

CITY OF VERSAILLES
Versailles, Kentucky



FINANCIAL STATEMENTS
June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Versailles, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of and for the year ended June 30, 2018, 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 unit, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of June 30, 2018, 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.

Emphasis of a Matter – Implementation of New GASB Accounting Standards

As discussed in Notes 8 and 15 to the financial statements, effective July 1, 2017, the City adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). Our opinions are not modified with respect to this matter.

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 and OPEB schedules on pages 3–14 and 50-58 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 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 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 long-term debt schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Versailles, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Versailles, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
November 21, 2018

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 2018. Please read the following in conjunction with the auditors' report on page 1-2 and the City's financial statements, which begin on page 15.

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 15 and 16) 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 17. 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, 2018

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 22 and 23. 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, 2018

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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current & Other Assets	\$ 7.0	\$ 6.4	\$ 29.0	\$ 18.8	\$ 36.0	\$ 25.2
Capital Assets	22.9	22.9	52.4	46.3	75.3	69.2
Total Assets	<u>\$ 29.9</u>	<u>\$ 29.3</u>	<u>\$ 81.4</u>	<u>\$ 65.1</u>	<u>\$ 111.3</u>	<u>\$ 94.4</u>
Deferred outflows	5.3	2.2	2.0	1.7	7.3	3.9
Non-Current Liabilities	17.0	12.7	46.7	33.1	63.7	45.8
Current Liabilities	0.8	0.6	3.8	2.5	4.6	3.1
Total Liabilities	<u>17.8</u>	<u>13.3</u>	<u>50.5</u>	<u>35.6</u>	<u>68.3</u>	<u>48.9</u>
Deferred Inflows	0.8	0.4	0.2	0.1	1.0	0.5
Net Investment in Capital Assets	22.4	22.8	25.7	24.8	48.1	47.6
Restricted	1.0	1.0	4.3	3.8	5.3	4.8
Unrestricted	(6.8)	(6.0)	2.7	2.5	(4.1)	(3.5)
Total Net Position	<u>\$ 16.6</u>	<u>\$ 17.8</u>	<u>\$ 32.7</u>	<u>\$ 31.1</u>	<u>\$ 49.3</u>	<u>\$ 48.9</u>

In FY 2015, the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension. As a result of the 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 2018.

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Effective for 2018, GASB Statement 75 requires the City of Versailles to report the costs and obligations associated with other postemployment benefits (OPEB) which employees will receive at retirement. This new standard required the City to recognize a net OPEB liability, OPEB expense and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amount from the Kentucky County Employees Retirement System. The Kentucky Retirement System provided information necessary to meet the new reporting requirement for the current year. However, information necessary to restate all values for the prior year were not provided. A \$3.2 million adjustment to the prior year's ending net position was made to represent the total retroactive effects of the application of GASB 75.

The City's total governmental net position decreased from \$17.8 million at 2017 to \$16.6 million at 2018. This decrease is primarily due to the change in the net pension liability from \$9.8 million in 2017 to \$11.9 million in 2018 as well as the change in the net OPEB liability from \$2.5 million in 2017 to \$4.3 million in 2018. Deferred outflows and inflows related to the net pension and OPEB liabilities also increased from 2017.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2018

In the business-type activity (Enterprise Fund), total net position increased from \$31.0 million in 2017 to \$32.7 million in 2018 primarily due to operating revenues and grant income exceeding expenditures by approximately \$1.7 million which in increase of approximately \$800,000 from the prior year. 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 issuance of \$14 million water and sewer revenue bonds, Series 2018, cash, capital assets and long term debt have increased from 2017. The City implemented a rate increase in January 2018 in anticipation of the 2018 bond financing which occurred in FY 2018 for the sanitary sewer system expansion and improvements. Current liabilities increased by \$1.3 million due to the large projects that were in process at year end.

For governmental activities, the City had \$990,856 of restricted net position related to municipal road aid and the cemetery. For business-type activities, the City had \$4,311,289 of restricted net assets related to debt service.

The City's deferred outflow of resources which consist of unamortized bond defeasance costs, pension, and OPEB expenses for future periods increased from 2017 to \$7.3 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	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues						
Charges for services	\$ 0.1	\$ 0.1	\$ 7.7	\$ 7.2	\$ 7.8	\$ 7.3
Operating Grants & Contributions	2.2	2.0	-	-	2.2	2.0
Capital Grants & Contributions	0.2	0.1	0.9	0.1	1.1	0.2
General Revenues						
Taxes	0.7	0.7	-	-	0.7	0.7
Licenses	6.9	6.6	-	-	6.9	6.6
Intergovernmental	0.5	0.5	-	-	0.5	0.5
Other Revenues / (Losses)	0.4	0.2	-	-	0.4	0.2
Total Revenue	11.0	10.2	8.6	7.3	19.6	17.5
Expenses:						
Program Expenses						
General Government	1.9	1.7	-	-	1.9	1.7
Police & Dispatch	5.8	4.8	-	-	5.8	4.8
Fire	1.8	1.4	-	-	1.8	1.4
Streets	2.3	2.3	-	-	2.3	2.3
Cemetery	0.4	0.3	-	-	0.4	0.3
Water/Sewer/Sanitation	-	-	6.9	6.4	6.9	6.4
Total Expenses	12.2	10.5	6.9	6.4	19.1	16.9
Change in Net Position	\$ (1.2)	\$ (0.3)	\$ 1.7	\$ 0.9	\$ 0.5	\$ 0.6

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2018

Governmental activity revenue increased by approximately \$800,000 from 2017 to 2018 as shown in Table A-2. The increase in revenue is largely attributable to license fees including payroll, franchise and insurance premium. In addition, other income increase due to two development bonds that were called during the year.

Governmental activity expenses increased from \$10.5 million in 2017 to \$12.2 million in 2018 primarily due to a \$1.3 million increase in pension and OPEB expense.

Business-type activity (enterprise) revenues increased from \$7.3 million in 2017 to \$8.6 million in 2018. The increase is primarily related to increases in water and sewer rates for charges for services and \$800,000 in grant revenue from KIA for the river slippage project. Business-type activity (enterprise) expenses increased from \$6.4 million in 2017 to \$6.9 million in 2018 primarily due to increases in pension and amortization expense related to long term debt.

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.

Table A-3
Condensed Governmental Funds - Revenues and Expenditures

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues			
Taxes	\$ 662,668	\$ 651,247	\$ 11,421
Licenses and permits	6,860,799	6,602,111	258,688
Intergovernmental revenues	2,432,564	2,095,000	337,564
Charges for services	98,005	107,762	(9,757)
Other income	909,401	722,467	186,934
Total Revenues	<u>\$ 10,963,437</u>	<u>\$ 10,178,587</u>	<u>\$ 784,850</u>
Expenditures			
General government	\$1,804,367	\$1,711,376	\$ (92,991)
Merged police operations	3,855,473	3,543,381	(312,092)
Other police operations/grants	154,766	179,638	24,872
911 communications	715,033	682,443	(32,590)
Fire department	1,426,437	1,243,607	(182,830)
Street department	918,940	866,232	(52,708)
Cemetery department	292,132	300,254	8,122
Capital outlay	1,673,371	906,955	(766,416)
Debt service	69,685	53,840	(15,845)
Total Expenditures	<u>\$ 10,910,204</u>	<u>\$ 9,487,726</u>	<u>\$ (1,422,478)</u>

The information above shows that revenues for governmental funds increased by \$784,850 from 2017 to 2018. License and permit revenue increased by approximately 4% primarily related to increases in the payroll tax and insurance premium revenue primarily related to local economic growth. Intergovernmental revenues increased slightly, primarily related to an increase in state funding for sidewalk and drill tower capital projects and an increase in income from the county for the merged police operations.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2018

The information above shows that expenses for governmental funds increased by \$1,422,478 from 2017 to 2018. The increase is primarily attributable to capital outlays which increased by approximately \$766,416 as a result of the purchase of a fire truck, construction of the new police department, street resurfacing and sidewalks. In addition, police and fire increased as result on annual pay increases and related employee benefits.

Table A-4
General Fund - Budget & Actual

	Budget	Actual	Difference Favorable (Unfavorable)
Revenues			
Taxes	\$ 650,000	\$ 662,668	\$ 12,668
Licenses and permits	6,518,300	6,860,799	342,499
Intergovernmental revenues	2,185,776	2,261,301	75,525
Charges for services	88,200	90,270	2,070
Other income	673,093	892,243	219,150
Total Revenues	\$ 10,115,369	\$ 10,767,281	\$ 651,912
Expenditures			
General government	\$ 1,935,730	\$1,804,367	\$ 131,363
Merged police operations	4,030,438	3,855,473	174,965
Other police operations/grants	-	154,766	(154,766)
911 communications	751,132	715,033	36,099
Fire department	1,509,786	1,426,437	83,349
Street department	1,053,322	918,626	134,696
Cemetery department	282,093	287,801	(5,708)
Capital outlay	1,132,055	1,520,669	(388,614)
Debt service	54,000	69,685	(15,685)
Total Expenditures	\$ 10,748,556	\$10,752,857	\$ (4,301)

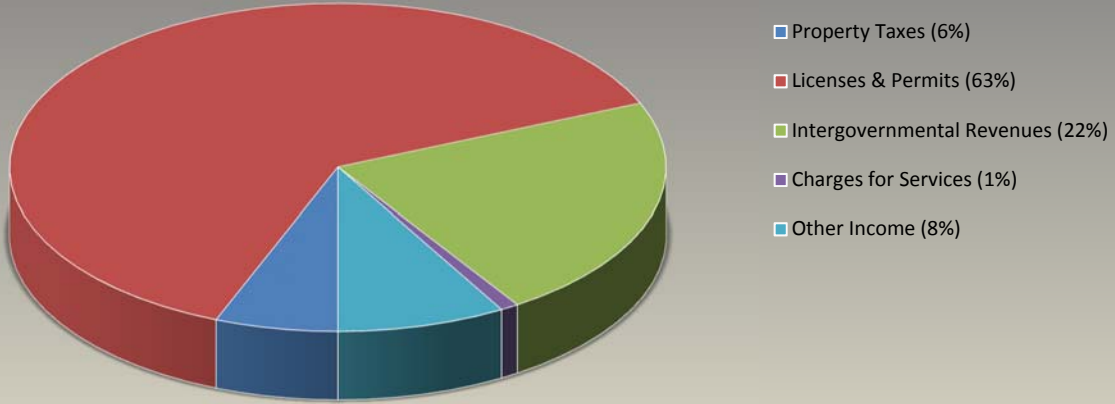
Budget Highlights

The City budgeted \$10.1 million in revenues for 2018 and generated \$10.8 million. Actual licenses and permits revenue was more than budgeted balance by 651,912, in part, as a result of conservative budget forecasts, economic improvement and improved enforcement. Other income was over budget due to development bonds that were called during the year.

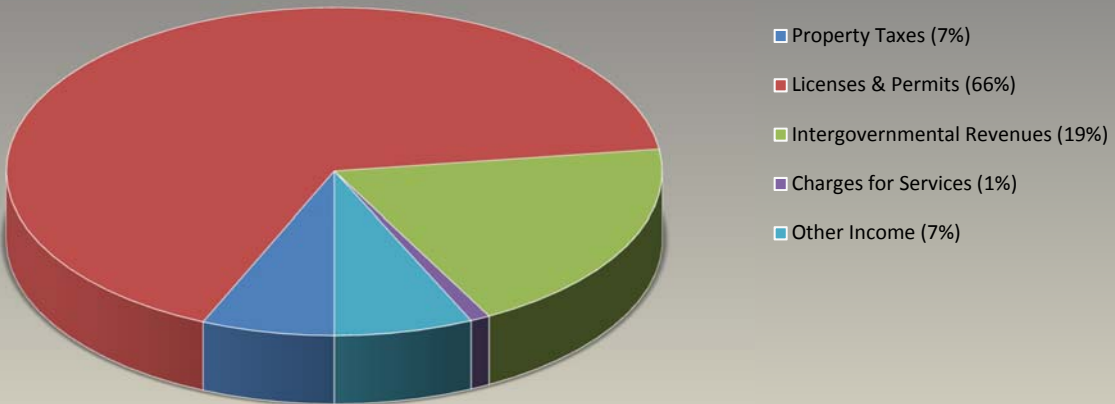
The City's actual expenditures were in line with budgeted levels at \$10.8 million. Contributing factors was partly due to department heads being fiscally responsible with the budgets. The other police operations/grants relates to police forfeiture which was not budgeted. Capital outlay was over budget because of the construction costs related to the police department. Street was under budget due to decreased spending on storm drainage repair and sidewalk renovations.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2018

General Fund Revenue-June 30, 2018

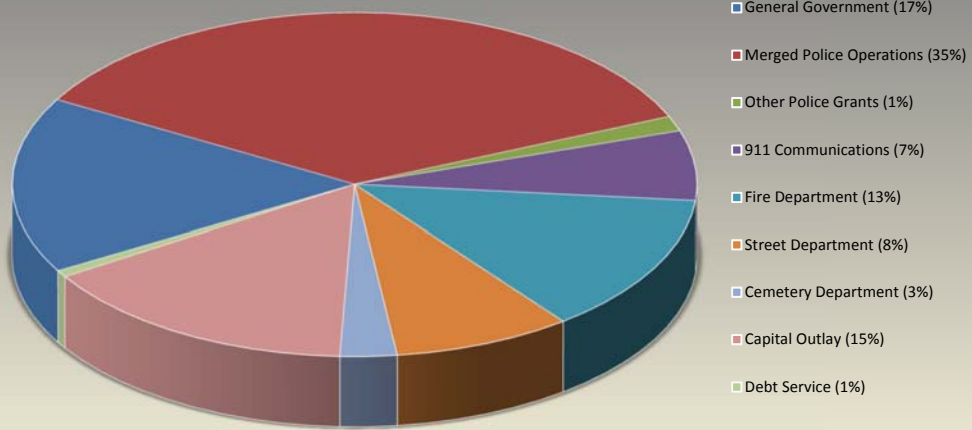


General Fund Revenue-June 30, 2017

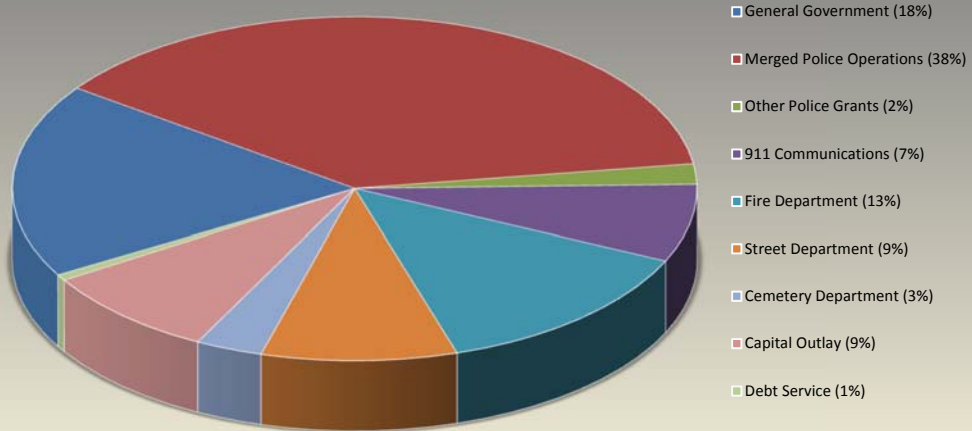


City of Versailles, Kentucky
 Management's Discussion and Analysis (MD&A) (Continued)
 June 30, 2018

General Fund Expenditures-June 30, 2018



General Fund Expenditures-June 30, 2017



City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2018

Table A-5

Enterprise Fund - Revenue - Budget & Actual			
	Budget	Actual	Difference
Charges for Services	\$ 7,263,000	\$ 7,471,714	\$ 208,714
Grants	800,000	828,836	28,836
Franchise Fees	-	-	-
Investment Income	35,000	49,523	14,523
Other Revenues	154,000	269,686	115,686
Total Revenues	\$ 8,252,000	\$ 8,619,759	\$ 367,759

The City budgeted \$8.3 million in revenues for 2018 and generated \$8.6 million for the Enterprise Fund. Actual charges for services for water and sewer were \$208,714 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	\$ 669,748	\$ 668,500	\$ (1,248)
Payroll Taxes	51,235	49,919	(1,316)
Employee Benefits	202,484	363,505	161,021
Advertising and printing	18,500	17,810	(690)
Professional and technical	13,000	6,262	(6,738)
Repairs and maintenance	81,392	93,913	12,521
Utilities	425,000	426,958	1,958
Telephone and postage	19,500	19,663	163
Insurance	64,620	70,549	5,929
Chemicals	140,000	130,042	(9,958)
Uniforms	4,000	3,733	(267)
Motor fuel	19,500	16,485	(3,015)
Office supplies	4,000	3,549	(451)
Other expenses	239,000	210,067	(28,933)
Purchase of water	22,000	22,306	306
Training/travel	5,000	4,253	(747)
Lab analysis	15,000	20,232	5,232
Purchase of water meters	150,000	27,548	(122,452)
Total Expenditures	\$ 2,143,979	\$ 2,155,294	\$ 11,315

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2018

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

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Salaries	\$ 516,175	\$ 518,712	\$ 2,537
Payroll Taxes	39,488	38,656	(832)
Employee benefits	158,061	348,661	190,600
Advertising and printing	9,500	8,222	(1,278)
Professional and technical	10,000	8,737	(1,263)
Repairs and maintenance	92,692	104,779	12,087
Utilities	230,000	237,074	7,074
Telephone and postage	26,000	24,243	(1,757)
Insurance	50,426	50,103	(323)
Chemicals	50,000	39,017	(10,983)
Technical supplies	2,000	2,227	227
Uniforms	3,500	2,587	(913)
Motor fuel	23,000	22,215	(785)
Other expenses	32,500	19,648	(12,852)
Sludge removal	85,800	92,411	6,611
Training/travel	4,000	2,327	(1,673)
Lab analysis	16,000	21,029	5,029
Meter Replacement	150,000	2,974	(147,026)
Dumpster collection	3,300	3,783	483
Total Expenditures	<u>\$ 1,502,442</u>	<u>\$ 1,547,405</u>	<u>\$ 44,963</u>

The Water Department budgeted \$2.1 million in expenses for 2018 and generated \$2.1 million. Water meter expenses were under budget. Employee benefits were over budget primarily due to changes in the net pension and OPEB liability.

The Sewer Department budgeted \$1.4 million in expenses for 2018 and generated \$1.5 million. Employee benefits were over budget primarily due to changes in the net pension and OPEB liability. Meter replacement was under budget.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2018

Capital Assets

Table A-8 shows the breakdown of capital assets net of depreciation for both governmental and business-type activities. Construction in progress for governmental activities is related to the new police department facility. Vehicles increased related to the purchase of a fire truck. Construction in progress for business-type activities includes the WWTP expansion and river slippage projects.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 2.5	\$ 2.5	\$ 0.3	\$ 0.3	\$ 2.8	\$ 2.8
Infrastructure	18.0	18.9	-	-	18.0	18.9
Buildings & improvements	0.1	0.2	42.9	44.6	43.0	44.8
Equipment	0.5	0.5	0.3	0.2	0.8	0.7
Vehicles	1.0	0.7	0.2	0.2	1.2	0.9
Construction in progress	0.7	-	8.7	1.0	9.4	1.0
Total Capital Assets	\$ 22.8	\$ 22.8	\$ 52.4	\$ 46.3	\$ 75.2	\$ 69.1

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	
	2018	2017	2018	2017	2018	2017
Notes payable	\$ 0.41	\$ -	\$ -	\$ -	\$ 0.41	\$ -
Leases payable	0.07	0.12	-	-	0.07	0.12
Bonds payable	-	-	44.70	31.87	44.70	31.87
Total Debt Outstanding	\$ 0.48	\$ 0.12	\$ 44.70	\$ 31.87	\$ 45.18	\$ 31.99

In FY 2018, the City issued \$14 million in utility revenue bonds to fund capital projects including the waste water treatment plant. The City made debt service payments as scheduled. In FY 2018, the City also drew down approximately \$400,000 on a \$4.5M Bond Anticipation Note related to the construction of the new police department

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2018

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 2018-19 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 2018-19 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. The project is expected to be completed in FY 2020. 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, 2018

	Primary Government			Component Unit Public Properties
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,263,907	\$ 6,114,500	\$ 8,378,407	\$ 1,809
Investments	2,628,854	-	2,628,854	-
Accounts receivable, net	1,722,579	1,143,883	2,866,462	-
Grants receivable	219,140	167,462	386,602	-
Current lease receivable, net	-	-	-	481,430
Other receivables - fiduciary	223,824	18,971	242,795	-
Inventories	-	135,211	135,211	-
Total current assets	<u>7,058,304</u>	<u>7,580,027</u>	<u>14,638,331</u>	<u>483,239</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	18,712,573	18,712,573	1,036,629
Restricted investments	-	2,663,137	2,663,137	-
Capital assets				
Construction in progress	711,153	8,723,127	9,434,280	-
Land and improvements	2,518,184	320,124	2,838,308	-
Plant and utility systems, net	-	43,377,744	43,377,744	-
Depreciable buildings, property, and equipment, net	1,752,853	-	1,752,853	-
Infrastructure, net	17,908,524	-	17,908,524	-
Long-term lease receivable, net	-	-	-	2,454,654
Total noncurrent assets	<u>22,890,714</u>	<u>73,796,705</u>	<u>96,687,419</u>	<u>3,491,283</u>
Total assets	<u>29,949,018</u>	<u>81,376,732</u>	<u>111,325,750</u>	<u>3,974,522</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	3,561,248	692,632	4,253,880	-
Deferred outflows - OPEB	1,759,152	255,313	2,014,465	-
Defeasance on refunding	-	1,046,017	1,046,017	61,716
Total deferred outflows of resources	<u>5,320,400</u>	<u>1,993,962</u>	<u>7,314,362</u>	<u>61,716</u>
Total assets and deferred outflows of resources	<u>\$ 35,269,418</u>	<u>\$ 83,370,694</u>	<u>\$ 118,640,112</u>	<u>\$ 4,036,238</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 261,159	\$ 803,879	\$ 1,065,038	\$ -
Compensated absences	4,949	-	4,949	-
Accrued payroll liabilities	215,651	52,124	267,775	-
Accrued taxes payable	-	34,568	34,568	-
Accrued interest payable	2,940	89,980	92,920	5,550
Deposits payable	-	347,753	347,753	-
Unearned revenue	229,136	-	229,136	728,654
Other accrued liabilities	-	85,350	85,350	-
Retainage payable	19,133	761,785	780,918	-
Current portion of long-term obligations	74,871	1,650,000	1,724,871	525,000
Total current liabilities	<u>807,839</u>	<u>3,825,439</u>	<u>4,633,278</u>	<u>1,259,204</u>
Noncurrent liabilities				
Compensated absences	348,510	63,135	411,645	-
Bonds and notes payable	406,097	43,181,921	43,588,018	2,869,103
Net pension liability	11,943,201	2,570,097	14,513,298	-
Net OPEB liability	4,345,353	882,710	5,228,063	-
Total liabilities	<u>17,851,000</u>	<u>50,523,302</u>	<u>68,374,302</u>	<u>4,128,307</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	557,147	108,013	665,160	-
Deferred inflows - OPEB	272,106	46,216	318,322	-
Total deferred inflows of resources	<u>829,253</u>	<u>154,229</u>	<u>983,482</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	22,409,746	25,682,966	48,092,712	-
Restricted for				
Debt service and construction	-	4,289,297	4,289,297	-
Other purposes	990,856	21,992	1,012,848	(92,069)
Unrestricted	(6,811,437)	2,698,908	(4,112,529)	-
Total net position	<u>16,589,165</u>	<u>32,693,163</u>	<u>49,282,328</u>	<u>(92,069)</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 35,269,418</u>	<u>\$ 83,370,694</u>	<u>\$ 118,640,112</u>	<u>\$ 4,036,238</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, 2018

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	
Primary government								
Governmental activities								
General government	\$ 1,909,659	\$ -	\$ 2,500	\$ -	\$ (1,907,159)	\$ -	\$ (1,907,159)	
Police operations	4,927,176	2,662	1,774,040	60,619	(3,089,855)	-	(3,089,855)	
Disptach	823,414	-	9,764	-	(813,650)	-	(813,650)	
Fire department	1,807,733	-	252,702	34,276	(1,520,755)	-	(1,520,755)	
Street department	2,378,008	5,400	171,263	127,400	(2,073,945)	-	(2,073,945)	
Cemetery	354,329	95,343	-	-	(258,986)	-	(258,986)	
Bond issuance cost	15,058	-	-	-	(15,058)	-	(15,058)	
Interest on long-term debt	3,726	-	-	-	(3,726)	-	(3,726)	
Total governmental activities	12,219,103	103,405	2,210,269	222,295	(9,683,134)	-	(9,683,134)	
Business-type activities								
Utilities - Water and sewer	6,928,589	7,714,166	-	850,770	-	1,636,347	1,636,347	
Total primary government	\$ 19,147,692	\$ 7,817,571	\$ 2,210,269	\$ 1,073,065	(9,683,134)	1,636,347	(8,046,787)	
Component Unit								
Public Properties Corporation	\$ 201,386	\$ 125,535	\$ -	\$ -				\$ (75,851)

General revenue								
Taxes								
Property taxes, levied for general purposes				662,668	-	662,668		-
License fees								
Franchise				561,583	-	561,583		-
Payroll				3,867,472	-	3,867,472		-
Insurance premiums				1,824,644	-	1,824,644		-
Net profits				529,825	-	529,825		-
Occupational				71,875	-	71,875		-
E911 wireless funding fees				566,845	-	566,845		-
Investment earnings				53,182	49,523	102,705		150,706
Miscellaneous				289,373	-	289,373		-
Total general revenues				8,427,467	49,523	8,476,990		150,706
Gain (loss) on disposal of assets				6,357	5,300	11,657		-
Total general revenues and gains (losses)				8,433,824	54,823	8,488,647		150,706
Change in net position				(1,249,310)	1,691,170	441,860		74,855
Net position, beginning, as restated				17,838,475	31,001,993	48,840,468		(166,924)
NET POSITION, ENDING				\$ 16,589,165	\$ 32,693,163	\$ 49,282,328		\$ (92,069)

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

**CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,002,094	\$ 261,813	\$ 2,263,907
Investments	2,008,005	620,849	2,628,854
Accounts receivable, net	1,686,664	20,915	1,707,579
Other receivables - fiduciary	223,824	-	223,824
Grants receivable	219,140	-	219,140
Due from other funds	-	-	-
 Total assets	 \$ 6,139,727	 \$ 903,577	 \$ 7,043,304
LIABILITIES			
Accounts payable	\$ 261,062	\$ 97	\$ 261,159
Accrued payroll liabilities	215,651	-	215,651
Compensated absences	4,949	-	4,949
Unearned revenue	229,136	-	229,136
Due to other funds	-	-	-
 Total liabilities	 710,798	 97	 710,895
FUND BALANCE			
Fund balance			
Restricted	87,376	903,480	990,856
Unassigned	5,341,553	-	5,341,553
 Total fund balance	 5,428,929	 903,480	 6,332,409
 Total liabilities and fund balance	 \$ 6,139,727	 \$ 903,577	 \$ 7,043,304

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

Fund balances reported above	\$ 6,332,409
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,890,714
Accrued interest on long-term debt is not payable in the current period and therefore is not reported in the funds.	(2,940)
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/OPEB deferred inflows/outflows are not due and payable in the current period and therefore are not reported in the funds.	(12,646,018)
Net position	\$ 16,589,165

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, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 662,668	\$ -	\$ 662,668
Licenses and permits	6,860,799	-	6,860,799
Intergovernmental revenues	2,261,301	171,263	2,432,564
Charges for services	90,270	7,735	98,005
Other income	892,243	17,158	909,401
 Total revenues	 10,767,281	 196,156	 10,963,437
EXPENDITURES			
Current			
General government	1,804,367	-	1,804,367
Merged police operations	3,855,473	-	3,855,473
Other police operations/grants	154,766	-	154,766
911 communications	715,033	-	715,033
Fire department	1,426,437	-	1,426,437
Street department	918,626	314	918,940
Cemetery department	287,801	4,331	292,132
Capital outlay	1,520,669	152,702	1,673,371
Debt service	69,685	-	69,685
 Total expenditures	 10,752,857	 157,347	 10,910,204
 Excess of Revenues Over (Under) Expenditures	 14,424	 38,809	 53,233
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of bond anticipation notes	406,097	-	406,097
Transfers in (out)	17,321	(17,321)	-
Proceeds from sale of assets	6,357	-	6,357
 Net change in fund balances	 444,199	 21,488	 465,687
 Fund Balance, beginning of year	 4,984,730	 881,992	 5,866,722
 Fund Balance, end of year	 \$ 5,428,929	 \$ 903,480	 \$ 6,332,409
 Net change in fund balances			\$ 465,687
Add: Capital outlay			1,673,371
Add: Debt service			69,685
Less: Change in long-term compensated absences			(29,471)
Less: Proceeds from sale of assets			(6,357)
Add: Gain on disposal of assets			6,357
Less: Depreciation on governmental activities			(1,699,340)
Less: Proceeds from issuance of bond anticipation notes			(406,097)
Add: Increase in net pension liability			(968,243)
Add: Increase in net OPEB liability			(336,118)
Less: Interest on long-term debt and bond issuance costs			(18,784)
 Change in net position			 \$ (1,249,310)

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-type Activities Water & Sewer
ASSETS	
Current assets	
Cash and cash equivalents	\$ 6,114,500
Accounts receivable, net	1,143,883
Grants receivable	167,462
Other receivables - fiduciary	18,971
Due from other funds	-
Inventory	<u>135,211</u>
Total current assets	<u>7,580,027</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	18,712,573
Investments	2,663,137
Construction in progress	8,723,127
Land	320,124
Property and equipment	64,844,178
Less: accumulated depreciation	<u>(21,466,434)</u>
Total noncurrent assets	<u>73,796,705</u>
Total assets	<u>81,376,732</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	692,632
Deferred outflows - OPEB	255,313
Defeasance on refunding	<u>1,046,017</u>
Total deferred outflows of resources	<u>1,993,962</u>
Total assets and deferred outflows of resources	<u>\$ 83,370,694</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 803,879
Accrued payroll	52,124
Taxes payable	34,568
Accrued interest payable	89,980
Deposits payable	347,753
Other accrued liabilities	85,350
Retainage payable	761,785
Current portion, long-term debt	<u>1,650,000</u>
Total current liabilities	<u>3,825,439</u>
Noncurrent liabilities	
Compensated absences	63,135
Bonds and notes payable	43,181,921
Net pension liability	2,570,097
Net OPEB liability	<u>882,710</u>
Total noncurrent liabilities	<u>46,697,863</u>
Total liabilities	<u>50,523,302</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	108,013
Deferred inflows - OPEB	<u>46,216</u>
Total deferred inflows of resources	<u>154,229</u>
NET POSITION	
Net investment in capital assets	25,682,966
Restricted for debt service and construction	4,289,297
Restricted for other purposes	21,992
Unrestricted	<u>2,698,908</u>
Total net position	<u>32,693,163</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 83,370,694</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, 2018**

	Business-type Activities
	Water & Sewer
OPERATING REVENUES	
Charges for services	\$ 7,471,714
Other revenues	242,452
Total operating revenues	7,714,166
OPERATING EXPENSES	
Salaries	1,187,212
Payroll taxes	88,575
Employee benefits	712,166
Advertising and printing	26,032
Professional and technical	14,999
Repairs and maintenance	198,692
Utilities	664,032
Telephone and postage	43,906
Insurance	120,652
Chemicals	169,059
Technical supplies	2,227
Uniforms	6,320
Motor fuel	38,700
Office supplies	3,549
Other materials	19,684
Other expenses	226,972
Purchase of water	22,306
Sludge removal	92,411
Depreciation	1,681,137
Training/travel	6,580
Lab analysis	41,261
Purchase of water meters	30,522
Dumpster collection	3,782
Total operating expenses	5,400,776
Operating income	2,313,390
NONOPERATING REVENUES (EXPENSES)	
Investment income	49,523
Interest expense	(1,029,943)
Amortization expense and bond issue cost	(497,870)
Gain on sale of assets	5,300
Impact fees	21,934
Grants	828,836
(Deficiency) of nonoperating revenues over expenses	(622,220)
Net income (loss)	1,691,170
Net position, beginning, as restated	31,001,993
NET POSITION, ENDING	\$ 32,693,163

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, 2018

	<u>Business-type Activities</u> <u>Water & Sewer</u>
Cash flows from operating activities:	
Receipts from customers	\$ 7,582,504
Cash payments to employees	(1,638,514)
Cash payments to others for services	(1,693,045)
Net cash provided by (used by) operating activities	<u>4,250,945</u>
Cash flows from capital and related financing activities:	
Purchase of construction in progress	(6,503,514)
Purchase of property, plant and equipment	(134,836)
Proceeds from sale of assets	5,300
Grant proceeds	693,834
Impact fees	21,934
Proceeds from bond issuance	14,476,066
Payment of bond and note payable principal	(1,610,000)
Bond issue cost	(495,620)
Interest expense	(842,137)
Net cash provided by (used by) capital and related financing activities	<u>5,611,027</u>
Cash flows from investing activities:	
Sale/maturity of investments	3,347,810
Purchase of investments	(1,932,804)
Investment income	67,359
Net cash provided by (used by) investing activities	<u>1,482,365</u>
Net increase (decrease) in cash and cash equivalents	11,344,337
Cash and cash equivalents, July 1, 2017	<u>13,482,736</u>
Cash and cash equivalents, June 30, 2018	<u>\$ 24,827,073</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income	\$ 2,313,390
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,681,137
Net pension liability	304,127
Net OPEB liability	37,347
Changes in assets and liabilities:	
Receivables, net	(131,662)
Inventory	(5,345)
Accounts payable	39,082
Payroll liabilities	7,965
Due to/due from other funds	-
Other liabilities	4,904
Net cash provided by (used by) operating activities	<u>\$ 4,250,945</u>
Reconciliation of total cash and cash equivalents	
Current assets - cash and cash equivalents	\$ 6,114,500
Restricted assets - cash and cash equivalents	18,712,573
Total cash and cash equivalents	<u>\$ 24,827,073</u>
Amortization expense	<u>\$ 2,250</u>
Net change in capital assets payable	<u>\$ 1,179,372</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, 2018

	Agency Fund	Private Purpose Trust	Totals
ASSETS			
Cash and cash equivalents	\$ 406,538	\$ -	\$ 406,538
Investments	-	111,934	111,934
Total assets	406,538	111,934	518,472
LIABILITIES			
Accounts payable	404,601	-	404,601
Other liabilities	-	-	-
Total liabilities	404,601	-	404,601
NET POSITION			
Held in trust for payroll and other purposes	\$ 1,937	\$ 111,934	\$ 113,871

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, 2018

	Agency Fund	Private Purpose Trust	Totals
ADDITIONS			
Investment income	\$ -	\$ 2,934	\$ 2,934
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Total additions	<u>-</u>	<u>2,934</u>	<u>2,934</u>
Less: investment expense			
Trust fees	-	1,056	1,056
Miscellaneous	<u>-</u>	<u>2,649</u>	<u>2,649</u>
Total investment expenses	<u>-</u>	<u>3,705</u>	<u>3,705</u>
Net increase (decrease) in net position	<u>-</u>	<u>(771)</u>	<u>(771)</u>
Net position, beginning	<u>1,937</u>	<u>112,705</u>	<u>114,642</u>
Net position, ending	<u>\$ 1,937</u>	<u>\$ 111,934</u>	<u>\$ 113,871</u>

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 – 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

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 recipients 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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

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.

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 Funds

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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Accounts Receivable

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

G. Restricted Cash and Investments

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

H. Investments

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

I. Inventory

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

J. Interfund Balances

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

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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Liabilities and Long-term Obligations (continued)

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

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

M. Compensated Absences

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

N. 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.

O. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

P. 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, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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, 2018, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:			
Road surface repairs	\$ -	\$ 282,631	\$ 282,631
VPD construction	29,957	-	29,957
Law enforcement	57,419	-	57,419
Cemetery permanent fund	-	620,849	620,849
Unassigned	<u>5,341,553</u>	<u>-</u>	<u>5,341,553</u>
Total fund balances	<u>\$ 5,428,929</u>	<u>\$ 903,480</u>	<u>\$ 6,332,409</u>

R. Proprietary Revenues

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

S. 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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through November 21, 2018, 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, 2018, 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, 2018, the City held investments in seven municipal bonds. Ratings of the municipal bonds were as follows:

<u>Municipal Security</u>	<u>Rating</u>
FNMA, 1.625%, 08/23/21	Aaa
FNMA, 2.50%, 04/13/21	Aaa
New York State Urban Development Corporation Bonds, 2%, 03/15/19	Aa1/Aa2
Florida Hurricane Catastrophe Fd. Fin. Corporation Bonds, 2.995%, 07/1/20	Aa3
Kentucky State Property & Buildings Commission Bonds, 3.709%, 11/1/20	Aa3
New York State Urban Development Corporation Bonds, 2.67%, 03/15/23	Aa1/Aa2
University Pittsburgh PA Higher Education Bonds, 2.532%, 09/15/22	Aa1

Custodial Credit Risk

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. CASH AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT

At June 30, 2018, the City's bank balances were substantially covered by federal depository insurance or by collateral pledged. The City's bank balances totaled \$32,234,347 at June 30, 2018. As of June 30, 2018, \$1,220,848 was covered by FDIC or SIPC, \$12,707,776 was held as collateral by the custodial banks in the City's name and \$19,623,991 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, 2018, 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 \$1,039,138. As of June 30, 2018, \$557,981 was covered by FDIC or SIPC and \$481,157 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, 2018, 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	\$ 2,022,505	\$ 1,472,505	\$ 550,000	\$ -	\$ -
U.S. govt. obligations	10,999	10,999	-	-	-
Mutual funds	444,267	444,267	-	-	-
Municipal bonds	<u>2,814,220</u>	<u>249,190</u>	<u>2,399,447</u>	<u>165,583</u>	<u>-</u>
Total	<u>\$ 5,291,991</u>	<u>\$ 2,176,961</u>	<u>\$ 2,949,447</u>	<u>\$ 165,583</u>	<u>\$ -</u>
Fiduciary Funds					
U.S. govt. obligations	\$ 2,851	\$ 2,851	\$ -	\$ -	\$ -
Mutual funds	104,232	104,232	-	-	-
Equities	<u>4,851</u>	<u>4,851</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 111,934</u>	<u>\$ 111,934</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, 2018

2. CASH AND INVESTMENTS (CONTINUED)

For those investments measured at fair value, the investments' fair value measurements are as follows at June 30, 2018:

Investments	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Primary Government				
U.S. Government Obligations	\$ 10,999	\$ 10,999	\$ -	\$ -
Mutual funds	444,267	444,267	-	-
Municipal bonds	2,814,220	-	2,814,220	-
Total	\$ 3,269,486	\$ 455,266	\$ 2,814,220	\$ -
Fiduciary Funds				
U.S. Government Obligations	\$ 2,851	\$ 2,851	\$ -	\$ -
Mutual funds	104,232	104,232	-	-
Equities	4,851	4,851	-	-
Total	\$ 111,934	\$ 111,934	\$ -	\$ -

Investments of \$2,022,505 are valued at cost and are not included in the above table.

3. ACCOUNTS RECEIVABLE

Receivables at June 30, 2018 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	\$ 36,927	\$ -	\$ 36,927
Licenses, permits, billings	1,571,419	-	1,571,419
Charges for Service	2,500	-	2,500
Intergovernmental	42,539	20,915	63,454
Other	54,279	-	54,279
Gross receivables	1,707,664	20,915	1,728,579
Less: allowance for uncollectible	(21,000)	-	(21,000)
Net receivables	\$ 1,686,664	\$ 20,915	\$ 1,707,579
Business Type Activities:			
Customer	\$ 1,150,883		
Less: allowance for uncollectible	(7,000)		
Net receivables	\$ 1,143,883		

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

4. CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 2,518,184	\$ -	\$ -	\$ 2,518,184
Construction in progress	<u>15,263</u>	<u>868,008</u>	<u>(172,118)</u>	<u>711,153</u>
Total	<u>2,533,447</u>	<u>868,008</u>	<u>(172,118)</u>	<u>3,229,337</u>
Capital assets being depreciated:				
Buildings and improvements	2,126,500	-	(9,500)	2,117,000
Equipment	1,904,232	65,316	(16,833)	1,952,715
Vehicles	3,424,333	606,479	(271,222)	3,759,590
Infrastructure	<u>25,374,327</u>	<u>334,320</u>	<u>-</u>	<u>25,708,647</u>
Total	<u>32,829,392</u>	<u>1,006,115</u>	<u>(297,555)</u>	<u>33,537,952</u>
Total capital assets	<u>35,362,839</u>	<u>1,874,123</u>	<u>(469,673)</u>	<u>36,767,289</u>
Less: accumulated depreciation				
Buildings and improvements	1,848,473	39,899	-	1,888,372
Equipment	1,390,840	108,975	(16,833)	1,482,982
Vehicles	2,733,662	242,658	(271,222)	2,705,098
Infrastructure	<u>6,492,315</u>	<u>1,307,808</u>	<u>-</u>	<u>7,800,123</u>
Total accumulated depreciation	<u>12,465,290</u>	<u>1,699,340</u>	<u>(288,055)</u>	<u>13,876,575</u>
Governmental activities capital assets, net	<u>\$ 22,897,549</u>	<u>\$ 174,783</u>	<u>\$ (181,618)</u>	<u>\$ 22,890,714</u>
 <u>Business-type Activities</u>				
Capital assets not depreciated:				
Land	\$ 320,124	\$ -	\$ -	\$ 320,124
Construction in progress	<u>1,040,241</u>	<u>7,682,886</u>	<u>-</u>	<u>8,723,127</u>
Total	<u>1,360,365</u>	<u>7,682,886</u>	<u>-</u>	<u>9,043,251</u>
Capital assets being depreciated:				
Buildings	17,127,489	11,567	-	17,139,056
Equipment	870,869	97,196	-	968,065
Vehicles	479,200	26,077	(6,500)	498,777
Plant and utility systems	<u>46,238,280</u>	<u>-</u>	<u>-</u>	<u>46,238,280</u>
Total	<u>64,715,838</u>	<u>134,840</u>	<u>(6,500)</u>	<u>64,844,178</u>
Total capital assets	<u>66,076,203</u>	<u>7,817,726</u>	<u>(6,500)</u>	<u>73,887,429</u>
Less: accumulated depreciation				
Buildings	4,157,001	357,170	-	4,514,171
Equipment	619,174	72,254	-	691,428
Vehicles	296,586	54,601	(6,500)	344,687
Plant and utility systems	<u>14,719,036</u>	<u>1,197,112</u>	<u>-</u>	<u>15,916,148</u>
Total accumulated depreciation	<u>19,791,797</u>	<u>1,681,137</u>	<u>(6,500)</u>	<u>21,466,434</u>
Business-type activities capital assets, net	<u>\$ 46,284,406</u>	<u>\$ 6,136,589</u>	<u>\$ -</u>	<u>\$ 52,420,995</u>

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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	\$ 28,298	Water	\$ 740,541
Police operations	151,910	Sewer	<u>940,596</u>
Dispatch	-		
Fire department	108,979	Total	<u>\$ 1,681,137</u>
Street department	1,391,259		
Cemetery	<u>18,894</u>		
Total	<u>\$ 1,699,340</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, 2018, was \$119,959.

The annual requirements to amortize all leases outstanding as of June 30, 2018, are as follows:

June 30,	Principal	Interest	Total
2019	<u>\$ 74,871</u>	<u>\$ 2,939</u>	<u>\$ 77,810</u>

On September 12, 2017, the City entered into a General Obligation Bond Anticipation Note Series 2017 for \$4,500,000. The note bears interest at a rate of 1.50%, with interest payable monthly. During 2018, the City drew down \$406,097 on the note for construction of the new police department. The note will be paid off through issuance of General Obligation Bonds, Series 2019.

The changes in general long-term debt during 2018 are as follows:

	July 1, 2017	Additions	Retirements	June 30, 2018
Fire truck lease	\$ 123,849	\$ -	\$ 48,978	\$ 74,871
BAN	-	406,097	-	406,097
Net pension liability	9,768,598	2,174,603	-	11,943,201
Net OPEB liability	2,763,170	1,582,183	-	4,345,353
Long-term compensated absences	<u>319,038</u>	<u>29,472</u>	-	<u>348,510</u>
Total	<u>\$ 12,974,655</u>	<u>\$ 4,192,355</u>	<u>\$ 48,978</u>	<u>\$ 17,118,032</u>

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, \$2,685,000 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, 2018, \$5,365,000 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, 2018, \$5,550,000 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 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 expanding and upgrading the City's wastewater treatment plant.

On June 12, 2018, the City issued \$14,440,000 of Water and Sewer Revenue Bonds, Series 2018. The proceeds are being used for sanitary sewer system expansion and improvements.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. LONG-TERM DEBT (CONTINUED)

At June 30, 2018, the business-type activities had the following bonds and notes payable outstanding:

Description	Series	Amount	Current Portion
Revenue Bonds	2011	\$ 2,545,000	\$ 610,000
Revenue Bonds	2012	6,085,000	655,000
Revenue Bonds	2013	5,915,000	385,000
Revenue Bonds	2014	5,710,000	-
Revenue Bonds	2016	10,000,000	-
Revenue Bonds	2018	<u>14,440,000</u>	<u>-</u>
Total payable at par		44,695,000	<u>\$ 1,650,000</u>
Add: unamortized bond premium		136,921	
Less: current portion payable		<u>(1,650,000)</u>	
Total long-term portion		<u>\$ 43,181,921</u>	

The annual requirements to amortize all revenue bonds and notes outstanding as of June 30, 2018, are as follows:

June 30,	Principal	Interest	Total
2019	\$ 1,650,000	\$ 1,299,898	\$ 2,949,898
2020	1,690,000	1,279,225	2,969,225
2021	1,720,000	1,239,750	2,959,750
2022	1,765,000	1,195,813	2,960,813
2023	1,870,000	1,151,556	3,021,556
2024-2028	9,715,000	5,052,033	14,767,033
2029-2033	10,750,000	3,572,193	14,322,193
2034-2037	<u>15,535,000</u>	<u>1,657,738</u>	<u>17,192,738</u>
	<u>\$ 44,695,000</u>	<u>\$ 16,448,206</u>	<u>\$ 61,143,206</u>

The changes in long-term debt during 2018 are as follows:

	July 1, 2017	Additions	Retirements	June 30, 2018
W&S revenue bonds	\$ 31,865,000	\$ 14,440,000	\$ 1,610,000	\$ 44,695,000
Bond (discount) premium	98,601	38,320	-	136,921
Net pension liability	2,118,163	451,934	-	2,570,097
Net OPEB liability	692,372	190,338	-	882,710
Long-term compensated absences	<u>60,648</u>	<u>2,487</u>	<u>-</u>	<u>63,135</u>
Total	<u>\$ 34,834,784</u>	<u>\$ 15,123,079</u>	<u>\$ 1,610,000</u>	<u>\$ 48,347,863</u>

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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:

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, 2018

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, 2018, the Corporation had the following bonds outstanding:

Description	Series	Amount	Current Portion
Revenue Refunding Bonds	2016	\$ 3,330,000	\$ 525,000
Add: unamortized bond premium		<u>64,103</u>	
		3,394,103	
Less: current portion payable		<u>(525,000)</u>	
Total long-term portion		<u>\$ 2,869,103</u>	

The annual requirements to amortize all revenue bonds and leases outstanding as of June 30, 2018, are as follows:

June 30,	Principal	Interest	Total
2019	\$ 525,000	\$ 61,350	\$ 586,350
2020	540,000	50,700	590,700
2021	555,000	39,750	594,750
2022	555,000	28,650	583,650
2023	570,000	17,400	587,400
2024	<u>585,000</u>	<u>5,850</u>	<u>590,850</u>
	<u>\$ 3,330,000</u>	<u>\$ 203,700</u>	<u>\$ 3,533,700</u>

The changes in long-term debt during 2018 are as follows:

	July 1, 2017	Additions	Retirements	June 30, 2018
KCTCS Revenue Bonds	<u>\$ 3,845,000</u>	<u>\$ -</u>	<u>\$ 515,000</u>	<u>\$ 3,330,000</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, 2018

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:

June 30,			
2019		\$	603,480
2020			603,480
2021			603,480
2022			603,480
2023			603,480
2024			<u>301,740</u>
Net minimum lease payments			3,319,140
Less: amount representing interest			<u>(383,056)</u>
Present value of minimum lease payments		\$	<u>2,936,084</u>

7. RETIREMENT PLAN

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, 2018, 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 were 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's wages for non-hazardous job classifications and 31.55% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 8. Plan members contributed 14.48% to the pension trust for non-hazardous job classifications and 22.20% to the pension trust 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, 2018

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, 2018, the City contributed \$351,163 or 100% of the required contribution for non-hazardous job classifications, and \$610,673, for the year ended June 30, 2018, 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 or 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 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+ and sum of service years plus age equal to 87+ Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
<u>\$ 14,513,298</u>	<u>\$ 5,167,358</u>	<u>\$ 9,345,940</u>

The net pension liability was measured as of June 30, 2017, 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, 2017 was as follows:

Non-hazardous	Hazardous
.088281%	.417738%

The proportionate share at June 30, 2017 increased .0795% for non-hazardous and decreased .0232% for hazardous to the proportionate share as of June 30, 2017.

For the year ended June 30, 2018, the City recognized pension expense of \$2,099,555. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 349,207	\$ 131,170
Changes of assumptions	2,817,820	-
Net difference between projected and actual earnings on Plan investments	145,585	-
Changes in proportion and differences between City contributions and proportionate share of contributions	48,401	533,990
City contributions subsequent to the measurement date	<u>892,867</u>	<u>-</u>
Total	<u>\$ 4,253,880</u>	<u>\$ 665,160</u>

The \$892,867 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, 2019. Contributions exclude \$68,968 of contributions for employees that previously retired and were subsequently re-employed. 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,	
2019	\$ 1,047,325
2020	\$ 1,293,285
2021	\$ 523,571
2022	\$ (168,328)

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.0%	3.65%
	<u>100%</u>	

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 6.25 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 26 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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Non-hazardous			Hazardous		
	Discount rate	City’s proportionate share of net pension liability	Discount rate	City’s proportionate share of net pension liability		
1% decrease	5.25%	\$ 6,517,156	5.25%	\$ 11,750,827		
Current discount rate	6.25%	\$ 5,167,358	6.25%	\$ 9,345,940		
1% increase	7.25%	\$ 4,038,263	7.25%	\$ 7,359,855		

Payable to the Pension Plan – At June 30, 2018, the City reported a payable of \$177,193 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the City of Versailles participates in the County Employees’ Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2018, the employer’s contribution was 4.70% to the insurance trust for non-hazardous job classifications and 9.35% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 were 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. 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, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For the year ended June 30, 2018, the City contributed \$113,982, or 100% of the required contribution for non-hazardous job classifications, and \$257,198, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

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

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net OPEB Liability	Non-hazardous	Hazardous
<u>\$ 5,228,063</u>	<u>\$ 1,774,750</u>	<u>\$ 3,453,313</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was as follows:

Non-hazardous	Hazardous
.088280%	.417737%

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For the year ended June 30, 2018, the City recognized OPEB expense of \$727,972. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 12,976
Changes of assumptions	1,659,956	-
Net difference between projected and actual earnings on Plan investments	-	300,541
Changes in proportion and differences between City contributions and proportionate share of contributions	-	4,805
City contributions subsequent to the measurement date	<u>354,509</u>	<u>-</u>
Total	<u>\$ 2,014,465</u>	<u>\$ 318,322</u>

The \$354,509 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 OPEB liability in the year ending June 30, 2019. Contributions exclude \$26,511 of contributions for employees that previously retired and were subsequently re-employed. Contributions also include an allocation for the implicit subsidy of \$9,840, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

Year ending June 30,	
2019	\$ 353,649
2020	\$ 353,649
2021	\$ 353,649
2022	\$ 189,261
2023	\$ 71,426
2024	\$ 20,000

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous and Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post – 65: Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

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 arithmetic nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	<u>2.0%</u>	2.69%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.84% and 5.96% for non-hazardous and hazardous classifications, respectively. 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 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

	Non-hazardous			Hazardous		
	City's proportionate share of net OPEB			City's proportionate share of net OPEB		
	Discount rate	liability		Discount rate	liability	
1% decrease	4.84%	\$ 2,258,251		4.96%	\$ 4,627,916	
Current discount rate	5.84%	\$ 1,774,750		5.96%	\$ 3,453,313	
1% increase	6.84%	\$ 1,372,372		6.96%	\$ 2,492,300	

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Non-hazardous		Hazardous	
	City's proportionate share of net OPEB		City's proportionate share of net OPEB	
	liability		liability	
1% decrease	\$ 1,361,310		\$ 2,444,549	
Current trend rate	\$ 1,774,750		\$ 3,453,313	
1% increase	\$ 2,312,154		\$ 4,701,818	

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

9. 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, 2018:

Waste Water Treatment Plant Expansion - \$12,741,312 (construction phase of project)

Police Department Construction - \$5,450,305

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

10. CONCENTRATIONS

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Five industrial companies generated approximately 44% of the City's occupational tax revenue. Four users generated approximately 33% of the utility operation's service revenue. Also, at June 30, 2018, approximately 28% of the utility operation's accounts receivable was due from four users.

11. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2018 were levied in September 2017 on the assessed property located in the City of Versailles as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

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

12. 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.

13. POLICE OPERATING EXPENDITURES

The City entered into an Interlocal Cooperation Agreement pertaining to the operation of police services covering the County with the Woodford Fiscal Court. The agreement was renewed in October 2013 and in March 2018. The agreement calls for the County to reimburse the City for 38% of all police operating expenditures and 50% of all capital expenditures. Police department expenditures that qualify under this agreement are as follows:

	Original Budget	Actual	Variance Favorable (Unfavorable)
Police Operating	\$ 4,030,438	\$ 3,867,331	\$ 163,107
Police Capital	<u>152,000</u>	<u>121,237</u>	<u>30,763</u>
Total cost shared with County	<u>\$ 4,182,438</u>	<u>\$ 3,988,568</u>	<u>\$ 193,870</u>

14. 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 were no revenues abated on either agreement during 2018.

The City is also under agreement to forego collection of ad valorem taxes for one local business (More Than A Bakery). The agreement is for five years. During 2018, \$17,416 of revenue was abated.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

15. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 75

During 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Governmental activities	2018
Net position, at beginning of year	\$ 20,360,665
Beginning net OPEB liability	<u>(2,522,190)</u>
Net position, at beginning of year, as restated	<u>\$ 17,838,475</u>
Business-type activities	
Net position, at beginning of year	\$ 31,638,259
Beginning net OPEB liability	<u>(636,266)</u>
Net position, at beginning of year, as restated	<u>\$ 31,001,993</u>

16. SUBSEQUENT EVENTS

On November 20, 2018, the City approved Ordinance 2018-29 authorizing the issuance of up to \$6,120,000 of first mortgage revenue bonds, Series 2018 for a KCTCS expansion and renovation project. The lease agreement, discussed more fully in note 6, will be restated to reflect the additional debt. The bonds are scheduled for sale on December 12, 2018

On November 20, 2018, the City approved an amendment to the More Than a Bakery tax abatement agreement. The amendment allows for up to 345 new hires.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF VERSAILLES, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
GENERAL FUND
for the year ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Property taxes	\$ 650,000	\$ 650,000	\$ 662,668	\$ 12,668
License and permits	6,518,300	6,518,300	6,860,799	342,499
Intergovernmental revenues	1,998,776	2,185,776	2,261,301	75,525
Charges for services	88,200	88,200	90,270	2,070
Other income	<u>673,093</u>	<u>673,093</u>	<u>892,243</u>	<u>219,150</u>
 Total revenues	 <u>9,928,369</u>	 <u>10,115,369</u>	 <u>10,767,281</u>	 <u>651,912</u>
Expenditures				
Current				
General government	1,935,730	1,935,730	1,804,367	131,363
Merged police operations	4,030,438	4,030,438	3,855,473	174,965
Other police operations/grants	-	-	154,766	(154,766)
911 communications	751,132	751,132	715,033	36,099
Fire department	1,509,786	1,509,786	1,426,437	83,349
Street department	1,044,322	1,053,322	918,626	134,696
Cemetery department	282,093	282,093	287,801	(5,708)
Capital outlay	555,300	1,132,055	1,520,669	(388,614)
Debt service	<u>54,000</u>	<u>54,000</u>	<u>69,685</u>	<u>(15,685)</u>
 Total expenditures	 <u>10,162,801</u>	 <u>10,748,556</u>	 <u>10,752,857</u>	 <u>(4,301)</u>
Excess of Revenues Over (Under) Expenditures	<u>(234,432)</u>	<u>(633,187)</u>	<u>14,424</u>	<u>647,611</u>
Other Financing Sources (Uses)				
Proceeds from issuance of bond anticipation notes			406,097	406,097
Proceeds from sale of assets	-	-	6,357	6,357
Transfers	<u>-</u>	<u>-</u>	<u>17,321</u>	<u>17,321</u>
 Total Other Financing Sources (uses)	 <u>-</u>	 <u>-</u>	 <u>429,775</u>	 <u>429,775</u>
Excess of Revenues and Other Sources Over (Under) Expenditures	<u>(234,432)</u>	<u>(633,187)</u>	<u>444,199</u>	<u>1,077,386</u>
Fund Balance, July 1, 2017	<u>4,984,730</u>	<u>4,984,730</u>	<u>4,984,730</u>	<u>-</u>
Fund Balance, June 30, 2018	<u>\$ 4,750,298</u>	<u>\$ 4,351,543</u>	<u>\$ 5,428,929</u>	<u>\$ 1,077,386</u>

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

	2014	2015	2016	2017	2018
City's proportion of the net pension liability	0.088599%	0.088599%	0.093242%	0.087756%	0.088281%
City's proportionate share of the net pension liability (asset)	\$ 3,259,727	\$ 2,873,792	\$ 4,008,936	\$ 4,320,766	\$ 5,167,358
City's covered employee payroll	\$ 2,058,814	\$ 2,146,544	\$ 2,308,636	\$ 2,249,067	\$ 2,331,079
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%	221.67%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	59.97%	53.32%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

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.

The above schedule will present 10 years of historical data, once available.

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

	2014	2015	2016	2017	2018
City's proportion of the net pension liability	0.482254%	0.482254%	0.483150%	0.440924%	0.417738%
City's proportionate share of the net pension liability (asset)	\$ 6,470,696	\$ 5,795,872	\$ 7,416,876	\$ 7,565,995	\$ 9,345,940
City's covered employee payroll	\$ 2,489,255	\$ 2,543,977	\$ 2,595,363	\$ 2,458,224	\$ 2,478,969
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%	377.01%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	57.52%	49.78%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

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.

The above schedule will present 10 years of historical data, once available.

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

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 259,822	\$ 294,935	\$ 295,040	\$ 279,608	\$ 325,186	\$ 351,163
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>	<u>351,163</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 2,425,156
Employer contributions as a percentage of covered-employee payroll	12.62%	13.74%	12.78%	12.43%	13.95%	14.48%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

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.

The above schedule will present 10 years of historical data, once available.

**CITY OF VERSAILLES, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS - HAZARDOUS
Last Six Fiscal Years**

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 500,340	\$ 553,824	\$ 538,019	\$ 497,695	\$ 538,184	\$ 610,673
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>	<u>610,673</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 2,750,780
Employer contributions as a percentage of covered-employee payroll	20.10%	21.77%	20.73%	20.25%	21.71%	22.20%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

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.

The above schedule will present 10 years of historical data, once available.

**CITY OF VERSAILLES, KENTUCKY
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - NONHAZARDOUS
 Last Two Fiscal Years**

	2017	2018
City's proportion of the net OPEB liability	0.087756%	0.088281%
City's proportionate share of the net OPEB liability (asset)	\$ 1,392,061	\$ 1,774,750
City's covered employee payroll	\$ 2,249,067	\$ 2,331,079
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	61.90%	76.13%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

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

The above schedule will present 10 years of historical data, once available.

**CITY OF VERSAILLES, KENTUCKY
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - HAZARDOUS
 Last Two Fiscal Years**

	2017	2018
City's proportion of the net OPEB liability	0.440924%	0.417738%
City's proportionate share of the net OPEB liability (asset)	\$ 2,063,481	\$ 3,453,313
City's covered employee payroll	\$ 2,458,224	\$ 2,478,969
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	83.94%	139.30%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

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

The above schedule will present 10 years of historical data, once available.

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

	2013	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 142,676	\$ 110,547	\$ 113,585	\$ 104,357	\$ 110,260	\$ 113,982
Contributions relative to contractually required employer contribution	<u>142,676</u>	<u>110,547</u>	<u>113,585</u>	<u>104,357</u>	<u>110,260</u>	<u>113,982</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 2,425,156
Employer contributions as a percentage of covered-employee payroll	6.93%	5.15%	4.92%	4.64%	4.73%	4.70%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

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 OPEB Liability.

The above schedule will present 10 years of historical data, once available.

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

	2014	2014	2015	2016	2017	2018
Contractually required employer contribution	\$ 435,620	\$ 354,376	\$ 352,450	\$ 311,949	\$ 231,784	\$ 257,198
Contributions relative to contractually required employer contribution	<u>435,620</u>	<u>354,376</u>	<u>352,450</u>	<u>311,949</u>	<u>231,784</u>	<u>257,198</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 2,489,255	\$ 2,543,977	\$ 2,595,393	\$ 2,458,224	\$ 2,478,969	\$ 2,750,780
Employer contributions as a percentage of covered-employee payroll	17.50%	13.93%	13.58%	12.69%	9.35%	9.35%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

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 OPEB Liability.

The above schedule will present 10 years of historical data, once available.

SUPPLEMENTARY INFORMATION

**CITY OF VERSAILLES, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2018**

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
ASSETS			
Cash and cash equivalents	\$ 261,813	\$ -	\$ 261,813
Investments	-	620,849	620,849
Accounts receivable	20,915	-	20,915
 Total assets	 \$ 282,728	 \$ 620,849	 \$ 903,577
LIABILITIES			
Accounts payable	\$ 97	\$ -	\$ 97
 Total liabilities	 97	 -	 97
FUND BALANCE			
Restricted	282,631	620,849	903,480
 Total fund balance	 282,631	 620,849	 903,480
 Total liabilities and fund balance	 \$ 282,728	 \$ 620,849	 \$ 903,577

CITY OF VERSAILLES, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2018

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental revenues	171,263	-	171,263
Charges for services	-	7,735	7,735
Other income	<u>928</u>	<u>16,230</u>	<u>17,158</u>
 Total revenues	 <u>172,191</u>	 <u>23,965</u>	 <u>196,156</u>
 EXPENDITURES			
Current			
General government	-	-	-
Police department	-	-	-
Fire department	-	-	-
Street department	314	-	314
Cemetery department	-	4,331	4,331
Program expenses	-	-	-
Debt service	-	-	-
Capital outlay	<u>152,702</u>	<u>-</u>	<u>152,702</u>
 Total expenditures	 <u>153,016</u>	 <u>4,331</u>	 <u>157,347</u>
 Excess of Revenues Over (Under) Expenditures	 <u>19,175</u>	 <u>19,634</u>	 <u>38,809</u>
 Other Sources			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>(17,321)</u>	<u>(17,321)</u>
 Total other sources (uses)	 <u>-</u>	 <u>(17,321)</u>	 <u>(17,321)</u>
 Excess of Revenues and Other Sources Over (Under) Expenditures	 19,175	 2,313	 21,488
 Fund Balance, July 1, 2017	 <u>263,456</u>	 <u>618,536</u>	 <u>881,992</u>
 Fund Balance, June 30, 2018	 <u>\$ 282,631</u>	 <u>\$ 620,849</u>	 <u>\$ 903,480</u>

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

Fiscal Year	Interest Rate	Principal Payable by December 1	Interest Payable by December 1	Interest Payable by June 1	Total Principal and Interest
2018-19	2.500%	\$ 610,000	\$ 38,313	\$ 30,688	\$ 679,001
2019-20	3.000%	625,000	30,688	21,313	677,001
2020-21	3.000%	645,000	21,313	11,638	677,951
2021-22	3.500%	<u>665,000</u>	<u>11,638</u>	<u>-</u>	<u>676,638</u>
	Totals	<u>\$ 2,545,000</u>	<u>\$ 101,952</u>	<u>\$ 63,639</u>	<u>\$ 2,710,591</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>
2018-19	2.000%	\$ 655,000	\$ 71,186	\$ 64,636	\$ 790,822
2019-20	2.000%	675,000	64,636	57,886	797,522
2020-21	2.000%	685,000	57,886	51,036	793,922
2021-22	2.250%	700,000	51,036	43,161	794,197
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	1,170,811
2024-25	2.700%	<u>1,155,000</u>	<u>15,593</u>	<u>-</u>	<u>1,170,593</u>
	Totals	<u>\$ 6,085,000</u>	<u>\$ 333,716</u>	<u>\$ 262,530</u>	<u>\$ 6,681,246</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>
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>\$ 5,915,000</u>	<u>\$ 376,663</u>	<u>\$ 314,254</u>	<u>\$ 6,605,917</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>
2018-19	3.050%	\$ -	\$ 102,601	\$ 102,601	\$ 205,202
2019-20	3.050%	-	102,601	102,601	205,202
2020-21	3.050%	-	102,601	102,601	205,202
2021-22	3.050%	-	102,601	102,601	205,202
2022-23	3.050%	-	102,601	102,601	205,202
2023-24	3.050%	-	102,601	102,601	205,202
2024-25	3.050%	-	102,601	102,601	205,202
2025-26	3.050%	-	102,601	102,601	205,202
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	828,232
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>\$ 1,321,705</u>	<u>\$ 1,219,104</u>	<u>\$ 8,250,809</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>
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	862,960
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>\$ 2,175,630</u>	<u>\$ 2,036,583</u>	<u>\$ 14,212,213</u>

**CITY OF VERSAILLES, KENTUCKY
ENTERPRISE FUND
WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE
SERIES OF 2018**

Fiscal Year	Interest Rate	Principal Payable by December 1	Interest Payable by December 1	Interest Payable by June 1	Total Principal and Interest
2018-19		\$ -	\$ 237,204	\$ 252,644	\$ 489,848
2019-20		-	252,644	252,644	505,288
2020-21		-	252,644	252,644	505,288
2021-22		-	252,644	252,644	505,288
2022-23		-	252,644	252,644	505,288
2023-24		-	252,644	252,644	505,288
2024-25		-	252,644	252,644	505,288
2025-26		-	252,644	252,644	505,288
2026-27	3.000%	695,000	252,644	242,219	1,189,863
2027-28	3.000%	710,000	242,219	231,569	1,183,788
2028-2029	3.500%	725,000	231,569	218,881	1,175,450
2029-2030	3.500%	750,000	218,881	205,756	1,174,637
2030-2031	3.500%	780,000	205,756	192,106	1,177,862
2031-2032	3.500%	805,000	192,106	178,019	1,175,125
2032-2033	3.500%	830,000	178,019	163,494	1,171,513
2033-2034	3.500%	860,000	163,494	148,444	1,171,938
2034-2035	3.500%	890,000	148,444	132,869	1,171,313
2035-2036	3.500%	915,000	132,869	116,856	1,164,725
2036-2037	3.500%	950,000	116,856	100,231	1,167,087
2037-2038	3.625%	2,715,000	100,231	51,022	2,866,253
2038-2039	3.625%	2,815,000	51,022	-	2,866,022
		<u>\$ 14,440,000</u>	<u>\$ 4,239,822</u>	<u>\$ 4,002,618</u>	<u>\$ 22,682,440</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>
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%	585,000	5,850	-	590,850
		<u>\$ 3,330,000</u>	<u>\$ 118,500</u>	<u>\$ 85,200</u>	<u>\$ 3,533,700</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 unit, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Versailles, Kentucky's basic financial statements and have issued our report thereon dated November 21, 2018.

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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness (2018-001).

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*.

City of Versailles, Kentucky's Response to Findings

City of Versailles, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Versailles, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

RFH

RFH, PLLC

Lexington, Kentucky

November 21, 2018

CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018

FINDING: 2018-001

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

Condition: During our audit, we identified material misstatements that were not identified by the City's internal controls over financial reporting.

Cause: The City failed to provide proper oversight over period-end financial reporting, which resulted in misstated accounting records prior to performance of the audit.

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

Recommendation: We recommend management review the period-end financial reporting process and implement an additional analytical review and analysis of year end balances prior to the start of the audit. We also recommend additional year end analysis of construction projects in process to ensure proper cut off for work performed prior to year end. This additional oversight of the year-end financial records should ensure that any accounting errors are detected and corrected prior to the audit.

Response:

The City concurs with this finding and further agrees that in the future, period-end accounting review will be more in-depth prior to the actual performance of the audit. Management will review year-end financial reporting components to ensure any budgeting transactions occurring after June 30 for the period-end June 30th will be accrued and/or adjusted as necessary. Also, internal communication will be conducted more efficiently as relates to capital projects and/or construction in progress. This finding has been further conveyed to the City's outside CPA firm who provides assistance with review of period/year-end processes of the City and they too have concurred that additional analyses of year-end reporting will be conducted with all department directors and the Treasurer prior to audit, thereby minimizing actual auditor adjustments during the audit process itself.