
2019	287,312
2020	371,730

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Hazardous

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

7. RETIREMENT PLAN (CONTINUED)

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net pension liability	Discount rate	City's proportionate share of net pension liability
1% decrease	6.50%	\$ 5,117,912	6.50%	\$ 9,493,844
Current discount rate	7.50%	\$ 4,008,936	7.50%	\$ 7,416,876
1% increase	8.50%	\$ 3,059,207	8.50%	\$ 5,696,050

Payable to the Pension Plan – At June 30, 2016, the City reported a payable of \$23,900 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

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

8. COMMITMENTS AND CONTINGENCIES

On October 14, 2014, the City entered into an interlocal cooperation agreement with the County of Woodford, Kentucky (“County”). The interlocal cooperation agreement amended a previous agreement related to the operation of a joint parks and recreation program. The City and the County have agreed to share on an equal basis the existing bond payments, previously used for the construction of the Falling Springs facility. The agreement also calls for the City to pay 45% of the general operating, maintenance and capital expenditures of the parks and recreation facility.

9. CONCENTRATIONS

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Five industrial companies generated approximately 46% of the City’s occupational tax revenue. Four users generated approximately 27% of the utility operation’s service revenue. Also, at June 30, 2016, approximately 15% of the utility operation’s accounts receivable was due from four users.

10. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2016 were levied in September 2015 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

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, 2016, are as follows:

	Interfund Receivables	Interfund Payables
Governmental funds	\$ -	\$ 757,193
Business-type funds	<u>757,193</u>	<u>-</u>
	<u>\$ 757,193</u>	<u>\$ 757,193</u>

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

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. The agreement was renewed in October 2013. 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:

	Original Budget	Actual	Variance Favorable (Unfavorable)
Police Operating	\$ 3,947,235	\$ 3,636,499	\$ 310,736
Police Capital	<u>173,000</u>	<u>150,019</u>	<u>22,981</u>
Total cost shared with County	<u>\$ 4,120,235</u>	<u>\$ 3,786,518</u>	<u>\$ 333,717</u>

14. SUBSEQUENT EVENT

On July 28, 2016 the City issued \$10,000,000 of Water and Sewer Revenue Bonds, Series 2016. The proceeds are for the expansion and upgrading of the City's wastewater treatment plant.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Property taxes	\$ 624,500	\$ 624,500	\$ 615,321	\$ (9,179)
License and permits	5,838,500	5,838,500	6,355,761	517,261
Intergovernmental revenues	1,765,970	1,890,170	1,813,918	(76,252)
Charges for services	92,500	92,500	88,917	(3,583)
Other income	<u>975,300</u>	<u>975,300</u>	<u>754,302</u>	<u>(220,998)</u>
 Total revenues	 <u>9,296,770</u>	 <u>9,420,970</u>	 <u>9,628,219</u>	 <u>207,249</u>
 Expenditures				
Current				
General government	1,834,401	1,866,201	1,642,524	223,677
Merged police operations	3,947,235	3,947,235	3,636,499	310,736
Other police operations/grants	-	-	114,099	(114,099)
911 communications	705,010	705,010	617,326	87,684
Fire department	1,203,092	1,212,092	1,187,153	24,939
Street department	845,993	851,993	856,370	(4,377)
Cemetery department	315,881	320,631	298,033	22,598
Capital outlay	589,100	704,434	524,214	180,220
Debt service	<u>54,000</u>	<u>54,000</u>	<u>53,840</u>	<u>160</u>
 Total expenditures	 <u>9,494,712</u>	 <u>9,661,596</u>	 <u>8,930,058</u>	 <u>731,538</u>
 Excess of Revenues Over (Under) Expenditures	 <u>(197,942)</u>	 <u>(240,626)</u>	 <u>698,161</u>	 <u>938,787</u>
 Other Financing Sources (uses)				
Proceeds from sale of assets	-	-	3,190	3,190
Transfers	<u>-</u>	<u>-</u>	<u>16,925</u>	<u>16,925</u>
 Total Other Financing Sources (uses)	 <u>-</u>	 <u>-</u>	 <u>20,115</u>	 <u>20,115</u>
 Excess of Revenues and Other Sources Over (Under) Expenditures	 <u>(197,942)</u>	 <u>(240,626)</u>	 <u>718,276</u>	 <u>958,902</u>
 Fund Balance, July 1, 2015	 <u>3,668,353</u>	 <u>3,668,353</u>	 <u>3,668,353</u>	 <u>-</u>
 Fund Balance, June 30, 2016	 <u>\$ 3,470,411</u>	 <u>\$ 3,427,727</u>	 <u>\$ 4,386,629</u>	 <u>\$ 958,902</u>

Note 1: Other police operations/grants includes expenditures for items funded through police forfeiture revenue sources that were netted against revenue and not budgeted.

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

	2014	2015	2016
City's proportion of the net pension liability	0.088599%	0.088599%	0.093242%
City's proportionate share of the net pension liability (asset)	\$ 3,259,727	\$ 2,873,792	\$ 4,008,936
City's covered employee payroll	\$ 2,058,814	\$ 2,308,636	\$ 2,249,067
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	158.33%	124.48%	178.25%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

Notes:

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

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

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

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

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

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

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

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

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

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

	2014	2015	2016
City's proportion of the net pension liability	0.482254%	0.482254%	0.483150%
City's proportionate share of the net pension liability (asset)	\$ 6,470,696	\$ 5,795,872	\$ 7,416,876
City's covered employee payroll	\$ 2,543,977	\$ 2,595,363	\$ 2,458,224
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	254.35%	223.32%	301.72%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%

Notes:

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

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

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

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

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

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

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

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

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

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

	2013	2014	2015	2016
Contractually required employer contribution	\$ 259,822	\$ 294,935	\$ 295,040	\$ 279,608
Contributions relative to contractually required employer contribution	<u>\$ 259,822</u>	<u>\$ 294,935</u>	<u>\$ 295,040</u>	<u>\$ 279,608</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 2,058,814	\$ 2,146,544	\$ 2,308,636	\$ 2,249,067
Employer contributions as a percentage of covered-employee payroll	12.62%	13.74%	12.78%	12.43%

Notes:

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

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

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

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

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

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

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

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

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

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

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

	2013	2014	2015	2016
Contractually required employer contribution	\$ 500,340	\$ 553,824	\$ 538,019	\$ 497,695
Contributions relative to contractually required employer contribution	<u>\$ 500,340</u>	<u>\$ 553,824</u>	<u>\$ 538,019</u>	<u>\$ 497,695</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 2,489,255	\$ 2,543,977	\$ 2,595,363	\$ 2,458,224
Employer contributions as a percentage of covered-employee payroll	20.10%	21.77%	20.73%	20.25%

Notes:

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

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

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

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

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION

**CITY OF VERSAILLES, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2016**

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
ASSETS			
Cash and cash equivalents	\$ 178,680	\$ -	\$ 178,680
Investments	-	589,123	589,123
Accounts receivable	20,727	-	20,727
 Total assets	 \$ 199,407	 \$ 589,123	 \$ 788,530
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
 Total liabilities	 -	 -	 -
FUND BALANCE			
Restricted	199,407	589,123	788,530
Unrestricted	-	-	-
 Total fund balance	 199,407	 589,123	 788,530
 Total liabilities and fund balance	 \$ 199,407	 \$ 589,123	 \$ 788,530

CITY OF VERSAILLES, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2016

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental revenues	169,973	-	169,973
Charges for services	-	8,580	8,580
Other income	464	27,395	27,859
Total revenues	170,437	35,975	206,412
EXPENDITURES			
Current			
General government	-	-	-
Police department	-	-	-
Fire department	-	-	-
Street department	5,932	-	5,932
Cemetery department	-	3,746	3,746
Program expenses	-	-	-
Debt service	-	-	-
Capital outlay	147,903	-	147,903
Total expenditures	153,835	3,746	157,581
Excess of Revenues Over (Under) Expenditures	16,602	32,229	48,831
Other Sources			
Operating transfers in	-	-	-
Operating transfers out	-	(16,925)	(16,925)
Total other sources	-	(16,925)	(16,925)
Excess of Revenues and Other Sources Over (Under) Expenditures	16,602	15,304	31,906
Fund Balance, July 1, 2015	182,805	573,819	756,624
Fund Balance, June 30, 2016	\$ 199,407	\$ 589,123	\$ 788,530

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

Fiscal Year	Interest Rate	Principal Payable by December 1	Interest Payable by December 1	Interest Payable by June 1	Total Principal and Interest
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>\$ 3,715,000</u>	<u>\$ 199,125</u>	<u>\$ 147,638</u>	<u>\$ 4,061,763</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 by December 1</u>	<u>Interest Payable by June 1</u>	<u>Total Principal and Interest</u>
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>\$ 7,365,000</u>	<u>\$ 490,526</u>	<u>\$ 409,740</u>	<u>\$ 8,265,266</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>
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>\$ 6,660,000</u>	<u>\$ 508,957</u>	<u>\$ 441,885</u>	<u>\$ 7,610,842</u>

**CITY OF VERSAILLES, KENTUCKY
ENTERPRISE FUND
WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE
SERIES OF 2014**

<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>
2016-17	3.050%	\$ -	\$ 102,601	\$ 102,601	\$ 205,203
2017-18	3.050%	-	102,601	102,601	205,203
2018-19	3.050%	-	102,601	102,601	205,203
2019-20	3.050%	-	102,601	102,601	205,203
2020-21	3.050%	-	102,601	102,601	205,203
2021-22	3.050%	-	102,601	102,601	205,203
2022-23	3.050%	-	102,601	102,601	205,203
2023-24	3.050%	-	102,601	102,601	205,203
2024-25	3.050%	-	102,601	102,601	205,203
2025-26	3.050%	-	102,601	102,601	205,203
2026-27	3.050%	630,000	102,601	92,994	825,595
2027-28	3.300%	650,000	92,994	82,269	825,263
2028-2029	3.350%	675,000	82,269	70,963	828,231
2029-2030	3.500%	695,000	70,963	58,800	824,763
2030-2031	3.650%	720,000	58,800	45,660	824,460
2031-2032	3.800%	750,000	45,660	31,410	827,070
2032-2033	3.900%	780,000	31,410	16,200	827,610
2033-2034	4.000%	810,000	16,200	-	826,200
Totals		<u>\$ 5,710,000</u>	<u>\$ 1,526,909</u>	<u>\$ 1,424,308</u>	<u>\$ 8,661,216</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 by December 1</u>	<u>Interest Payable by December 1</u>	<u>Interest Payable by June 1</u>	<u>Total Principal and Interest</u>
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>\$ 3,230,000</u>	<u>\$ 307,028</u>	<u>\$ 242,137</u>	<u>\$ 3,779,165</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 by January 1</u>	<u>Interest Payable by January 1</u>	<u>Interest Payable by July 1</u>	<u>Total Principal and Interest</u>
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>\$ 1,065,000</u>	<u>\$ 103,137</u>	<u>\$ 103,137</u>	<u>\$ 1,271,274</u>



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

To the City Council
City of 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, 2016, and the related notes to the financial statements, which collectively comprise the City of Versailles, Kentucky's basic financial statements and have issued our report thereon dated November 21, 2016.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

RFH

RFH, PLLC
Lexington, Kentucky
November 21, 2016