

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



**FINANCIAL STATEMENTS**  
**June 30, 2017**

## CONTENTS

Independent Auditors' Report.....	1-2
Management's Discussion and Analysis .....	3-13
Government-wide Financial Statements	
Statement of Net Position .....	14
Statement of Activities.....	15
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	17
Statement of Net Position – Proprietary Funds .....	18
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds .....	19
Statement of Cash Flows – Proprietary Funds .....	20
Fiduciary Funds Statements.....	21-22
Notes to Financial Statements.....	23-43
Required Supplementary Information	
Budget Information.....	44
Pension – Proportionate Share of Net Pension Liability .....	45-46
Pension – Schedule of Contributions.....	47-48
Combining Statements Non-major Governmental Funds .....	49-50
Long-term Debt Schedules.....	51-56
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 <i>Government Auditing Standards</i> .....	57-58



## 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Versailles, Kentucky'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, 2017, 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 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 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 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 10, 2017, 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 10, 2017

City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2017

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, 2017. 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, 2017

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, 2017

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	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current & Other Assets	\$ 6.4	\$ 5.7	\$ 5.6	\$ 4.2	\$ 12.0	\$ 9.9
Capital Assets	22.9	23.6	59.5	51.0	82.4	74.6
Total Assets	<u>\$ 29.3</u>	<u>\$ 29.3</u>	<u>\$ 65.1</u>	<u>\$ 55.2</u>	<u>\$ 94.4</u>	<u>\$ 84.5</u>
Deferred outflows	2.2	1.8	1.7	1.8	3.9	3.6
Non-Current Liabilities	10.2	9.9	32.5	23.8	42.7	33.7
Current Liabilities	0.6	0.5	2.5	2.4	3.1	2.9
Total Liabilities	<u>10.8</u>	<u>10.4</u>	<u>35.0</u>	<u>26.2</u>	<u>45.8</u>	<u>36.6</u>
Deferred Inflows	0.4	-	0.1		0.5	-
Net Investment in Capital Assets	22.8	23.5	24.8	25.3	47.6	48.8
Restricted	1.0	0.8	3.8	3.7	4.8	4.5
Unrestricted	(3.4)	(3.6)	3.0	1.8	(0.4)	(1.8)
Total Net Position	<u>\$ 20.3</u>	<u>\$ 20.7</u>	<u>\$ 31.6</u>	<u>\$ 30.8</u>	<u>\$ 52.0</u>	<u>\$ 51.5</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 2017.

The City's total governmental net position decreased from \$20.7 million at 2016 to \$20.3 million at 2017. This decrease is primarily due to the change in the net pension liability from \$9.5 million in 2016 to \$9.8 million in 2017 as well as depreciation expense for the year was approximately \$1.7 million.

In the business-type activity (Enterprise Fund), total net position increased from \$30.8 million in 2016 to \$31.6 million in 2017 primarily due to operating revenues exceeding expenditures by approximately \$900,000 which is consistent with 2016 and 2015. During FY 2017, the City issued \$10 million in utility revenue bonds to fund capital projects, primarily the waste water treatment plant. As a result of the debt issuance, cash, capital assets and long term debt have increased from 2016. The City implemented a rate increase in January 2015 in anticipation of the 2016 bond refunding and financing which occurred in FY 2017. There was an additional increase in sewer and water rates in FY 2017.

For governmental activities, the City had \$881,992 of restricted net position related to municipal road aid and the cemetery. For business-type activities, the City had \$3,830,887 of restricted net assets related to debt service.

City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

The City's deferred outflow of resources which consist of unamortized bond defeasance costs and pension expenses for future periods increased from 2016 to \$3.9 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.

Table A-2  
Change in Net Position (In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Program Revenues						
Charges for services	\$ 0.1	\$ 0.1	\$ 7.2	\$ 6.8	\$ 7.3	\$ 6.9
Operating Grants & Contributions	2.0	1.9	-	-	2.0	1.9
Capital Grants & Contributions	0.1	0.1	0.1	-	0.2	0.1
General Revenues						
Taxes	0.7	0.6	-	-	0.7	0.6
Licenses	6.6	6.4	-	-	6.6	6.4
Intergovernmental	0.5	0.5	-	-	0.5	0.5
Other Revenues / (Losses)	0.2	0.2	-	(0.2)	0.2	-
<b>Total Revenue</b>	<b>10.2</b>	<b>9.8</b>	<b>7.3</b>	<b>6.6</b>	<b>17.5</b>	<b>16.4</b>
<b>Expenses:</b>						
Program Expenses						
General Government	1.7	1.7	-	-	1.7	1.7
Police & 911	4.8	4.9	-	-	4.8	4.9
Fire	1.4	1.4	-	-	1.4	1.4
Streets	2.3	2.2	-	-	2.3	2.2
Cemetery	0.3	0.3	-	-	0.3	0.3
Water/Sewer/Sanitation	-	-	6.4	5.7	6.4	5.7
<b>Total Expenses</b>	<b>10.5</b>	<b>10.5</b>	<b>6.4</b>	<b>5.7</b>	<b>16.9</b>	<b>16.2</b>
<b>Change in Net Position</b>	<b>\$ (0.3)</b>	<b>\$ (0.7)</b>	<b>\$ 0.9</b>	<b>\$ 0.9</b>	<b>\$ 0.6</b>	<b>\$ 0.2</b>

Governmental activity revenue increased by approximately \$400,000 from 2016 to 2017 as shown in Table A-2. The increase in revenue is largely attributable to increases in payroll, insurance, net profit and franchise license fees.

Governmental activity expenses remained consistent with the prior year at \$10.5 million.

Business-type activity (enterprise) revenues increased from \$6.6 million in 2016 to \$7.3 million in 2017. The increase is primarily related to increases in water and sewer rates for charges for services. Business-type activity (enterprise) expenses increased from \$5.7 million in 2016 to \$6.4 million in 2017 primarily due to increases in interest and amortization expense related to long term debt.



City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

**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>2017</u>	<u>2016</u>	<u>Change</u>
<b>Revenues</b>			
Taxes	\$ 651,247	\$ 615,321	\$ 35,926
Licenses and permits	6,602,111	6,355,761	246,350
Intergovernmental revenues	2,095,000	1,983,891	111,109
Charges for services	107,762	97,497	10,265
Other income	722,467	782,161	(59,694)
<b>Total Revenues</b>	<b><u>\$ 10,178,587</u></b>	<b><u>\$ 9,834,631</u></b>	<b><u>\$ 343,956</u></b>
<b>Expenditures</b>			
General government	\$1,711,376	\$1,642,524	\$ (68,852)
Merged police operations	3,543,381	3,636,499	93,118
Other police operations/grants	179,638	114,099	(65,539)
911 communications	682,443	617,326	(65,117)
Fire department	1,243,607	1,187,153	(56,454)
Street department	866,232	862,302	(3,930)
Cemetery department	300,254	301,779	1,525
Capital outlay	906,955	672,117	(234,838)
Debt service	53,840	53,840	-
<b>Total Expenditures</b>	<b><u>\$ 9,487,726</u></b>	<b><u>\$ 9,087,639</u></b>	<b><u>\$ (400,087)</u></b>

The information above shows that revenues for governmental funds increased by \$343,956 from 2016 to 2017.

License and permit revenue increased by approximately 4% primarily related to increases in the payroll tax revenue, local economic growth and an increase in the franchise agreement with Columbia Gas. Intergovernmental revenues increased slightly, primarily related to an increase in state funding.

The information above shows that expenses for governmental funds increased by \$400,087 from 2016 to 2017.

The increase is primarily attributable to capital outlays which increased by approximately \$230,000 as a result of the purchase of land for development, street paving and vehicles for the police and fire department.

City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

Table A-4  
General Fund - Budget & Actual

	<u>Budget</u>	<u>Actual</u>	<u>Difference Favorable (Unfavorable)</u>
<b>Revenues</b>			
Taxes	\$ 635,000	\$ 651,247	\$ 16,247
Licenses and permits	6,268,500	6,602,111	333,611
Intergovernmental revenues	2,060,012	1,924,054	(135,958)
Charges for services	75,500	96,712	21,212
Other income	680,418	681,180	762
<b>Total Revenues</b>	<b><u>\$ 9,719,430</u></b>	<b><u>\$ 9,955,304</u></b>	<b><u>\$ 235,874</u></b>
<b>Expenditures</b>			
General government	\$ 1,817,326	\$1,711,376	\$ 105,950
Merged police operations	3,851,703	3,543,381	308,322
Other police operations/grants	135,000	179,638	(44,638)
911 communications	741,829	682,443	59,386
Fire department	1,345,950	1,243,607	102,343
Street department	992,776	866,460	126,316
Cemetery department	310,546	296,458	14,088
Capital outlay	897,052	799,291	97,761
Debt service	54,000	53,840	160
<b>Total Expenditures</b>	<b><u>\$ 10,146,182</u></b>	<b><u>\$9,376,494</u></b>	<b><u>\$ 769,688</u></b>

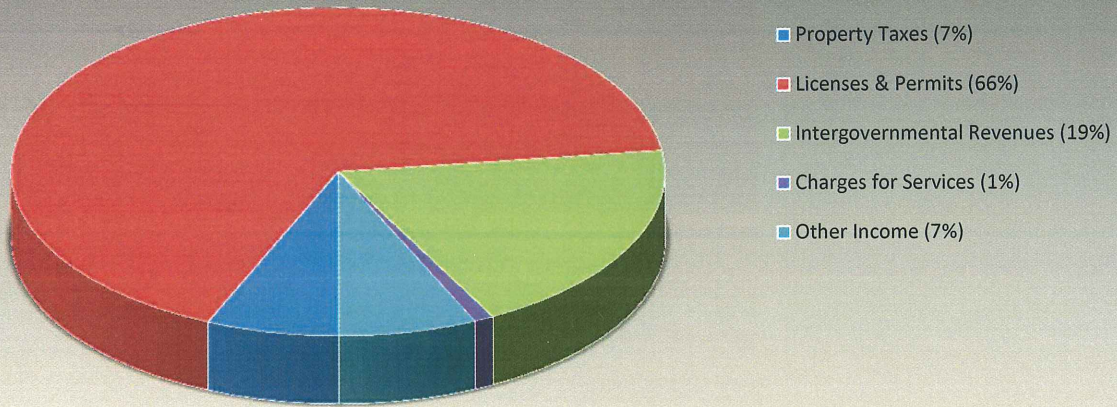
Budget Highlights

The City budgeted \$9.7 million in revenues for 2017 and generated \$9.9 million. Actual licenses and permits revenue was more than budgeted balance by \$313,611, in part, as a result of conservative budget forecasts, economic improvement and improved enforcement. Intergovernmental income was under budget related to a decrease in revenue from the County related to the merged police departments.

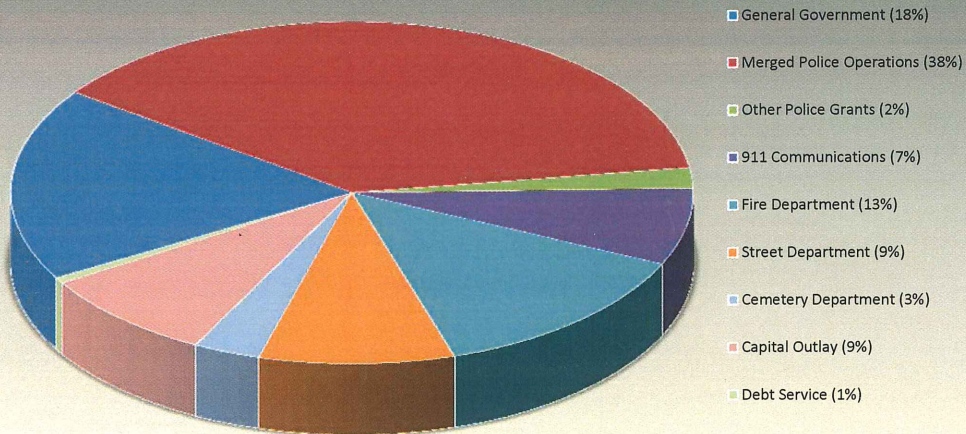
The City budgeted \$10.1 million in expenditures, but actually expended only \$9.4. Contributing factors to expenses being decreased as a whole was partly due to department heads being fiscally responsible with the budgets, as well as capital outlay line-items not being expended in full such as the storm drainage project and drill tower. The General government department, including the Council, Mayor and Clerk departments, was under budget in several categories including repairs, training, insurance and professional fees. Other police operations was over budget related to the expenditure of police forfeiture funds. The Merged police operations department was under budget in salaries due to utilizing part-time staff over full-time and not filling three vacant positions, repairs and maintenance and motor fuel. The Fire Department was under budget related to salaries and related costs and the Street Department was under budget related to road salt and overtime.

City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

### General Fund Revenue-June 30, 2017



### General Fund Expenditures-June 30, 2017



City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

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

	Budget	Actual	Difference
Charges for Services	\$ 6,893,500	\$ 6,946,674	\$ 53,174
Grants	100,000	61,360	(38,640)
Franchise Fees	39,600	40,518	918
Investment Income	35,000	32,469	(2,531)
Other Revenues	106,000	185,362	79,362
<b>Total Revenues</b>	<b>\$ 7,174,100</b>	<b>\$ 7,266,383</b>	<b>\$ 92,283</b>

The City budgeted \$7.0 million in revenues for 2017 and generated \$7.2 million for the Enterprise Fund. Actual charges for services for water and sewer were \$53,000 more than management's estimate primarily due to rate increases and penalties.

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

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

	Budget	Actual	Difference
Salaries	\$ 634,869	\$ 652,914	\$ 18,045
Payroll Taxes	48,568	47,615	(953)
Employee Benefits	194,799	276,845	82,046
Advertising and printing	18,500	17,276	(1,224)
Professional and technical	13,000	8,828	(4,172)
Repairs and maintenance	133,500	157,013	23,513
Utilities	425,000	408,839	(16,161)
Telephone and postage	19,000	19,541	541
Insurance	53,200	52,385	(815)
Chemicals	140,000	120,690	(19,310)
Uniforms	4,200	3,469	(731)
Motor fuel	21,000	15,596	(5,404)
Office supplies	4,000	3,436	(564)
Other expenses	235,000	181,368	(53,632)
Purchase of water	22,000	22,540	540
Training/travel	5,000	3,698	(1,302)
Lab analysis	14,000	20,119	6,119
Purchase of water meters	25,000	30,608	5,608
<b>Total Expenditures</b>	<b>\$ 2,010,636</b>	<b>\$ 2,042,780</b>	<b>\$ 32,144</b>

City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

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

	Budget	Actual	Difference
Salaries	\$ 517,979	\$ 531,189	\$ 13,210
Payroll Taxes	42,888	38,487	(4,401)
Employee benefits	167,607	234,069	66,462
Advertising and printing	9,500	8,663	(837)
Professional and technical	10,000	8,388	(1,612)
Repairs and maintenance	87,250	123,579	36,329
Utilities	235,000	217,737	(17,263)
Telephone and postage	25,000	25,033	33
Insurance	43,800	42,362	(1,438)
Chemicals	50,000	43,102	(6,898)
Technical supplies	2,000	12,046	10,046
Uniforms	3,500	3,089	(411)
Motor fuel	25,800	20,168	(5,632)
Other expenses	14,000	21,506	7,506
Sludge removal	75,500	93,771	18,271
Training/travel	5,000	8,065	3,065
Lab analysis	20,000	19,149	(851)
Dumpster collection	3,100	3,582	482
<b>Total Expenditures</b>	<b>\$ 1,337,924</b>	<b>\$ 1,453,985</b>	<b>\$ 116,061</b>

The Water Department budgeted \$2.0 million in expenses for 2017 and generated \$2.0 million. Utilities, chemicals and other expenses were under budget. Employee benefits were over budget primarily due to changes in the net pension liability.

The Sewer Department budgeted \$1.3 million in expenses for 2017 and generated \$1.4 million. Materials and sludge removal were over budget and utilities was under budget. Employee benefits were over budget primarily due to changes in the net pension liability.

City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

Capital Assets

Table A-8 shows the breakdown of capital assets net of depreciation for both governmental and business-type activities. Land increased as the result of the St. Leo property. Infrastructure decreased as a result of annual depreciation expense. Construction in progress for business-type activities includes the WWTP expansion project. Buildings and improvements include large additions in FY 2017 related to the SSES phase III project.

Table A-8  
Capital Assets at Year-End, Net of Depreciation (In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 2.5	\$ 2.1	\$ 0.3	\$ 0.3	\$ 2.8	\$ 2.4
Infrastructure	18.9	20.1	-	-	18.9	20.1
Buildings & improvements	0.2	0.3	44.6	44.0	44.8	44.3
Equipment	0.5	0.5	0.2	0.3	0.7	0.8
Vehicles	0.7	0.7	0.2	0.2	0.9	0.9
Construction in progress	-	-	1.0	1.2	1.0	1.2
<b>Total Capital Assets</b>	<b>\$ 22.8</b>	<b>\$ 23.7</b>	<b>\$ 46.3</b>	<b>\$ 46.0</b>	<b>\$ 69.1</b>	<b>\$ 69.7</b>

Debt Service

Table A-9  
Table A-10 provides a summary of all the City's outstanding indebtedness

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Notes payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Leases payable	0.12	0.17	-	-	0.12	0.17
Bonds payable	-	-	31.87	23.45	31.87	23.45
<b>Total Debt Outstanding</b>	<b>\$ 0.12</b>	<b>\$ 0.17</b>	<b>\$ 31.87</b>	<b>\$ 23.45</b>	<b>\$ 31.99</b>	<b>\$ 23.62</b>

In FY 2017, the City issued \$10 million in utility revenue bonds to fund capital projects. The City made debt service payments as scheduled.

City of Versailles, Kentucky  
Management's Discussion and Analysis (MD&A)(Continued)  
June 30, 2017

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 2017-18 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 2017-18 general fund budget does not include significantly large capital projects except for the construction of the new police department facility, which will be financed with a \$5 million bond anticipation note. 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 future capital projects for public safety. In addition, the City has established a recreational escrow account to fund future maintenance and repairs of recreational facilities.

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, 2017**

	Primary Government			Component Unit Public Properties
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,954,919	\$ 4,421,544	\$ 6,376,463	\$ 1,809
Investments	2,626,790	-	2,626,790	-
Accounts receivable, net	1,602,492	1,012,221	2,614,713	-
Grants receivable	38,858	32,460	71,318	-
Current lease receivable, net	-	-	-	460,323
Other receivables - fiduciary	222,195	18,971	241,166	-
Inventories	-	129,866	129,866	-
Internal balances	-	-	-	-
Total current assets	<u>6,445,254</u>	<u>5,615,062</u>	<u>12,060,316</u>	<u>462,132</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	9,061,192	9,061,192	891,062
Restricted investments	-	4,095,980	4,095,980	-
Capital assets				
Construction in progress	15,263	1,040,241	1,055,504	-
Land and improvements	2,518,184	320,124	2,838,308	-
Plant and utility systems, net	-	44,924,041	44,924,041	-
Depreciable buildings, property, and equipment, net	1,476,228	-	1,476,228	-
Infrastructure, net	18,887,874	-	18,887,874	-
Long-term lease receivable, net	-	-	-	2,936,084
Total noncurrent assets	<u>22,897,549</u>	<u>59,441,578</u>	<u>82,339,127</u>	<u>3,827,146</u>
Total assets	<u>29,342,803</u>	<u>65,056,640</u>	<u>94,399,443</u>	<u>4,289,278</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows - pension	2,270,399	507,485	2,777,884	-
Defeasance on refunding	-	1,215,273	1,215,273	72,937
Total assets and deferred outflows of resources	<u>\$ 31,613,202</u>	<u>\$ 66,779,398</u>	<u>\$ 98,392,600</u>	<u>\$ 4,362,215</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 139,451	\$ 347,210	\$ 486,661	\$ 5,784
Compensated absences	4,949	-	4,949	-
Accrued payroll liabilities	169,851	46,646	216,497	-
Accrued taxes payable	-	32,315	32,315	-
Accrued interest payable	4,863	71,430	76,293	6,408
Deposits	-	326,178	326,178	-
Unearned revenue	249,281	-	249,281	596,189
Other accrued liabilities	-	104,274	104,274	-
Current portion of long-term obligations	48,978	1,610,000	1,658,978	515,000
Total current liabilities	<u>617,373</u>	<u>2,538,053</u>	<u>3,155,426</u>	<u>1,123,381</u>
Noncurrent liabilities				
Compensated absences	319,038	60,648	379,686	-
Bonds and notes payable	74,871	30,353,601	30,428,472	3,405,758
Net pension liability	9,768,598	2,118,163	11,886,761	-
Total liabilities	<u>10,779,880</u>	<u>35,070,465</u>	<u>45,850,345</u>	<u>4,529,139</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - pension	472,657	70,674	543,331	-
<b>NET POSITION</b>				
Net investment in capital assets	22,773,700	24,820,392	47,594,092	-
Restricted for				
Debt service and construction	-	3,830,887	3,830,887	-
Other purposes	990,012	-	990,012	(166,924)
Unrestricted	<u>(3,403,047)</u>	<u>2,986,980</u>	<u>(416,067)</u>	<u>-</u>
Total net position	<u>20,360,665</u>	<u>31,638,259</u>	<u>51,998,924</u>	<u>(166,924)</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 31,613,202</u>	<u>\$ 66,779,398</u>	<u>\$ 98,392,600</u>	<u>\$ 4,362,215</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, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Public Properties
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 1,770,856	\$ -	\$ -	\$ -	\$ (1,770,856)	\$ -	\$ (1,770,856)	
Police operations	4,041,143	2,414	1,721,260	69,768	(2,247,701)	-	(2,247,701)	
Disptach	731,464	-	-	-	(731,464)	-	(731,464)	
Fire department	1,366,782	-	104,311	23,115	(1,239,356)	-	(1,239,356)	
Street department	2,273,896	1,740	170,946	5,600	(2,095,610)	-	(2,095,610)	
Cemetery	342,204	105,348	-	-	(236,856)	-	(236,856)	
Interest on long-term debt	4,862	-	-	-	(4,862)	-	(4,862)	
Total governmental activities	10,531,207	109,502	1,996,517	98,483	(8,326,705)	-	(8,326,705)	
<b>Business-type activities</b>								
Utilities - Water, sewer and sanitation	6,411,984	7,172,554	-	61,360	-	821,930	821,930	
<b>Total primary government</b>	<b>\$ 16,943,191</b>	<b>\$ 7,282,056</b>	<b>\$ 1,996,517</b>	<b>\$ 159,843</b>	<b>(8,326,705)</b>	<b>821,930</b>	<b>(7,504,775)</b>	
<b>Component Unit</b>								
Public Properties Corporation	\$ 281,351	\$ 58,196	\$ -	\$ -				\$ (223,155)

General revenue								
Taxes								
Property taxes, levied for general purposes				651,247	-	651,247	-	
License fees								
Franchise				533,262	-	533,262	-	
Payroll				3,733,528	-	3,733,528	-	
Insurance premiums				1,626,560	-	1,626,560	-	
Net profits				612,380	-	612,380	-	
Occupational				94,641	-	94,641	-	
E911 wireless funding fees				530,959	-	530,959	-	
Investment earnings				71,912	32,469	104,381	153,951	
Miscellaneous				119,598	-	119,598	-	
Total general revenues				7,974,087	32,469	8,006,556	153,951	
Gain (loss) on disposal of assets				702	-	702	-	
Total general revenues and gains (losses)				7,974,789	32,469	8,007,258	153,951	
Change in net position				(351,916)	854,399	502,483	(69,204)	
Net position, beginning				20,712,581	30,783,860	51,496,441	(97,720)	
NET POSITION, ENDING				\$ 20,360,665	\$ 31,638,259	\$ 51,998,924	\$ (166,924)	

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

**CITY OF VERSAILLES, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,712,204	\$ 242,715	\$ 1,954,919
Investments	2,008,254	618,536	2,626,790
Accounts receivable, net	1,566,751	20,741	1,587,492
Other receivables - fiduciary	222,195	-	222,195
Grants receivable	38,858	-	38,858
Due from other funds	-	-	-
	<u>\$ 5,548,262</u>	<u>\$ 881,992</u>	<u>\$ 6,430,254</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 139,451	\$ -	\$ 139,451
Accrued payroll liabilities	169,851	-	169,851
Compensated absences	4,949	-	4,949
Unearned revenue	249,281	-	249,281
Due to other funds	-	-	-
	<u>563,532</u>	<u>-</u>	<u>563,532</u>
<b>FUND BALANCE</b>			
Fund balance			
Restricted	108,020	881,992	990,012
Unassigned	4,876,710	-	4,876,710
	<u>4,984,730</u>	<u>881,992</u>	<u>5,866,722</u>
Total fund balance	<u>\$ 5,548,262</u>	<u>\$ 881,992</u>	<u>\$ 6,430,254</u>

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

Fund balances reported above \$ 5,866,722

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 22,897,549

Accrued interest on long-term debt is not payable in the current period and therefore is not reported in the funds. (4,863)

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. (8,413,743)

Net position \$ 20,360,665

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, 2017**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 651,247	\$ -	\$ 651,247
Licenses and permits	6,602,111	-	6,602,111
Intergovernmental revenues	1,924,054	170,946	2,095,000
Charges for services	96,712	11,050	107,762
Other income	<u>681,180</u>	<u>41,287</u>	<u>722,467</u>
 Total revenues	 <u>9,955,304</u>	 <u>223,283</u>	 <u>10,178,587</u>
<b>EXPENDITURES</b>			
Current			
General government	1,711,376	-	1,711,376
Merged police operations	3,543,381	-	3,543,381
Other police operations/grants	179,638	-	179,638
911 communications	682,443	-	682,443
Fire department	1,243,607	-	1,243,607
Street department	866,460	(228)	866,232
Cemetery department	296,458	3,796	300,254
Capital outlay	799,291	107,664	906,955
Debt service	<u>53,840</u>	<u>-</u>	<u>53,840</u>
 Total expenditures	 <u>9,376,494</u>	 <u>111,232</u>	 <u>9,487,726</u>
 Excess of Revenues Over (Under) Expenditures	 578,810	 112,051	 690,861
 Other Sources			
Transfers in (out)	18,589	(18,589)	-
Proceeds from sale of assets	<u>702</u>	<u>-</u>	<u>702</u>
 Net change in fund balances	 598,101	 93,462	 691,563
 Fund Balance, beginning of year	 <u>4,386,629</u>	 <u>788,530</u>	 <u>5,175,159</u>
 <b>Fund Balance, end of year</b>	 <b><u>\$ 4,984,730</u></b>	 <b><u>\$ 881,992</u></b>	 <b><u>\$ 5,866,722</u></b>
 Net change in fund balances			\$ 691,563
Add: Capital outlay			906,955
Add: Debt service			53,840
Less: Change in long-term compensated absences			(3,251)
Less: Proceeds from sale of assets			(702)
Add: Gain on disposal of assets			702
Less: Depreciation on governmental activities			(1,680,536)
Change in pension liability			(315,625)
Less: Interest on long-term debt			<u>(4,862)</u>
 Change in net position			 <b><u>\$ (351,916)</u></b>

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**

	<b>Business-type Activities</b>
	<b>Water, Sewer &amp; Sanitation</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 4,421,544
Accounts receivable, net	1,012,221
Grants receivable	32,460
Other receivables - fiduciary	18,971
Due from other funds	-
Inventory	<u>129,866</u>
Total current assets	<u>5,615,062</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	9,061,192
Investments	4,095,980
Construction in progress	1,040,241
Land	320,124
Property and equipment	64,715,838
Less: accumulated depreciation	<u>(19,791,797)</u>
Total noncurrent assets	<u>59,441,578</u>
Total assets	<u>65,056,640</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows - pension	507,485
Defeasance on refunding	<u>1,215,273</u>
Total assets and deferred outflows of resources	<u>\$ 66,779,398</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 347,210
Accrued payroll	46,646
Taxes payable	32,315
Accrued interest	71,430
Deposits payable	326,178
Other accrued liabilities	104,274
Current portion, long-term debt	<u>1,610,000</u>
Total current liabilities	<u>2,538,053</u>
Noncurrent liabilities	
Compensated absences	60,648
Bonds and notes payable	30,353,601
Net pension liability	<u>2,118,163</u>
Total noncurrent liabilities	<u>32,532,412</u>
Total liabilities	<u>35,070,465</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows - pension	<u>70,674</u>
<b>NET POSITION</b>	
Net investment in capital assets	24,820,392
Restricted for debt service and construction	3,830,887
Unrestricted	<u>2,986,980</u>
Total net position	<u>31,638,259</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 66,779,398</u>

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, 2017**

	<b>Business-type Activities</b>
	<b>Water, Sewer &amp; Sanitation</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 6,946,674
Franchise fees	40,518
Other revenues	185,362
Total operating revenues	7,172,554
<b>OPERATING EXPENSES</b>	
Salaries	1,184,103
Payroll taxes	86,102
Employee benefits	510,914
Advertising and printing	25,939
Professional and technical	17,216
Repairs and maintenance	253,629
Utilities	626,576
Telephone and postage	44,574
Insurance	94,747
Chemicals	163,792
Technical supplies	1,786
Uniforms	6,558
Motor fuel	35,764
Office supplies	3,436
Other materials	37,223
Other expenses	202,874
Purchase of water	22,540
Sludge removal	93,771
Depreciation	1,627,631
Training/travel	11,763
Lab analysis	39,268
Purchase of water meters	30,608
Dumpster collection	3,581
Total operating expenses	5,124,395
Operating income	2,048,159
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment income	32,469
Interest expense	(1,015,906)
Amortization expense and bond issue cost	(271,683)
Grants	61,360
(Deficiency) of nonoperating revenues over expenses	(1,193,760)
<b>Net income (loss)</b>	854,399
<b>Net position, beginning</b>	30,783,860
<b>NET POSITION, ENDING</b>	\$ 31,638,259

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, 2017**

	<u><b>Business-type Activities</b></u> <b>Water, Sewer &amp; Sanitation</b>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 7,040,001
Cash payments to employees	(1,617,798)
Cash payments to others for services	<u>(1,071,323)</u>
Net cash provided by (used by) operating activities	<u>4,350,880</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchase of construction in progress	(1,617,354)
Purchase of property, plant and equipment	(143,672)
Proceeds from sale of assets	-
Grant proceeds	28,900
Proceeds from bond issuance	10,212,382
Payment of bond and note payable principal	(1,585,000)
Bond issue cost	(269,433)
Interest expense	<u>(825,544)</u>
Net cash provided by (used by) capital and related financing activities	<u>5,800,279</u>
<b>Cash flows from investing activities:</b>	
Sale/maturity of investments	739,447
Purchase of investments	(3,346,560)
Investment income	<u>57,111</u>
Net cash provided by (used by) investing activities	<u>(2,550,002)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>7,601,157</b>
Cash and cash equivalents, July 1, 2016	<u>5,881,579</u>
<b>Cash and cash equivalents, June 30, 2017</b>	<b><u>\$ 13,482,736</u></b>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income	\$ 2,048,159
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,627,631
Net pension liability	139,330
Changes in assets and liabilities:	
Receivables, net	(132,553)
Inventory	(1,189)
Accounts payable	(143,266)
Payroll liabilities	23,991
Due to/due from other funds	757,193
Other liabilities	<u>31,584</u>
Net cash provided by (used by) operating activities	<u>\$ 4,350,880</u>
Reconciliation of total cash and cash equivalents	
Current assets - cash and cash equivalents	\$ 4,421,544
Restricted assets - cash and cash equivalents	<u>9,061,192</u>
Total cash and cash equivalents	<u>\$ 13,482,736</u>
Amortization expense	<u>\$ 2,250</u>
Net change in capital assets payable	<u>\$ 147,758</u>

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

**CITY OF VERSAILLES, KENTUCKY**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2017**

---

	<b>Agency Fund</b>	<b>Private Purpose Trust</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 397,535	\$ -	\$ 397,535
Investments	-	112,705	112,705
Total assets	397,535	112,705	510,240
<b>LIABILITIES</b>			
Accounts payable	395,598	-	395,598
Other liabilities	-	-	-
Total liabilities	395,598	-	395,598
<b>NET POSITION</b>			
Held in trust for payroll and other purposes	\$ 1,937	\$ 112,705	\$ 114,642

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, 2017**

---

	<b>Agency Fund</b>	<b>Private Purpose Trust</b>	<b>Totals</b>
<b>ADDITIONS</b>			
Investment income	\$ -	\$ 7,502	\$ 7,502
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Total additions	<u>-</u>	<u>7,502</u>	<u>7,502</u>
Less: investment expense			
Trust fees	-	1,046	1,046
Miscellaneous	<u>-</u>	<u>2,560</u>	<u>2,560</u>
Total investment expenses	<u>-</u>	<u>3,606</u>	<u>3,606</u>
Net increase (decrease) in net position	<u>-</u>	<u>3,896</u>	<u>3,896</u>
Net position, beginning	<u>1,937</u>	<u>108,809</u>	<u>110,746</u>
Net position, ending	<u>\$ 1,937</u>	<u>\$ 112,705</u>	<u>\$ 114,642</u>

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



**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**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, 2017

---

**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, 2017

---

**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 financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

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

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

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

---

**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 25<sup>th</sup> of the month, their service is cutoff and is not reinstated until the individual pays a reconnect fee. Deposits are applied to customers' final bill and any unpaid balance after applying the deposit is fully reserved and carried on the books for a period of five years.

**G. Restricted Cash and Investments**

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

**H. Investments**

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

**I. Inventory**

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

**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, 2017**

---

**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 1/12<sup>th</sup> 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, 2017**

---

**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, 2017, fund balances are composed of the following:

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Restricted:			
Road surface repairs	\$ -	\$ 263,456	\$ 263,456
Law enforcement	108,020	-	108,020
Cemetery permanent fund	-	618,536	618,536
Unassigned	<u>4,876,710</u>	<u>-</u>	<u>4,876,710</u>
 Total fund balances	 <u>\$ 4,984,730</u>	 <u>\$ 881,992</u>	 <u>\$ 5,866,722</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, 2017**

---

**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 10, 2017, 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, 2017, 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, 2017, the City held investments in six municipal bonds. Ratings of the municipal bonds were as follows:

<u>Municipal Security</u>	<u>Rating</u>
FNMA, 1.625%, 08/23/2021	AaaAA+
New York Housing Development Corporation Multi-Family Housing	Aa1/AAA
New York State Urban Development Corporation Bonds	Aa2/AA+
FHLB, .75%, 08/28/2017	Aaa
FHLB, .5%, 07/11/2017	Aaa
FHLB, .625%, 07/20/2017	Aaa

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, 2017**

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

PRIMARY GOVERNMENT

At June 30, 2017, the City's bank balances were substantially covered by federal depository insurance or by collateral pledged. The City's bank balances totaled \$22,263,292 at June 30, 2017. As of June 30, 2017, \$1,068,534 was covered by FDIC or SIPC, \$9,868,924 was held as collateral by the custodial banks in the City's name and \$6,525,269 was held by the custodial banks but not in the City's name. The City held the remaining balances in municipal securities, which do not require collateral pledged.

COMPONENT UNIT

At June 30, 2017, 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 bank balances totaled \$893,571. As of June 30, 2017, \$539,095 was covered by FDIC or SIPC and \$354,476 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, 2017, 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>
Primary Government					
Certificates of deposit	\$ 2,008,254	\$ 1,975,000	\$ 33,254	\$ -	\$ -
U.S. govt. obligations	12,673	12,673	-	-	-
Mutual funds	464,893	464,893	-	-	-
Municipal bonds	<u>4,236,950</u>	<u>3,361,015</u>	<u>765,520</u>	<u>110,415</u>	<u>-</u>
Total	<u>\$ 6,722,770</u>	<u>\$ 5,813,581</u>	<u>\$ 798,774</u>	<u>\$ 110,415</u>	<u>\$ -</u>
Fiduciary Funds					
U.S. govt. obligations	\$ 2,124	\$ 2,124	\$ -	\$ -	\$ -
Mutual funds	105,628	105,628	-	-	-
Equities	<u>4,954</u>	<u>4,954</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 112,706</u>	<u>\$ 112,706</u>	<u>\$ -</u>	<u>\$ -</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.



**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

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

For those investments measured at fair value, the investments' fair value measurements are as follows at June 30, 2017:

Investments	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Primary Government				
U.S. Government Obligations	\$ 12,673	\$ 12,673	\$ -	\$ -
Mutual funds	464,893	464,893	-	-
Municipal bonds	1,234,920	-	1,234,920	-
Total	\$ 1,712,486	\$ 477,566	\$ 1,234,920	\$ -
Fiduciary Funds				
U.S. Government Obligations	\$ 2,124	\$ 2,124	\$ -	\$ -
Mutual funds	105,628	105,628	-	-
Equities	4,954	4,954	-	-
Total	\$ 112,706	\$ 112,706	\$ -	\$ -

Investments of \$4,854,814 are valued at cost and are not included in the above table.

**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	\$ 45,666	\$ -	\$ 45,666
Licenses, permits, billings	1,521,084	-	1,521,084
Intergovernmental	21,001	20,741	41,742
Other	-	-	-
Gross receivables	1,587,751	20,741	1,608,492
Less: allowance for uncollectible	(21,000)	-	(21,000)
Net receivables	\$ 1,566,751	\$ 20,741	\$ 1,587,492
Business Type Activities:			
Customer	\$ 1,019,221		
Less: allowance for uncollectible	(7,000)		
Net receivables	\$ 1,012,221		

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**4. CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 2,097,672	\$ 420,512	\$ -	\$ 2,518,184
Construction in progress	<u>-</u>	<u>15,263</u>	<u>-</u>	<u>15,263</u>
Total	<u>2,097,672</u>	<u>435,775</u>	<u>-</u>	<u>2,533,447</u>
Capital assets being depreciated:				
Buildings and improvements	2,101,540	24,960	-	2,126,500
Equipment	1,822,525	81,707	-	1,904,232
Vehicles	3,239,905	233,752	(49,324)	3,424,333
Infrastructure	<u>25,243,567</u>	<u>130,760</u>	<u>-</u>	<u>25,374,327</u>
Total	<u>32,407,537</u>	<u>471,179</u>	<u>(49,324)</u>	<u>32,829,392</u>
Total capital assets	<u>34,505,209</u>	<u>906,954</u>	<u>(49,324)</u>	<u>35,362,839</u>
Less: accumulated depreciation				
Buildings and improvements	1,802,406	46,067	-	1,848,473
Equipment	1,289,793	106,906	-	1,396,699
Vehicles	2,552,755	230,234	(49,324)	2,733,665
Infrastructure	<u>5,189,124</u>	<u>1,297,329</u>	<u>-</u>	<u>6,486,453</u>
Total accumulated depreciation	<u>10,834,078</u>	<u>1,680,536</u>	<u>(49,324)</u>	<u>12,465,290</u>
Governmental activities capital assets, net	<u>\$ 23,671,131</u>	<u>\$ (773,582)</u>	<u>\$ -</u>	<u>\$ 22,897,549</u>
 <u>Business-Type Activities</u>				
Capital assets not depreciated:				
Land	\$ 320,124	\$ -	\$ -	\$ 320,124
Construction in progress	<u>1,196,436</u>	<u>1,765,112</u>	<u>(1,921,307)</u>	<u>1,040,241</u>
Total	<u>1,516,560</u>	<u>1,765,112</u>	<u>(1,921,307)</u>	<u>1,360,365</u>
Capital assets being depreciated:				
Buildings	17,112,888	14,601	-	17,127,489
Equipment	827,039	43,830	-	870,869
Vehicles	393,963	85,237	-	479,200
Plant and utility systems	<u>44,316,973</u>	<u>1,921,307</u>	<u>-</u>	<u>46,238,280</u>
Total	<u>62,650,863</u>	<u>2,064,975</u>	<u>-</u>	<u>64,715,838</u>
Total capital assets	<u>64,167,423</u>	<u>3,830,087</u>	<u>(1,921,307)</u>	<u>66,076,203</u>
Less: accumulated depreciation				
Buildings	3,800,201	356,800	-	4,157,001
Equipment	544,640	74,534	-	619,174
Vehicles	236,265	60,321	-	296,586
Plant and utility systems	<u>13,583,060</u>	<u>1,135,976</u>	<u>-</u>	<u>14,719,036</u>
Total accumulated depreciation	<u>18,164,166</u>	<u>1,627,631</u>	<u>-</u>	<u>19,791,797</u>
Business-type activities capital assets, net	<u>\$ 46,003,257</u>	<u>\$ 2,202,456</u>	<u>\$ (1,921,307)</u>	<u>\$ 46,284,406</u>

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**4. CAPITAL ASSETS (CONTINUED)**

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

Governmental activities:		Business-type activities:	
General government	\$ 24,593	Water	\$ 747,877
Police operations	166,235	Sewer	879,754
Dispatch	-	Total	<u>\$ 1,627,631</u>
Fire department	93,003		
Street department	1,379,240		
Cemetery	<u>17,465</u>		
Total	<u>\$ 1,680,536</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, 2017, was \$158,864.

The annual requirements to amortize all notes and leases outstanding as of June 30, 2017, are as follows:

June 30,	Principal	Interest	Total
2018	\$ 48,978	\$ 4,862	\$ 53,840
2019	<u>74,871</u>	<u>2,939</u>	<u>77,810</u>
	<u>\$ 123,849</u>	<u>\$ 7,801</u>	<u>\$ 131,650</u>

The changes in general long-term debt during 2017 are as follows:

	July 1, 2016	Additions	Retirements	June 30, 2017
Fire truck lease	\$ 170,976	\$ -	\$ 47,127	\$ 123,849
Net pension liability	9,457,572	311,026	-	9,768,598
Long-term compensated absences	<u>315,787</u>	<u>3,251</u>	-	<u>319,038</u>
Total	<u>\$ 9,944,335</u>	<u>\$ 314,277</u>	<u>\$ 47,127</u>	<u>\$ 10,211,485</u>

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

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

**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, 2017, \$3,280,000 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, 2017, \$5,860,000 of the defeased bonds are still outstanding.

On March 14, 2013, the City issued \$7,835,000 of Water and Sewer Refunding Revenue Bonds, Series 2013. The proceeds were used to advance refund previously issued 2005 Water and Sewer Revenue Bonds. The net proceeds of \$7,654,920 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005 Series bonds. As a result, the 2005 Series bonds are considered to be defeased and the liability for those bonds has been removed from 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, 2017, \$5,845,000 of the defeased bonds are still outstanding.

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.

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

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

At June 30, 2017, the business-type activities had the following bonds and notes payable outstanding:

Description	Series	Amount	Current Portion
Revenue Bonds	2011	\$ 3,135,000	\$ 590,000
Revenue Bonds	2012	6,730,000	645,000
Revenue Bonds	2013	6,290,000	375,000
Revenue Bonds	2014	5,710,000	-
Revenue Bonds	2016	<u>10,000,000</u>	<u>-</u>
Total payable at par		31,865,000	<u>\$1,610,000</u>
Add: unamortized bond premium		98,601	
Less: current portion payable		<u>(1,610,000)</u>	
Total long-term portion		<u>\$ 30,353,601</u>	

The annual requirements to amortize all revenue bonds and notes outstanding as of June 30, 2017, are as follows:

June 30,	Principal	Interest	Total
2018	\$ 1,610,000	\$ 842,138	\$ 2,452,138
2019	1,650,000	810,050	2,460,050
2020	1,690,000	773,938	2,463,938
2021	1,720,000	734,463	2,454,463
2022	1,765,000	690,525	2,455,525
2023-2027	8,930,000	2,778,033	11,708,033
2028-2032	6,645,000	1,798,077	8,443,077
2033-2037	<u>7,855,000</u>	<u>620,685</u>	<u>8,475,685</u>
	<u>\$ 31,865,000</u>	<u>\$ 9,047,909</u>	<u>\$ 40,912,909</u>

The changes in long-term debt during 2017 are as follows:

	July 1, 2016	Additions	Retirements	June 30, 2017
W&S revenue bonds	\$ 23,450,000	\$ 10,000,000	\$ 1,585,000	\$ 31,865,000
Bond (discount) premium	(116,013)	214,614	-	98,601
Net pension liability	1,968,240	149,923	-	2,118,163
Long-term compensated absences	<u>50,997</u>	<u>9,651</u>	<u>-</u>	<u>60,648</u>
Total	<u>\$ 25,353,224</u>	<u>\$ 10,374,188</u>	<u>\$ 1,585,000</u>	<u>\$ 34,142,412</u>

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

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

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 funds remaining in the Enterprise fund are to be made into this fund so long as the unexpended balance in the depreciation fund is less than \$100,000. The City further agrees to deposit the proceeds from the sale of any equipment no longer usable or needed, all fees or charges collected from potential customers and any proceeds received from property damage insurance. These funds are to be used for paying the cost of unusual or extraordinary maintenance, repairs, renewals, replacements and the cost of constructing additions and improvements to the system which will either enhance its revenue-producing capacity or provide a higher degree of service.

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

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

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**COMPONENT UNIT**

On October 13, 2016, the Public Properties Corporation issued \$3,900,000 in Series 2016 Revenue Refunding Bonds to currently refund the previously issued 2006 Revenue Refunding Bonds and the 2006B Revenue Bonds. The bond issue is 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 bonds bear interest at a fixed rate of 2.00%. Principal payments on the outstanding bonds, are payable on December 1 of each year and interest is payable on December 1 and June 1.

At June 30, 2017, the Corporation had the following bonds outstanding:

Description	Series	Amount	Current Portion
Revenue Refunding Bonds	2016	\$ 3,845,000	\$ 515,000
Less: unamortized bond premium		<u>75,758</u>	
		3,920,758	
Less: current portion payable		<u>(515,000)</u>	
Total long-term portion		<u>\$ 3,405,758</u>	

The annual requirements to amortize all revenue bonds and leases outstanding as of June 30, 2017, are as follows:

June 30	Principal	Interest	Total
2018	\$ 515,000	\$ 71,750	\$ 586,750
2019	525,000	61,350	586,350
2020	540,000	50,700	590,700
2021	555,000	39,750	594,750
2022	570,000	28,650	583,650
2023-2024	<u>1,115,000</u>	<u>23,250</u>	<u>1,178,250</u>
	<u>\$ 3,845,000</u>	<u>\$ 275,450</u>	<u>\$ 4,120,450</u>

The changes in long-term debt during 2017 are as follows:

	July 1, 2016	Additions	Retirements	June 30, 2017
KCTCS Revenue Bonds	<u>\$ 4,295,000</u>	<u>\$ 3,900,000</u>	<u>\$ 4,350,000</u>	<u>\$ 3,845,000</u>

**6. PROJECT FINANCING**

On October 13, 2016, the Public Properties Corporation issued \$3,900,000 in Series 2016 Revenue Refunding Bonds to currently refund the previously issued 2006 Revenue Refunding Bonds and the 2006B Revenue Bonds. The bond issue is 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 and again on October 13, 2016.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**6. PROJECT FINANCING (CONTINUED)**

The restated lease commenced on October 13, 2016, and is automatically renewed for three additional periods of two years each. KCTCS agrees to pay to the Public Properties Corporation monthly payments equal to the principal and interest due on the 2016 Revenue Refunding Bonds (\$50,290). The lease is an absolute net lease under which KCTCS pays, in addition to rent, any and all expenses related to the leased premises. KCTCS has agreed to pay \$21,500 per month as "additional rent" on the property. The "additional rent" is placed in escrow to cover any additional expenses on the property during the term of the lease. 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:

<b>June 30,</b>			
2018		\$	603,480
2019			603,480
2020			603,480
2021			603,480
2022			603,480
2023 - 2024			<u>905,220</u>
Net minimum lease payments			3,922,620
Less: amount representing interest			<u>(526,213)</u>
Present value of minimum lease payments		\$	<u>3,396,407</u>

**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, 2017, 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, 2017, participating employers contributed 18.68% of each employee's wages for non-hazardous job classifications and 31.06% 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.



**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**7. RETIREMENT PLAN (CONTINUED)**

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, 2017, the City contributed \$325,186, or 100% of the required contribution for non-hazardous job classifications, and \$538,184, for the year ended June 30, 2017, 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.

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+ with sum of service years plus age equal to 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+ with sum of service years plus age equal to 87+ Not available

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability as follows:

<b>Total Net</b>		
<b>Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
<u>\$ 11,886,761</u>	<u>\$ 4,320,766</u>	<u>\$ 7,565,995</u>

The net pension liability was measured as of June 30, 2016, 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, 2016 was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.087756%	.440924%

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**7. RETIREMENT PLAN (CONTINUED)**

The proportionate share at June 30, 2016 decreased .0084466% for non-hazardous and .042226% for hazardous to the proportionate share as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$1,265,453. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 127,985	\$ -
Changes of assumptions	663,060	-
Net difference between projected and actual earnings on Plan investments	1,044,456	-
Changes in proportion and differences between City contributions and proportionate share of contributions	79,013	543,331
City contributions subsequent to the measurement date	<u>863,370</u>	<u>-</u>
Total	<u>\$ 2,777,884</u>	<u>\$ 543,331</u>

The \$863,370 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, 2017. 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,**

2018	\$ 360,783
2019	257,013
2020	521,667
2021	231,720

*Actuarial Assumptions* – The total pension liability in the June 30, 2016 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**7. RETIREMENT PLAN (CONTINUED)**

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.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Nominal Real Rate of Return</b>
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:

	<b>Non-hazardous</b>		<b>Hazardous</b>	
	<b>Discount rate</b>	<b>City's proportionate share of net pension liability</b>	<b>Discount rate</b>	<b>City's proportionate share of net pension liability</b>
1% decrease	6.50%	\$ 5,384,365	6.50%	\$ 9,505,104
Current discount rate	7.50%	\$ 4,320,766	7.50%	\$ 7,565,995
1% increase	8.50%	\$ 3,409,036	8.50%	\$ 5,966,577

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**7. RETIREMENT PLAN (CONTINUED)**

*Payable to the Pension Plan* – At June 30, 2017, the City reported a payable of \$153,969 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The payable includes both the pension and insurance contribution allocation.

**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.

The following commitments to construction projects and purchase materials have been made by the City as of June 30, 2017:

Waste Water Treatment Plant Expansion - \$18,414,000 (construction phase of project)

**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 24% of the utility operation’s service revenue. Also, at June 30, 2017, approximately 18% of the utility operation’s accounts receivable was due from four users.

**10. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2017 were levied in September 2016 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:

<b>Description</b>	<b>Date</b>
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.

**CITY OF VERSAILLES, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

---

**12. 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:

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
Police Operating	\$ 3,851,703	\$ 3,549,541	\$ 302,162
Police Capital	<u>149,000</u>	<u>139,536</u>	<u>9,464</u>
Total cost shared with County	<u>\$ 4,000,703</u>	<u>\$ 3,689,077</u>	<u>\$ 311,626</u>

**13. TAX ABATEMENTS**

The City is currently under agreement to forego collection of .5% of the 1.5% occupational license fee for two local businesses (More Than A Bakery and Yokohama Industries America, Inc.). Both agreements are for up to 10 years and granted pursuant to the Kentucky Business Investment Act of the 2009 Extraordinary Legislative Session. More Than A Bakery's agreement is for up to 310 new hires and Yokohama Industries America, Inc. is for up to 134 new hires. There was no revenues abated on either agreement during 2017.

**14. SUBSEQUENT EVENT**

On September 5, 2016, the City authorized the issuance of \$4,500,000 of General Obligation Bond Anticipation Notes, Series 2017. The proceeds are for the acquisition, construction, installation and equipping of a new police station within the City. The note bears interests at a rate of 1.5% per annum, payable monthly.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF VERSAILLES, KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISONS  
GENERAL FUND  
for the year ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>				
Property taxes	\$ 635,000	\$ 635,000	\$ 651,247	\$ 16,247
License and permits	6,268,500	6,268,500	6,602,111	333,611
Intergovernmental revenues	1,748,147	2,060,012	1,924,054	(135,958)
Charges for services	75,500	75,500	96,712	21,212
Other income	<u>680,418</u>	<u>680,418</u>	<u>681,180</u>	<u>762</u>
 Total revenues	 <u>9,407,565</u>	 <u>9,719,430</u>	 <u>9,955,304</u>	 <u>235,874</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	2,091,996	1,817,326	1,711,376	105,950
Merged police operations	3,851,703	3,851,703	3,543,381	308,322
Other police operations/grants	-	135,000	179,638	(44,638)
911 communications	701,822	741,829	682,443	59,386
Fire department	1,345,950	1,345,950	1,243,607	102,343
Street department	979,665	992,776	866,460	126,316
Cemetery department	310,546	310,546	296,458	14,088
Capital outlay	418,200	897,052	799,291	97,761
Debt service	<u>54,000</u>	<u>54,000</u>	<u>53,840</u>	<u>160</u>
 Total expenditures	 <u>9,753,882</u>	 <u>10,146,182</u>	 <u>9,376,494</u>	 <u>769,688</u>
 Excess of Revenues Over (Under) Expenditures	 <u>(346,317)</u>	 <u>(426,752)</u>	 <u>578,810</u>	 <u>1,005,562</u>
<b>Other Financing Sources (uses)</b>				
Proceeds from sale of assets	-	-	702	702
Transfers	<u>-</u>	<u>-</u>	<u>18,589</u>	<u>18,589</u>
 Total Other Financing Sources (uses)	 <u>-</u>	 <u>-</u>	 <u>19,291</u>	 <u>19,291</u>
 Excess of Revenues and Other Sources Over (Under) Expenditures	 <u>(346,317)</u>	 <u>(426,752)</u>	 <u>598,101</u>	 <u>1,024,853</u>
 Fund Balance, July 1, 2016	 <u>4,386,629</u>	 <u>4,386,629</u>	 <u>4,386,629</u>	 <u>-</u>
 Fund Balance, June 30, 2017	 <u>\$ 4,040,312</u>	 <u>\$ 3,959,877</u>	 <u>\$ 4,984,730</u>	 <u>\$ 1,024,853</u>

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

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
City's proportion of the net pension liability	0.088599%	0.088599%	0.093242%	0.008776%
City's proportionate share of the net pension liability (asset)	\$ 3,259,727	\$ 2,873,792	\$ 4,008,936	\$ 4,320,766
City's covered employee payroll	\$ 2,058,814	\$ 2,146,544	\$ 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%	133.88%	173.65%	192.11%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	59.97%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.



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

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
City's proportion of the net pension liability	0.482254%	0.482254%	0.483150%	0.440924%
City's proportionate share of the net pension liability (asset)	\$ 6,470,696	\$ 5,795,872	\$ 7,416,876	\$ 7,565,995
City's covered employee payroll	\$ 2,489,255	\$ 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	259.95%	227.83%	285.77%	307.78%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	57.52%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

**CITY OF VERSAILLES, KENTUCKY  
REQUIRED SUPPLEMENTARY  
SCHEDULE OF CONTRIBUTIONS - NONHAZARDOUS  
Last Five Fiscal Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Contractually required employer contribution	\$ 259,822	\$ 294,935	\$ 295,040	\$ 279,608	\$ 325,186
Contributions relative to contractually required employer contribution	<u>259,822</u>	<u>294,935</u>	<u>295,040</u>	<u>279,608</u>	<u>325,186</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 2,331,079
Employer contributions as a percentage of covered-employee payroll	12.62%	13.74%	12.78%	12.43%	13.95%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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 SUPPLEMENTARY  
SCHEDULE OF CONTRIBUTIONS - HAZARDOUS  
Last Five Fiscal Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Contractually required employer contribution	\$ 500,340	\$ 553,824	\$ 538,019	\$ 497,695	\$ 538,184
Contributions relative to contractually required employer contribution	<u>500,340</u>	<u>553,824</u>	<u>538,019</u>	<u>497,695</u>	<u>538,184</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 2,478,969
Employer contributions as a percentage of covered-employee payroll	20.10%	21.77%	20.73%	20.25%	21.71%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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, 2017**

---

	<b>Municipal Road Aid Fund</b>	<b>Permanent Fund</b>	<b>Total Non-Major Governmental</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 242,715	\$ -	\$ 242,715
Investments	-	618,536	618,536
Accounts receivable	20,741	-	20,741
 Total assets	 \$ 263,456	 \$ 618,536	 \$ 881,992
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ -
 Total liabilities	 -	 -	 -
<b>FUND BALANCE</b>			
Restricted	263,456	618,536	881,992
Unrestricted	-	-	-
 Total fund balance	 263,456	 618,536	 881,992
 Total liabilities and fund balance	 \$ 263,456	 \$ 618,536	 \$ 881,992

**CITY OF VERSAILLES, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2017**

	<b>Municipal Road Aid Fund</b>	<b>Permanent Fund</b>	<b>Total Non-Major Governmental</b>
<b>REVENUES</b>			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental revenues	170,946	-	170,946
Charges for services	-	11,050	11,050
Other income	<u>539</u>	<u>40,748</u>	<u>41,287</u>
 Total revenues	 <u>171,485</u>	 <u>51,798</u>	 <u>223,283</u>
 <b>EXPENDITURES</b>			
Current			
General government	-	-	-
Police department	-	-	-
Fire department	-	-	-
Street department	(228)	-	(228)
Cemetery department	-	3,796	3,796
Program expenses	-	-	-
Debt service	-	-	-
Capital outlay	<u>107,664</u>	<u>-</u>	<u>107,664</u>
 Total expenditures	 <u>107,436</u>	 <u>3,796</u>	 <u>111,232</u>
 Excess of Revenues Over (Under) Expenditures	 <u>64,049</u>	 <u>48,002</u>	 <u>112,051</u>
 Other Sources			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>(18,589)</u>	<u>(18,589)</u>
 Total other sources (uses)	 <u>-</u>	 <u>(18,589)</u>	 <u>(18,589)</u>
 Excess of Revenues and Other Sources Over (Under) Expenditures	 64,049	 29,413	 93,462
 Fund Balance, July 1, 2016	 <u>199,407</u>	 <u>589,123</u>	 <u>788,530</u>
 <b>Fund Balance, June 30, 2017</b>	 <u>\$ 263,456</u>	 <u>\$ 618,536</u>	 <u>\$ 881,992</u>

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

<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>
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>\$ 3,135,000</u>	<u>\$ 147,638</u>	<u>\$ 101,950</u>	<u>\$ 3,384,588</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>
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>\$ 6,730,000</u>	<u>\$ 409,740</u>	<u>\$ 333,716</u>	<u>\$ 7,473,456</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>
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>\$ 6,290,000</u>	<u>\$ 441,885</u>	<u>\$ 376,663</u>	<u>\$ 7,108,548</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>
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>\$ 1,424,308</u>	<u>\$ 1,321,706</u>	<u>\$ 8,456,014</u>

**CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND  
WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE  
SERIES OF 2016**

<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>
2017-18	2.000%	\$ -	\$ 139,047	\$ 139,047	\$ 278,094
2018-19	2.000%	-	139,047	139,047	278,094
2019-20	2.000%	-	139,047	139,047	278,094
2020-21	2.000%	-	139,047	139,047	278,094
2021-22	2.000%	-	139,047	139,047	278,094
2022-23	2.000%	-	139,047	139,047	278,094
2023-24	2.000%	-	139,047	139,047	278,094
2024-25	2.000%	-	139,047	139,047	278,094
2025-26	2.000%	-	139,047	139,047	278,094
2026-27	2.000%	580,000	139,047	133,247	852,294
2027-28	2.125%	600,000	133,247	127,247	860,494
2028-2029	2.250%	615,000	127,247	120,713	862,959
2029-2030	3.000%	630,000	120,713	113,625	864,338
2030-2031	3.000%	645,000	113,625	103,950	862,575
2031-2032	3.000%	665,000	103,950	93,975	862,925
2032-2033	3.000%	685,000	93,975	83,700	862,675
2033-2034	3.000%	705,000	83,700	73,125	861,825
2034-2035	3.000%	1,575,000	73,125	49,500	1,697,625
2035-2036	3.000%	1,625,000	49,500	25,125	1,699,625
2036-2037	3.000%	1,675,000	25,125	-	1,700,125
		<u>\$ 10,000,000</u>	<u>\$ 2,314,675</u>	<u>\$ 2,175,628</u>	<u>\$ 14,490,303</u>

**CITY OF VERSAILLES, KENTUCKY  
 COMPONENT UNIT - PUBLIC PROPERTIES CORPORATION  
 REVENUE REFUNDING BONDS  
 SERIES OF 2016**

<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>
2017-18	4.000%	\$ 515,000	\$ 38,450	\$ 33,300	\$ 586,750
2018-19	4.000%	525,000	33,300	28,050	586,350
2019-20	4.000%	540,000	28,050	22,650	590,700
2020-21	4.000%	555,000	22,650	17,100	594,750
2021-22	4.000%	555,000	17,100	11,550	583,650
2022-23	4.000%	570,000	11,550	5,850	587,400
2023-24	4.125%	<u>585,000</u>	<u>5,850</u>	<u>-</u>	<u>590,850</u>
		<u>\$ 3,845,000</u>	<u>\$ 156,950</u>	<u>\$ 118,500</u>	<u>\$ 4,120,450</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, 2017, 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 10, 2017.

**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 10, 2017