

CITY OF VERSAILLES
Versailles, Kentucky



FINANCIAL STATEMENTS
June 30, 2021

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INDEPENDENT AUDITORS' REPORT

To the Mayor and 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, 2021, and the related notes to the financial statements, which collectively comprise the City of Versailles, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension and OPEB schedules on pages 3–14 and 51–59 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 governmental fund financial statements and long-term debt schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2021, 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
December 13, 2021

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2021

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, 2021. 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 considered 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, 2021

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 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, 2021

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	
	2021	2020	2021	2020	2021	2020
Current & Other Assets	\$ 9.0	\$ 8.2	\$ 15.2	\$ 15.4	\$ 24.2	\$ 23.6
Capital Assets	24.9	26.5	64.0	65.5	88.9	92.0
Total Assets	<u>\$ 33.9</u>	<u>\$ 34.7</u>	<u>\$ 79.2</u>	<u>\$ 80.9</u>	<u>\$ 113.1</u>	<u>\$ 115.6</u>
Deferred outflows	4.6	5.3	1.4	1.6	6.0	6.9
Non-Current Liabilities	29.0	27.1	41.9	43.4	70.9	70.5
Current Liabilities	0.7	0.9	3.3	3.8	4.0	4.7
Total Liabilities	<u>29.7</u>	<u>28.0</u>	<u>45.2</u>	<u>47.2</u>	<u>74.9</u>	<u>75.2</u>
Deferred Inflows	0.9	1.5	0.3	0.3	1.2	1.8
Net Investment in Capital Assets	18.5	20.0	24.2	23.6	42.7	43.6
Restricted	1.8	1.2	5.1	5.2	6.9	6.4
Unrestricted	(12.4)	(10.7)	5.8	6.2	(6.6)	(4.5)
Total Net Position	<u>\$ 7.9</u>	<u>\$ 10.5</u>	<u>\$ 35.1</u>	<u>\$ 35.0</u>	<u>\$ 43.0</u>	<u>\$ 45.5</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 8 for more details and summary of changes impacting FY 2021.

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. In FY2018, GASB Statement 75 required the City of Versailles to report the costs and obligations associated with other postemployment benefits (OPEB) which employees will receive at retirement. The 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 reporting requirement for the current year. See Note 9 for more details.

The City's total governmental net position decreased from \$10.5 million at 2020 to \$7.9 million at 2021. This decrease is primarily due to the change in the net pension liability from \$16.1 million in 2020 to \$17.2 million in 2021 as well as the change in the net OPEB liability from \$4.2 million in 2020 to \$5.3 million in 2021.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2021

In the business-type activity (Enterprise Fund), total net position increased from \$34.9 million in 2020 to \$35.1 million in 2021 primarily due to operating revenues and investment income exceeding expenditures by approximately \$.2 million.

In FY 2021, the City completed the wastewater treatment plant project.

In FY 2021 for governmental activities, current and other assets increased by approximately \$800,000 primarily because general fund revenues exceeded expenditures by \$760,000.

For governmental activities, the City had \$1.7 million of restricted net position related to debt service/construction, municipal road aid, cemetery, and law enforcement. For business-type activities, the City had approx. \$5.1 million of restricted net position related to debt service and construction.

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	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program Revenues						
Charges for services	\$ 0.1	\$ 0.1	\$ 7.4	\$ 7.7	\$ 7.5	\$ 7.8
Operating Grants & Contributions	2.9	2.5	-	-	2.9	2.5
Capital Grants & Contributions	0.1	0.1	0.1	0.1	0.2	0.2
General Revenues						
Taxes	0.7	0.7	-	-	0.7	0.7
Licenses	6.7	6.9	-	-	6.7	6.9
Intergovernmental	1.2	0.5	-	-	1.2	0.5
Other Revenues	0.3	0.2	0.1	0.3	0.4	0.5
Total Revenue	12.0	11.0	7.6	8.1	19.6	19.1
Expenses:						
Program Expenses						
General Government and Interest	2.4	2.1	-	-	2.4	2.1
Police & Dispatch	7.3	7.0	-	-	7.3	7.0
Fire	2.1	2.4	-	-	2.1	2.4
Streets	2.5	2.6	-	-	2.5	2.6
Cemetery	0.4	0.4	-	-	0.4	0.4
Water/Sewer/Sanitation	-	-	7.4	6.9	7.4	6.9
Total Expenses	14.7	14.5	7.4	6.9	22.1	21.4
Change in Net Position	\$ (2.7)	\$ (3.5)	\$ 0.2	\$ 1.2	\$ (2.5)	\$ (2.3)

Governmental activity revenue decreased by approximately \$1 million from 2020 to 2021 as shown in Table A-2. The increase in revenue is largely attributable to intergovernmental revenue. This revenue was primarily related to Coronavirus relief funds.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2021

Governmental activity expenses for FY 2021 remained fairly consistent with FY 2020 at \$14.7 million.

Business-type activity (enterprise) revenues increased from \$7.4 million in FY 2020 to \$7.6 million in FY 2021. Expenses also increased in FY 2021, from \$6.9 million to \$7.4 million, primarily related to an increase in depreciation expense.

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 17 and 18.

Table A-3
Condensed Governmental Funds - Revenues and Expenditures

	2021	2020	Change
Revenues			
Taxes	\$ 727,179	\$ 700,301	\$ 26,878
Licenses and permits	6,688,166	6,857,914	(169,748)
Intergovernmental revenues	3,037,004	2,554,346	482,658
Charges for services	139,564	119,059	20,505
Other income	1,385,580	739,688	645,892
Total Revenues	\$ 11,977,493	\$ 10,971,308	\$ 1,006,185
Expenditures			
General government	\$2,187,924	\$1,944,283	\$ (243,641)
Merged police operations	4,189,450	4,180,912	(8,538)
Other police operations/grants	46,309	92,021	45,712
911 communications	832,872	742,342	(90,530)
Fire department	1,375,353	1,641,276	265,923
Street department	1,049,531	961,310	(88,221)
Cemetery department	315,437	290,389	(25,048)
Capital outlay	566,072	2,631,970	2,065,898
Debt service	430,352	99,130	(331,222)
Total Expenditures	\$ 10,993,300	\$ 12,583,633	\$ 1,590,333

The information above shows that total revenues for governmental funds increased from 2020. License and permit revenue decreased by approximately 2% primarily related to decreases in the payroll tax and net profits revenue primarily related to impact of COVID-19 in the local economy. Intergovernmental revenues increased 19%, primarily related to an increase in funding from CARES Act. Other income increased approximately \$600,000 primarily related to an increase in 911 service fees.

The information above shows that expenses for governmental funds decreased by \$1,590,333 from 2020 to 2021. The decrease is primarily attributable to capital outlays that decreased by approximately \$2.1 million primarily because of completion of the construction of the new police department in FY 2020. Expenses for debt service increased in FY 2021 related to the debt service on the 2019 bond series.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2021

Table A-4
General Fund - Budget & Actual

	Budget	Actual	Difference Favorable (Unfavorable)
Revenues			
Taxes	\$ 731,000	\$ 727,179	\$ (3,821)
Licenses and permits	6,413,000	6,688,166	275,166
Intergovernmental revenues	4,397,111	2,873,007	(1,524,104)
Charges for services	101,000	126,784	25,784
Other income	1,320,450	1,285,200	(35,250)
Total Revenues	\$ 12,962,561	\$ 11,700,336	\$ (1,262,225)
Expenditures			
General government	\$ 2,484,146	\$ 2,187,924	\$ 296,222
Merged police operations	4,442,167	4,189,450	252,717
Other police operations/grants	65,000	46,309	18,691
911 communications	901,380	832,872	68,508
Fire department	1,605,366	1,375,353	230,013
Street department	1,086,628	1,049,531	37,097
Cemetery department	328,909	311,096	17,813
Capital outlay	691,245	566,072	125,173
Debt service	434,000	430,352	3,648
Total Expenditures	\$ 12,038,841	\$ 10,988,959	\$ 1,049,882

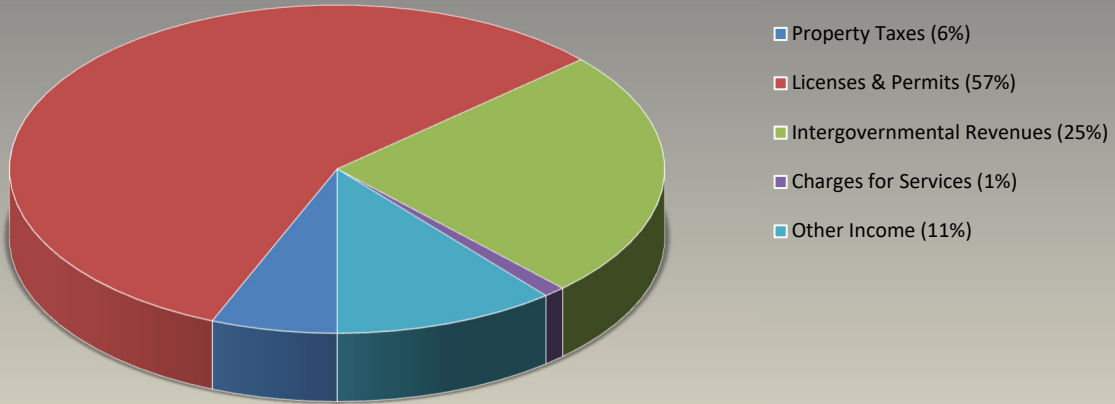
Budget Highlights

The City budgeted \$12.9 million in revenues for 2021 and generated \$11.7 million. Actual licenses and permits revenue were more than budgeted balance by \$275,166. Actual Intergovernmental revenues were less than budgeted levels by \$1,524,104. The budget included funding from the CARES Act of \$2.1 million and actual revenues related to the CARES ACT was \$702,130.

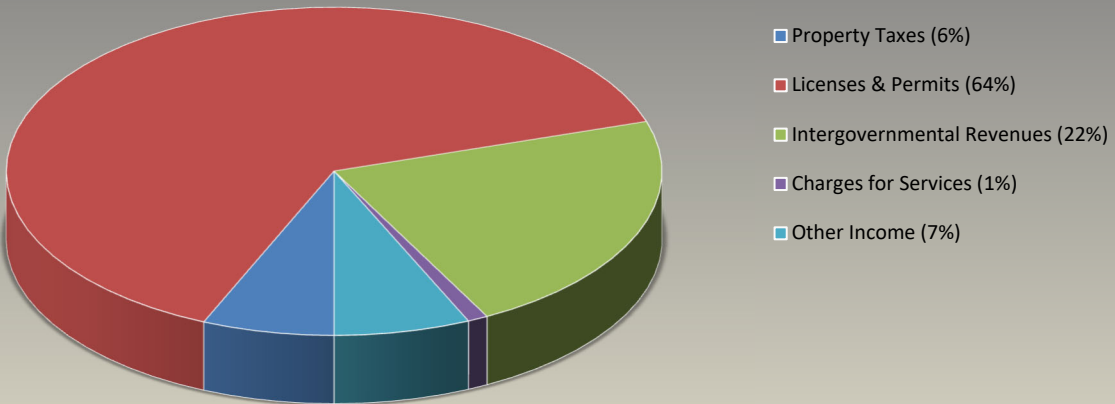
The City's budgeted \$12.0 million in expenditures and had actual expenses of \$10.9 million. All departments of the City were under budget. Police and Fire were under budget primarily related to payroll and benefits.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2021

General Fund Revenue-June 30, 2021

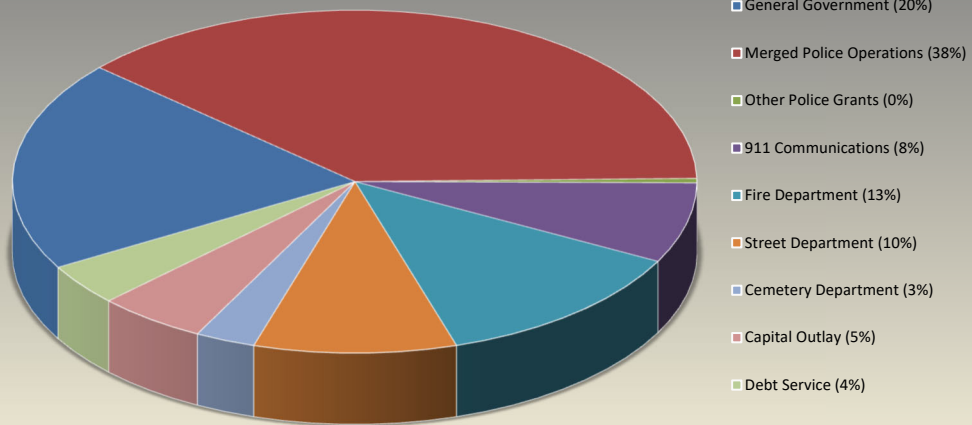


General Fund Revenue-June 30, 2020

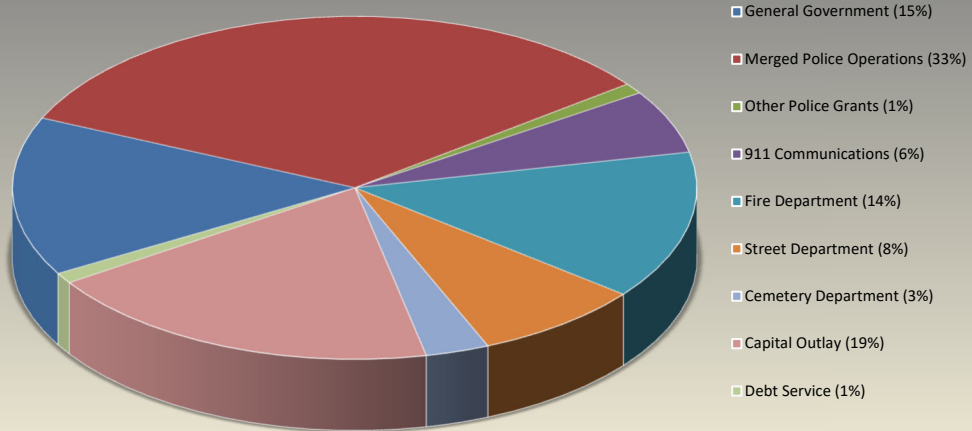


City of Versailles, Kentucky
 Management's Discussion and Analysis (MD&A)(Continued)
 June 30, 2021

General Fund Expenditures-June 30, 2021



General Fund Expenditures-June 30, 2020



City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2021

Table A-5

Enterprise Fund - Revenue - Budget & Actual			
	Budget	Actual	Difference
Charges for Services	\$ 8,158,000	\$ 7,362,702	\$ (795,298)
Grants	-	-	-
Franchise Fees	-	-	-
Investment Income	40,000	96,777	56,777
Other Revenues	150,000	87,352	(62,648)
Total Revenues	\$ 8,348,000	\$ 7,546,831	\$ (801,169)

The City budgeted \$8.3 million in revenues for 2021 and generated \$7.5 million for the Enterprise Fund. Actual charges for services for water and sewer were \$795,298 less than management's estimate. Actual investment income exceeded budgeted levels.

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	\$ 673,872	\$ 666,965	\$ (6,907)
Payroll Taxes	52,527	50,444	(2,083)
Employee Benefits	283,617	398,766	115,149
Advertising and printing	10,000	6,483	(3,517)
Professional and technical	25,000	51,591	26,591
Repairs and maintenance	92,000	46,971	(45,029)
Utilities	441,700	447,927	6,227
Telephone and postage	31,000	26,705	(4,295)
Insurance	54,590	61,560	6,970
Chemicals	140,000	113,782	(26,218)
Uniforms	4,000	3,196	(804)
Motor fuel	16,000	12,525	(3,475)
Office supplies	4,000	2,822	(1,178)
Other expenses	405,100	310,420	(94,680)
Purchase of water	15,000	14,631	(369)
Training/travel	4,000	892	(3,108)
Lab analysis	18,000	16,944	(1,056)
Purchase of water meters	150,000	266	(149,734)
Total Expenditures	\$ 2,420,406	\$ 2,232,890	\$ (187,516)

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2021

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

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Salaries	\$ 536,874	\$ 517,212	\$ (19,662)
Payroll Taxes	41,570	38,655	(2,915)
Employee Benefits	212,719	298,209	85,490
Advertising and printing	9,000	6,709	(2,291)
Professional and technical	25,000	31,305	6,305
Repairs and maintenance	75,000	63,368	(11,632)
Utilities	266,000	307,193	41,193
Telephone and postage	25,000	24,751	(249)
Insurance	53,900	56,064	2,164
Chemicals	45,000	40,605	(4,395)
Office supplies	2,000	2,025	25
Uniforms	3,500	3,487	(13)
Motor fuel	18,000	13,244	(4,756)
Other expenses	24,100	26,123	2,023
Sludge removal	85,000	81,865	(3,135)
Training/travel	4,000	788	(3,212)
Lab analysis	15,000	29,534	14,534
Meter replacement	150,000	266	(149,734)
Dumpster collection	8,000	2,309	(5,691)
	<u>8,000</u>	<u>2,309</u>	<u>(5,691)</u>
Total Expenditures	<u>\$ 1,599,663</u>	<u>\$ 1,543,712</u>	<u>\$ (55,951)</u>

The Water Department budgeted \$2.4 million in expenses for 2021 and generated \$2.2 million. Water meter and repair expenses were under budget.

The Sewer Department budgeted \$1.6 million in expenses for 2021 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, 2021

Capital Assets

Table A-8 shows the breakdown of capital assets net of depreciation for both governmental and business-type activities. During FY 2021, the City had approximately \$500,000 on capital equipment and vehicle additions related to governmental activities. During FY 2021, the City completed the \$20.9 million waste water treatment plant.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Land	\$ 2.6	\$ 2.5	\$ 0.3	\$ 0.3	\$ 2.9	\$ 2.8
Infrastructure	14.3	15.7	-	-	14.3	15.7
Buildings & improvements	6.5	7.0	62.9	41.5	69.4	48.5
Equipment	0.6	0.4	0.5	0.4	1.1	0.8
Vehicles	0.8	0.9	0.1	0.1	0.9	1.0
Construction in progress	0.1	-	0.2	23.2	0.3	23.2
Total Capital Assets	\$ 24.9	\$ 26.5	\$ 64.0	\$ 65.5	\$ 88.9	\$ 92.0

Debt Service

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Notes payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Leases payable	-	-	-	-	-	-
Bonds payable	6.41	6.68	39.77	43.18	46.18	49.86
Total Debt Outstanding	\$ 6.41	\$ 6.68	\$ 39.77	\$ 43.18	\$ 46.18	\$ 49.86

No new debt was issued in FY 2021. The City made debt service payments as scheduled.

Economic Factors and Next Year's Budget

The City's Finance Committee, Mayor and Council considered many factors when setting the fiscal year 2021-22 budget. The FY2022 economic landscape is expected to be more stable than FY2021, but not without challenges due to the ongoing COVID-19 pandemic. The commitment of the federal ARPA funds for FY2022 allowed the City to budget several assistance projects including small business grants, nonprofit grants, and individual assistance to help with rent and utilities.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2021

All city employees received a 2.3% cost of living raise July 1, 2021. In July, employees also received employee hazard pay which was paid for using ARPA funds. The Council unanimously supported the hazard pay for all employees, other than elected officials and department heads, based on their hours actually worked between March 1, 2020 and March 31, 2021. The Department Heads and staff have worked very diligently to formulate a comprehensive budget for the operations of the City for the upcoming fiscal year. 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. This budget is based upon realistic expectations of revenue and expenditures, rather than overestimating revenue and underestimating expenditures.

The budget for fiscal year 2022 begins on July 1, 2021 and represents a comprehensive spending plan for all city funds. The budget reflects all known and estimated increases in costs as well as the estimated projections for the various sources of revenues. Our occupational license fees, insurance premium tax, and property tax revenue are all dependent on economic conditions and as such these numbers will be subject to continued analysis and review.

As the economy begins to improve, the City budgeted a conservative 1.5% increase to revenues overall. The FY 2022 budget will include \$1,200,000 in American Rescue Plan Act funds. The City has three years to expend the ARPA funds and budgeted expending approximately half of it during FY2022 on grants, individual assistance, and employee hazard pay.

The budgeted capital items include the purchase of a new fire engine. Budgeted capital projects include a High Street Sidewalk project and a utilities meter replacement project. The Utilities Budget remains supportive of our daily activities and provides funds to complete scheduled projects.

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 Elizabeth Reynolds at 196 South Main Street, Versailles, Kentucky.

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2021

	Primary Government			Component Unit Public Properties
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,005,757	\$ 6,934,452	\$ 10,940,209	\$ 1,809
Investments	2,742,372	1,250,000	3,992,372	-
Accounts receivable, net	1,679,798	1,110,237	2,790,035	-
Grants receivable	19,211	-	19,211	-
Current lease receivable, net	-	-	-	809,558
Inventories	-	193,505	193,505	-
Internal balances, net	(15,403)	15,403	-	-
Total current assets	<u>8,431,735</u>	<u>9,503,597</u>	<u>17,935,332</u>	<u>811,367</u>
Noncurrent assets				
Restricted cash and cash equivalents	567,026	3,541,486	4,108,512	3,118,726
Restricted investments	-	2,207,115	2,207,115	-
Capital assets				
Construction in progress	61,383	205,500	266,883	-
Land and improvements	2,556,184	320,125	2,876,309	-
Plant and utility systems, net	-	63,450,223	63,450,223	-
Depreciable buildings, property, and equipment, net	7,976,032	-	7,976,032	-
Infrastructure, net	14,349,520	-	14,349,520	-
Long-term lease receivable, net	-	-	-	4,768,476
Total noncurrent assets	<u>25,510,145</u>	<u>69,724,449</u>	<u>95,234,594</u>	<u>7,887,202</u>
Total assets	<u>33,941,880</u>	<u>79,228,046</u>	<u>113,169,926</u>	<u>8,698,569</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	2,680,387	479,642	3,160,029	-
Deferred outflows - OPEB	1,871,112	426,772	2,297,884	-
Defeasance on refunding	-	538,248	538,248	27,792
Total deferred outflows of resources	<u>4,551,499</u>	<u>1,444,662</u>	<u>5,996,161</u>	<u>27,792</u>
Total assets and deferred outflows of resources	<u>\$ 38,493,379</u>	<u>\$ 80,672,708</u>	<u>\$ 119,166,087</u>	<u>\$ 8,726,361</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 166,044	\$ 390,093	\$ 556,137	\$ 437,631
Compensated absences	4,949	-	4,949	-
Accrued payroll liabilities	63,179	5,042	68,221	-
Accrued taxes payable	-	46,073	46,073	-
Accrued interest payable	93,375	101,610	194,985	18,218
Deposits payable	-	396,953	396,953	-
Unearned revenue	98,764	-	98,764	1,878,474
Other accrued liabilities	-	169,124	169,124	-
Retainage payable - restricted	-	430,364	430,364	-
Current portion of long-term obligations	245,000	1,765,000	2,010,000	805,000
Total current liabilities	<u>671,311</u>	<u>3,304,259</u>	<u>3,975,570</u>	<u>3,139,323</u>
Noncurrent liabilities				
Compensated absences	365,378	68,698	434,076	-
Bonds and notes payable	6,169,203	38,008,516	44,177,719	5,480,334
Net pension liability	17,208,215	2,930,143	20,138,358	-
Net OPEB liability	5,302,575	922,624	6,225,199	-
Total noncurrent liabilities	<u>29,045,371</u>	<u>41,929,981</u>	<u>70,975,352</u>	<u>5,480,334</u>
Total liabilities	<u>29,716,682</u>	<u>45,234,240</u>	<u>74,950,922</u>	<u>8,619,657</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	205,809	124,831	330,640	-
Deferred inflows - OPEB	710,830	201,066	911,896	-
Total deferred inflows of resources	<u>916,639</u>	<u>325,897</u>	<u>1,242,536</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	18,528,916	24,188,040	42,716,956	-
Restricted for				
Debt service and construction	567,026	4,637,268	5,204,294	-
Other purposes	1,189,530	439,222	1,628,752	106,704
Unrestricted	(12,425,414)	5,848,041	(6,577,373)	-
Total net position	<u>7,860,058</u>	<u>35,112,571</u>	<u>42,972,629</u>	<u>106,704</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 38,493,379</u>	<u>\$ 80,672,708</u>	<u>\$ 119,166,087</u>	<u>\$ 8,726,361</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, 2021

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	\$ 2,238,427	\$ -	\$ 433,162	\$ -	\$ (1,805,265)	\$ -	\$ (1,805,265)	
Police operations	6,346,666	3,328	1,965,623	94,952	(4,282,763)	-	(4,282,763)	
Disptach	929,137	-	-	-	(929,137)	-	(929,137)	
Fire department	2,101,977	-	360,059	-	(1,741,918)	-	(1,741,918)	
Street department	2,538,086	2,220	183,208	-	(2,352,658)	-	(2,352,658)	
Cemetery	360,305	136,236	-	-	(224,069)	-	(224,069)	
Interest on long-term debt	176,235	-	-	-	(176,235)	-	(176,235)	
Total governmental activities	<u>14,690,833</u>	<u>141,784</u>	<u>2,942,052</u>	<u>94,952</u>	<u>(11,512,045)</u>	<u>-</u>	<u>(11,512,045)</u>	
Business-type activities								
Utilities - Water and sewer	<u>7,360,938</u>	<u>7,362,702</u>	<u>-</u>	<u>78,138</u>	<u>-</u>	<u>79,902</u>	<u>79,902</u>	
Total primary government	<u>\$ 22,051,771</u>	<u>\$ 7,504,486</u>	<u>\$ 2,942,052</u>	<u>\$ 173,090</u>	<u>(11,512,045)</u>	<u>79,902</u>	<u>(11,432,143)</u>	
Component Unit								
Public Properties Corporation	<u>\$ 2,115,960</u>	<u>\$ 1,899,843</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (216,117)</u>

General revenue				
Taxes				
Property taxes, levied for general purposes	737,179	-	737,179	-
License fees				
Franchise	492,055	-	492,055	-
Payroll	3,602,604	-	3,602,604	-
Insurance premiums	1,993,527	-	1,993,527	-
Net profits	509,371	-	509,371	-
Occupational	88,389	-	88,389	-
E911 wireless funding fees	364,471	-	364,471	-
E911 service fee	789,921	-	789,921	-
Investment earnings	142,427	96,777	239,204	268,444
Miscellaneous	88,761	-	88,761	-
Total general revenues	<u>8,808,705</u>	<u>96,777</u>	<u>8,905,482</u>	<u>268,444</u>
Gain (loss) on disposal of capital assets	<u>28,575</u>	<u>9,214</u>	<u>37,789</u>	<u>-</u>
Total general revenues and gains (losses)	<u>8,837,280</u>	<u>105,991</u>	<u>8,943,271</u>	<u>268,444</u>
Change in net position	(2,674,765)	185,893	(2,488,872)	52,327
Net position, beginning	<u>10,534,823</u>	<u>34,926,678</u>	<u>45,461,501</u>	<u>54,377</u>
NET POSITION, ENDING	<u>\$ 7,860,058</u>	<u>\$ 35,112,571</u>	<u>\$ 42,972,629</u>	<u>\$ 106,704</u>

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

**CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2021**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,245,519	\$ 327,264	\$ 4,572,783
Investments	2,008,005	734,367	2,742,372
Accounts receivable, net	1,635,970	18,828	1,654,798
Grants receivable	19,211	-	19,211
 Total assets	 \$ 7,908,705	 \$ 1,080,459	 \$ 8,989,164
LIABILITIES			
Accounts payable	\$ 166,044	\$ -	\$ 166,044
Accrued payroll liabilities	63,179	-	63,179
Compensated absences	4,949	-	4,949
Unearned revenue	98,764	-	98,764
Due to other funds	15,403	-	15,403
 Total liabilities	 348,339	 -	 348,339
FUND BALANCE			
Fund balance			
Restricted	676,097	1,080,459	1,756,556
Committed	957,235	-	957,235
Unassigned	5,927,034	-	5,927,034
 Total fund balance	 7,560,366	 1,080,459	 8,640,825
 Total liabilities and fund balance	 \$ 7,908,705	 \$ 1,080,459	 \$ 8,989,164

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

Fund balances reported above	\$ 8,640,825
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,943,119
Long-term receivables for property taxes are not current financial resources and are therefore are not reported in the funds.	25,000
Long-term liabilities and related pension/OPEB deferred inflows/outflows are not due and payable in the current period and therefore are not reported in the funds.	<u>(25,748,886)</u>
 Net position governmental activities	 <u>\$ 7,860,058</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
for the year ended June 30, 2021

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 727,179	\$ -	\$ 727,179
Licenses and permits	6,688,166	-	6,688,166
Intergovernmental revenues	2,873,007	163,997	3,037,004
Charges for services	126,784	12,780	139,564
Other income	1,285,200	100,380	1,385,580
 Total revenues	 11,700,336	 277,157	 11,977,493
EXPENDITURES			
Current			
General government	2,187,924	-	2,187,924
Merged police operations	4,189,450	-	4,189,450
Other police operations/grants	46,309	-	46,309
911 communications	832,872	-	832,872
Fire department	1,375,353	-	1,375,353
Street department	1,049,531	-	1,049,531
Cemetery department	311,096	4,341	315,437
Capital outlay	566,072	-	566,072
Debt service	430,352	-	430,352
 Total expenditures	 10,988,959	 4,341	 10,993,300
 Excess of Revenues Over (Under) Expenditures	 711,377	 272,816	 984,193
OTHER FINANCING SOURCES (USES)			
Proceeds from the sale of assets	28,575	-	28,575
Transfers in (out)	20,639	(20,639)	-
 Net change in fund balances	 760,591	 252,177	 1,012,768
 Fund Balance, beginning of year	 6,799,775	 828,282	 7,628,057
 Fund Balance, end of year	 \$ 7,560,366	 \$ 1,080,459	 \$ 8,640,825
 Net change in fund balances			\$ 1,012,768
Add: Capital outlay			566,072
Add: Debt service			430,352
Add: Change in long-term compensated absences			10,700
Less: Depreciation on governmental activities			(2,128,145)
Less: Proceeds from the sale of assets			(28,575)
Add: Gain on disposal of assets			28,575
Add: Long-term property tax receivable			10,000
Add: Increase in net pension liability			(1,878,177)
Add: Increase in net OPEB liability			(522,100)
Less: Interest on long-term debt and bond issuance costs			(176,235)
 Change in net position governmental activities			 \$ (2,674,765)

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2021

	Business-type Activities
	Water & Sewer
ASSETS	
Current assets	
Cash and cash equivalents	\$ 6,934,452
Investments	1,250,000
Accounts receivable, net	1,110,237
Due from other funds	15,403
Inventory	193,505
Total current assets	9,503,597
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	3,541,486
Investments	2,207,115
Construction in progress	205,500
Land	320,125
Property and equipment	90,461,652
Less: accumulated depreciation	(27,011,429)
Total noncurrent assets	69,724,449
Total assets	79,228,046
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	479,642
Deferred outflows - OPEB	426,772
Defeasance on refunding	538,248
Total deferred outflows of resources	1,444,662
Total assets and deferred outflows of resources	\$ 80,672,708
LIABILITIES	
Current liabilities	
Accounts payable	\$ 390,093
Accrued payroll	5,042
Taxes payable	46,073
Accrued interest payable	101,610
Deposits payable	396,953
Other accrued liabilities	169,124
Retainage payable - restricted	430,364
Current portion, long-term debt	1,765,000
Total current liabilities	3,304,259
Noncurrent liabilities	
Compensated absences	68,698
Bonds and notes payable	38,008,516
Net pension liability	2,930,143
Net OPEB liability	922,624
Total noncurrent liabilities	41,929,981
Total liabilities	45,234,240
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	124,831
Deferred inflows - OPEB	201,066
Total deferred inflows of resources	325,897
NET POSITION	
Net investment in capital assets	24,188,040
Restricted for debt service and construction	4,637,268
Restricted for other purposes	439,222
Unrestricted	5,848,041
Total net position	35,112,571
Total liabilities, deferred inflows of resources and net position	\$ 80,672,708

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, 2021

	<u>Business-type Activities</u> <u>Water & Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 7,300,388
Other revenues	<u>62,314</u>
Total operating revenues	<u>7,362,702</u>
OPERATING EXPENSES	
Salaries	1,184,178
Payroll taxes	87,884
Employee benefits	697,148
Advertising and printing	22,607
Professional and technical	55,360
Repairs and maintenance	112,371
Utilities	738,892
Telephone and postage	42,044
Insurance	118,681
Chemicals	154,388
Technical supplies	2,026
Uniforms	6,684
Motor fuel	41,999
Office supplies	2,816
Other materials	23,859
Other expenses	320,655
Purchase of water	14,632
Sludge removal	93,689
Depreciation	2,178,202
Training/travel	1,680
Lab analysis	46,479
Purchase of water meters	532
Dumpster collection	2,310
Janitorial contracts	<u>5,688</u>
Total operating expenses	<u>5,954,804</u>
Operating income	<u>1,407,898</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	96,777
Interest expense	(1,405,603)
Amortization expense and bond issue cost	(531)
Gain on sale of capital assets	9,214
Impact fees	<u>78,138</u>
(Deficiency) of nonoperating revenues over expenses	<u>(1,222,005)</u>
Change in net position	185,893
Net position, beginning	<u>34,926,678</u>
NET POSITION, ENDING	<u>\$ 35,112,571</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2021

	<u>Business-type Activities</u> <u>Water & Sewer</u>
Cash flows from operating activities:	
Receipts from customers	\$ 7,314,949
Cash payments to employees	(1,814,971)
Cash payments to others for services	(1,751,984)
Net cash provided by (used by) operating activities	<u>3,747,994</u>
Cash flows from non-capital financing activities:	
Receipts (payments) on interfund loans	<u>3,661</u>
Net cash provided by (used by) non-capital financing activities	<u>3,661</u>
Cash flows from capital and related financing activities:	
Purchase of construction in progress	(1,011,646)
Purchase of property, plant and equipment	(212,849)
Proceeds from sale of property, plant and equipment	9,214
Impact fees	78,138
Payment of bond and note payable principal	(1,720,000)
Interest expense	(1,239,752)
Net cash provided by (used by) capital and related financing activities	<u>(4,096,895)</u>
Cash flows from investing activities:	
Sale/maturity of investments	1,187,820
Purchase of investments	(607,308)
Investment income	<u>106,278</u>
Net cash provided by (used by) investing activities	<u>686,790</u>
Net increase (decrease) in cash and cash equivalents	<u>341,550</u>
Cash and cash equivalents, July 1, 2020	<u>10,134,388</u>
Cash and cash equivalents, June 30, 2021	<u>\$ 10,475,938</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities	
Operating income	\$ 1,407,898
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:	
Depreciation	2,178,202
Changes in net pension liability	175,468
Changes in net OPEB liability	29,035
Changes in assets and liabilities:	
Receivables, net	(47,753)
Inventory	(54,045)
Accounts payable	37,811
Payroll liabilities	(50,264)
Other liabilities	71,642
Net cash provided by (used by) operating activities	<u>\$ 3,747,994</u>
Reconciliation of total cash and cash equivalents	
Current assets - cash and cash equivalents	\$ 6,934,452
Restricted assets - cash and cash equivalents	<u>3,541,486</u>
Total cash and cash equivalents	<u>\$ 10,475,938</u>
Supplement disclosure of cash flow information:	
Amortization expense	<u>\$ 531</u>
Net change in capital assets payable	<u>\$ (569,000)</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, 2021

	Private Purpose Trust
ASSETS	
Cash and cash equivalents	\$ -
Investments	<u>129,851</u>
Total assets	<u>129,851</u>
LIABILITIES	
Accounts payable	-
Other liabilities	<u>-</u>
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for cemetery	<u>\$ 129,851</u>

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, 2021

	Private Purpose Trust
ADDITIONS	
Investment income	<u>\$ 15,071</u>
Total additions	<u>15,071</u>
Less: investment expense	
Trust fees	1,135
Miscellaneous	<u>-</u>
Total investment expenses	<u>1,135</u>
Net increase (decrease) in net position	<u>13,936</u>
Net position, beginning	<u>115,915</u>
Net position, ending	<u>\$ 129,851</u>

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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 Unit – The component unit 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, 2021

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 balance/net position, 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. Proprietary fund types are used to account for operations that are financed and operated in a manner similar to business enterprises where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City no longer considers the payroll fund a fiduciary fund.

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 Trust 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 and sewer services. The operations of which are financed by user charges.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

Fiduciary Funds

The fiduciary fund consist of a Private Purpose Trust which provides information for the expendable cemetery trust.

C. Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses 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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

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

F. Accounts Receivable

The Water and Sewer 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 and are eliminated in the total column of the government-wide statement of net position.

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, 2021

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, 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. Due to COVID-19, the City allowed extensions of time limits on vacation time accruals through June 30, 2021 for employees who worked an average of 42 hours per week.

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, deferred outflows of resources, liabilities and deferred inflows of resources. 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, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance

Fund balance of the governmental funds is 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, or unassigned fund balance is available, the City considers amounts to have been spent first out of committed 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, 2021, fund balance is composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<i>Restricted:</i>			
Road surface repairs	\$ -	\$ 346,092	\$ 346,092
VPD debt service	567,026	-	567,026
Law enforcement	109,071	-	109,071
Cemetery permanent fund	-	734,367	734,367
<i>Committed:</i>			
Public safety	325,000	-	325,000
City hall repairs	45,000	-	45,000
Falling Springs	70,000	-	70,000
911	517,235	-	517,235
Unassigned	<u>5,927,034</u>	<u>-</u>	<u>5,927,034</u>
Total fund balances	<u>\$ 7,560,366</u>	<u>\$ 1,080,459</u>	<u>\$ 8,640,825</u>

R. Proprietary Revenues

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Change in Accounting Policy

In February 2017, the GASB issued Statement No. 84, Fiduciary Activities (“GASB 84”). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. GASB 84 is effective for the City beginning with its year ending June 30, 2021. The City applied the amendments of GASB No. 84 retrospectively by closing the Payroll Fund into the General Fund. The City’s fiduciary funds now solely consist of a private-purpose trust fund. In accordance with GASB 84, the Fiduciary Fund financial statements will include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

T. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 13, 2021, 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, 2021, have not been evaluated by the City.

2. CASH AND INVESTMENTS

The City’s investment policy follows applicable state statutes and allows the City to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies, and certain shares of mutual funds. 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, 2021, the City held investments in six municipal bonds. Ratings of the municipal bonds were as follows:

<u>Municipal Security</u>	<u>Rating</u>
Connecticut State Taxable Bonds, 2.921%, 4/15/23	Aa3
Port Authority New York & New Jersey Taxable Bond, 3.001%, 10/15/22	Aa3
New York State Urban Development Corporation Bonds, 2.670%, 3/15/23	Aa2
University Pittsburgh PA Higher Education Bonds, 2.532%, 9/15/22	Aa1
Menifee County KY School District Fin. Corporation Bonds, 1.500%, 5/1/25	A1
Pike County KY School District Fin. Corporation Bonds, 1.750%, 11/1/23	A1

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

2. CASH AND INVESTMENTS (CONTINUED)

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.

PRIMARY GOVERNMENT

At June 30, 2021, the City's bank balances were substantially covered by federal depository insurance or by collateral pledged. The City's bank balances totaled \$21,510,087 at June 30, 2021. As of June 30, 2021, \$2,684,367 was covered by FDIC or SIPC, \$16,551,344 was held as collateral by the custodial banks in the City's name and \$2,566,891 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, 2021, 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 \$3,121,236. As of June 30, 2021, \$750,000 was covered by FDIC or SIPC and \$830,930 was held as collateral by the custodial banks in the Corporation's name. The Corporation held the remaining balances in U.S. Treasury Obligations, which do not require collateral pledged.

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, 2021, are as follows:

Investment Type	Carrying Value	Investment Maturities (in Years)			
		1 year or less	1-5	6-10	More Than 10
Primary Government					
Certificates of deposit	\$ 3,272,505	\$ 3,239,500	\$ 33,005	\$ -	\$ -
U.S. govt. obligations	15,982	15,982	-	-	-
Mutual funds	592,945	592,945	-	-	-
Corporate bonds	125,440	-	-	125,440	-
Municipal bonds	<u>2,192,615</u>	-	<u>2,192,615</u>	-	-
Total	<u>\$ 6,199,487</u>	<u>\$ 3,848,427</u>	<u>\$ 2,225,620</u>	<u>\$ 125,440</u>	<u>\$ -</u>
Fiduciary Fund					
U.S. govt. obligations	\$ 4,703	\$ 4,703	\$ -	\$ -	\$ -
Mutual funds	3,423	3,423	-	-	-
Equities	<u>121,725</u>	<u>121,725</u>	-	-	-
Total	<u>\$ 129,851</u>	<u>\$ 129,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

2. CASH AND INVESTMENTS (CONTINUED)

Investment Valuation

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

For those investments measured at fair value, the investments' fair value measurements are as follows at June 30, 2021:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Primary Government				
U.S. Government Obligations	\$ 15,982	\$ 15,982	\$ -	\$ -
Mutual funds	592,945	592,945	-	-
Municipal bonds	2,192,615	-	2,192,615	-
Corporate bonds	125,440	-	125,440	-
Total	\$ 2,926,982	\$ 608,927	\$ 2,318,055	\$ -
Fiduciary Funds				
U.S. Government Obligations	\$ 4,703	\$ 4,703	\$ -	\$ -
Mutual funds	3,423	3,423	-	-
Equities	121,725	121,725	-	-
Total	\$ 129,851	\$ 129,851	\$ -	\$ -

Investments of \$3,272,505 are valued at cost and are not included in the above table.

3. ACCOUNTS RECEIVABLE

Receivables at June 30, 2021 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	\$ 51,823	\$ -	\$ 51,823
Licenses, permits, billings	1,535,260	-	1,535,260
Charges for service	3,657	-	3,657
Intergovernmental	76,230	18,828	95,058
Gross receivables	1,666,970	18,828	1,685,798
Less: allowance for uncollectible	(31,000)	-	(31,000)
Net receivables	\$ 1,635,970	\$ 18,828	\$ 1,654,798
Business-type Activities:			
Customer	\$ 1,125,237		
Less: allowance for uncollectible	(15,000)		
Net receivables	\$ 1,110,237		

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

4. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2021 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water & Sewer Fund	\$ 15,403

5. CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Capital assets not being depreciated:				
Land	\$ 2,518,184	\$ 38,000	\$ -	\$ 2,556,184
Construction in progress	<u>-</u>	<u>61,383</u>	<u>-</u>	<u>61,383</u>
Total	<u>2,518,184</u>	<u>99,383</u>	<u>-</u>	<u>2,617,567</u>
Capital assets being depreciated:				
Buildings and improvements	8,905,249	24,478	-	8,929,727
Equipment	2,224,125	215,030	(27,917)	2,411,238
Vehicles	3,899,442	227,181	(149,212)	3,977,411
Infrastructure	<u>26,146,823</u>	<u>-</u>	<u>-</u>	<u>26,146,823</u>
Total	<u>41,175,639</u>	<u>466,689</u>	<u>(177,129)</u>	<u>41,465,199</u>
Total capital assets	<u>43,693,823</u>	<u>566,072</u>	<u>(177,129)</u>	<u>44,082,766</u>
Less: accumulated depreciation				
Buildings and improvements	2,030,304	361,023	-	2,391,327
Equipment	1,693,698	126,983	(27,917)	1,792,764
Vehicles	3,012,474	294,992	(149,212)	3,158,254
Infrastructure	<u>10,452,155</u>	<u>1,345,147</u>	<u>-</u>	<u>11,797,302</u>
Total accumulated depreciation	<u>17,188,631</u>	<u>2,128,145</u>	<u>(177,129)</u>	<u>19,139,647</u>
Governmental activities capital assets, net	<u>\$ 26,505,192</u>	<u>\$ (1,562,073)</u>	<u>\$ -</u>	<u>\$ 24,943,119</u>

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

5. CAPITAL ASSETS (CONTINUED)

Business-type Activities

Capital assets not depreciated:

Land	\$ 320,125	\$ -	\$ -	\$ 320,125
Construction in progress	<u>23,242,977</u>	<u>442,647</u>	<u>(23,480,124)</u>	<u>205,500</u>
Total	<u>23,563,102</u>	<u>442,647</u>	<u>(23,480,124)</u>	<u>525,625</u>

Capital assets being depreciated:

Buildings	17,380,397	13,478	-	17,393,875
Equipment	1,211,180	164,344	(12,910)	1,362,614
Vehicles	538,178	21,750	-	559,928
Plant and utility systems	<u>47,651,834</u>	<u>23,493,401</u>	<u>-</u>	<u>71,145,235</u>
Total	<u>66,781,589</u>	<u>23,692,973</u>	<u>(12,910)</u>	<u>90,461,652</u>

Total capital assets	<u>90,344,691</u>	<u>24,135,620</u>	<u>(23,493,034)</u>	<u>90,987,277</u>
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Less: accumulated depreciation

Buildings	5,235,823	369,816	-	5,605,639
Equipment	807,739	86,425	(12,910)	881,254
Vehicles	434,283	44,407	-	478,690
Plant and utility systems	<u>18,368,292</u>	<u>1,677,554</u>	<u>-</u>	<u>20,045,846</u>
Total accumulated depreciation	<u>24,846,137</u>	<u>2,178,202</u>	<u>(12,910)</u>	<u>27,011,429</u>

Business-type activities capital

assets, net	<u>\$ 65,498,553</u>	<u>\$ 21,957,418</u>	<u>\$ (23,480,124)</u>	<u>\$ 63,975,848</u>
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Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:		Business-type activities:	
General government	\$ 17,607	Water	\$ 807,801
Police operations	527,194	Sewer	<u>1,370,401</u>
Fire department	159,383		
Street department	1,411,963	Total	<u>\$ 2,178,202</u>
Cemetery	<u>11,998</u>		
Total	<u>\$ 2,128,145</u>		

6. LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

BONDS PAYABLE

On June 27, 2019, the City entered into a General Obligation Bonds, Series 2019 for \$6,465,000. The bonds bear interest at a rate of 3.00%. The Bonds were used to pay off Bond Anticipation Notes, that were originally issued for construction on the new police department, and to fund the remaining cost of the new police department.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

The changes in general long-term debt during 2021 are as follows:

	July 1, 2020	Additions	Retirements	June 30, 2021
2019 GO bond – VPD	\$ 6,465,000	\$ -	\$ 240,000	\$ 6,225,000
Premium on GO bond – VPD	199,714	-	10,511	189,203
Net pension liability	16,076,796	1,131,419	-	17,208,215
Net OPEB liability	4,205,532	1,097,043	-	5,302,575
Long-term compensated absences	<u>376,077</u>	<u>-</u>	<u>10,699</u>	<u>365,378</u>
Total	<u>\$ 27,323,119</u>	<u>\$ 2,228,462</u>	<u>\$ 261,210</u>	<u>\$ 29,290,371</u>

The annual requirements to amortize general obligation bonds outstanding as of June 30, 2021, are as follows:

June 30,	Principal	Interest	Total
2022	\$ 245,000	\$ 183,075	\$ 428,075
2023	255,000	175,575	430,575
2024	265,000	167,775	432,775
2025	270,000	159,750	429,750
2026	280,000	151,500	431,500
2027-2031	1,525,000	625,125	2,150,125
2032-2036	1,775,000	377,625	2,152,625
2037-2040	<u>1,610,000</u>	<u>98,400</u>	<u>1,708,400</u>
	<u>\$ 6,225,000</u>	<u>\$ 1,938,825</u>	<u>\$ 8,163,825</u>

COMPLIANCE WITH BOND ORDINANCES

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

Sinking Fund

Amounts sufficient to pay the current principal and interest requirements are to be set aside each month. The City has restricted \$346,628 at June 30, 2021. Funds restricted previously for construction are now restricted for principal payments on debt obligations.

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. The new issue bears fixed interest at 3.00%-3.50%. At June 30, 2021, \$720,000 of the defeased bonds are still outstanding.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

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. The new issue bears fixed interest at 2.00%-2.70%. At June 30, 2021, \$3,745,000 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. The new issue bears fixed interest at 1.500%-2.375%. At June 30, 2021, \$4,590,000 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 were used for rehabilitation and repairs of the sanitary sewer system. The bonds bear fixed interest at 3.050%-4.000%.

On July 28, 2016, the City issued \$10,000,000 of Water and Sewer Revenue Bonds, Series 2016. The proceeds were used for expanding and upgrading the City's wastewater treatment plant. The bonds bear fixed interest at 2.00%-3.00%.

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. The bonds bear fixed interest at 3.000%-3.625%.

At June 30, 2021, the business-type activities had the following bonds and notes payable outstanding:

Description	Series	Amount	Current Portion
Revenue Bonds	2011	\$ 665,000	\$ 665,000
Revenue Bonds	2012	4,070,000	700,000
Revenue Bonds	2013	4,750,000	400,000
Revenue Bonds	2014	5,710,000	-
Revenue Bonds	2016	10,000,000	-
Revenue Bonds	2018	<u>14,440,000</u>	-
Total payable at par		39,635,000	<u>\$ 1,765,000</u>
Add: unamortized bond premium		138,516	
Less: current portion payable		<u>(1,765,000)</u>	
Total long-term portion		<u>\$ 38,008,516</u>	

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all revenue bonds and notes outstanding as of June 30, 2021, are as follows:

June 30,	Principal	Interest	Total
2022	\$ 1,765,000	\$ 1,195,813	\$ 2,960,813
2023	1,870,000	1,151,556	3,021,556
2024	1,920,000	1,107,741	3,027,741
2025	1,960,000	1,060,020	3,020,020
2026	1,970,000	1,011,978	2,981,978
2027-2031	10,100,000	4,232,571	14,332,571
2032-2036	11,895,000	2,425,168	14,320,168
2037-2039	<u>8,155,000</u>	<u>444,488</u>	<u>8,599,488</u>
	<u>\$ 39,635,000</u>	<u>\$ 12,629,335</u>	<u>\$ 52,264,335</u>

The changes in long-term debt during 2021 are as follows:

	July 1, 2020	Additions	Retirements	June 30, 2021
W&S revenue bonds	\$ 41,355,000	\$ -	\$ 1,720,000	\$ 39,635,000
Bond premium	137,985	531	-	138,516
Net pension liability	2,941,363	-	11,220	2,930,143
Net OPEB liability	703,250	219,374	-	922,624
Long-term compensated absences	<u>78,120</u>	<u>-</u>	<u>9,422</u>	<u>68,698</u>
Total	<u>\$ 45,215,718</u>	<u>\$ 219,905</u>	<u>\$ 1,740,642</u>	<u>\$ 43,694,981</u>

COMPLIANCE WITH BOND ORDINANCES

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

Water and Sewer Revenue Bond and Interest Redemption Account

Amounts sufficient to pay the current principal and interest requirements of the outstanding revenue bonds are to be set aside monthly in this account. The monthly payment is to be equal to one-sixth of the next interest payment and one-twelfth of the next principal payment as long as the required minimum balance, as noted below, has been met. If the required minimum balance has not been met the monthly payment must be equal to one-fifth of the next interest payment and one-tenth of the next principal payment. The City has restricted \$1,063,022 at June 30, 2021.

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. The City has restricted \$3,473,640 at June 30, 2021.

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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

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. The City has restricted \$100,605 at June 30, 2021.

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

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

COMPONENT UNIT

On 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 4.00-4.13%. Principal payments on the outstanding bonds, are payable on December 1 of each year and interest is payable on December 1 and June 1.

On December 27, 2018, the Public Properties Corporation issued \$4,790,000 in Series 2018 Revenue Refunding Bonds to finance construction, installation, and equipping spaces leased to KCTCS. The bond issue is payable solely from rental income and derived from a biennially renewable Lease Purchase Agreement between the Public Properties Corporation and KCTCS. The bonds bear interest at a fixed rate of 4.00%-5.00%. Principal payments on the outstanding bonds are payable on December 1 and June 1.

At June 30, 2021, the Corporation had the following bonds outstanding:

Description	Series	Amount	Current Portion
Revenue Refunding Bonds	2016	\$ 1,710,000	\$ 555,000
Revenue Refunding Bonds	2018	<u>4,325,000</u>	<u>250,000</u>
Total at par		6,035,000	<u>\$ 805,000</u>
Add: unamortized bond premiums		<u>250,334</u>	
		6,285,334	
Less: current portion payable		<u>(805,000)</u>	
Total long-term portion		<u>\$ 5,480,334</u>	

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all revenue bonds and leases outstanding as of June 30, 2021, are as follows:

June 30,	Principal	Interest	Total
2022	\$ 805,000	\$ 206,575	\$ 1,011,575
2023	830,000	182,575	1,012,575
2024	860,000	157,650	1,017,650
2025	290,000	137,675	427,675
2026	305,000	122,800	427,800
2027-2031	1,735,000	394,313	2,129,313
2032-2034	<u>1,210,000</u>	<u>69,825</u>	<u>1,279,825</u>
	<u>\$ 6,035,000</u>	<u>\$ 1,271,413</u>	<u>\$ 7,306,413</u>

The changes in long-term debt during 2021 are as follows:

	July 1, 2020	Additions	Retirements	June 30, 2021
KCTCS Revenue Bonds	<u>\$ 6,825,000</u>	<u>\$ _____</u>	<u>\$ 790,000</u>	<u>\$ 6,035,000</u>

7. 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.

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.

On December 27, 2018, the Public Properties Corporation issued \$4,790,000 in Series 2018 Revenue Bonds to fund construction, installation and equipping of additional office space leased to KCTCS. The bond issue is payable solely from rental income derived from a biennially renewable Lease Purchase Agreement, dated December 1, 2018, between the Public Properties Corporation and the Kentucky Community and Technical College System (KCTCS). The original lease commenced on December 1, 2018 and expired on June 30, 2020, and is renewable for seven additional terms of two years each to expire on December 1, 2033. The lease was renewed on June 30, 2020 for two years and will be renewable on June 30, 2022. KCTCS agrees to pay to the Public Properties Corporation monthly payments equal to the principal and interest due on the 2018 Revenue Bonds (\$36,018). 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 \$11,000 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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. PROJECT FINANCING (CONTINUED)

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

June 30,			
2022		\$	1,035,696
2023			1,035,696
2024			733,956
2025			432,216
2026			432,216
2027-2031			2,161,080
2032-2034			<u>1,044,520</u>
Net minimum lease payments			6,875,380
Less: amount representing interest			<u>(1,297,346)</u>
Present value of minimum lease payments		\$	<u>5,578,034</u>

8. 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, 2021, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% 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 9. Plan members contributed 19.30% to the pension trust for non-hazardous job classifications and 30.06% 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, 2021

8. RETIREMENT PLAN (CONTINUED)

Plan members who began participating on, or after, January 1, 2014, are 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, 2021, the City contributed \$494,376 or 100% of the required contribution for non-hazardous job classifications, and \$787,218, for the year ended June 30, 2021, or 100% of the required contribution for hazardous job classifications, to the same pension trust.

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	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+
	Reduced retirement	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, 2021

8. RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2021, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
<u>\$ 20,138,358</u>	<u>\$ 6,481,003</u>	<u>\$ 13,657,355</u>

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward using generally accepted actuarial procedures. 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, 2020, was as follows:

Non-hazardous	Hazardous
.084499%	.452975%

The proportionate share at June 30, 2020 decreased .006701% for non-hazardous and decreased .003312% for hazardous compared to the proportionate share as of June 30, 2019.

For the year ended June 30, 2021, the City recognized pension expense of \$3,276,836. At June 30, 2021, 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	\$ 585,184	\$ -
Changes of assumptions	771,036	-
Net difference between projected and actual earnings on Plan investments	469,847	-
Changes in proportion and differences between City contributions and proportionate share of contributions	115,892	330,640
City contributions subsequent to the measurement date	<u>1,218,070</u>	<u>-</u>
Total	<u>\$ 3,160,029</u>	<u>\$ 330,640</u>

The \$1,218,070 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, 2022. Contributions exclude \$63,524 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,

2022	\$	786,482
2023	\$	355,684
2024	\$	257,740
2025	\$	211,413

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

8. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Hazardous

Inflation	2.30%
Salary increases	3.55 to 19.05%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2020. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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 Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

8. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. 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 23-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%, 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%) or 1-percentage-point higher (7.25%) 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%	\$ 7,992,487	5.25%	\$ 16,878,546
Current discount rate	6.25%	\$ 6,481,003	6.25%	\$ 13,657,355
1% increase	7.25%	\$ 5,229,437	7.25%	\$ 11,028,012

Payable to the Pension Plan – At June 30, 2021, the City reported a payable of \$5,376 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 8, 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 8, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2021, the employer’s contribution was 4.76% to the insurance trust for non-hazardous job classifications and 9.52% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended 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, 2021

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

For the year ended June 30, 2021, the City contributed \$121,929, or 100% of the required contribution for non-hazardous job classifications, and \$253,824, 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, 2021, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net OPEB Liability	Non-hazardous	Hazardous
<u>\$ 6,225,199</u>	<u>\$ 2,039,814</u>	<u>\$ 4,185,385</u>

The net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward using generally accepted actuarial procedures. 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, 2020 was as follows:

Non-hazardous	Hazardous
.084474%	.452911%

The proportionate share at June 30, 2020 decreased .006703% for non-hazardous and decreased .003288% for hazardous compared to the proportionate share as of June 30, 2019.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

For the year ended June 30, 2021, the City recognized OPEB expense of \$996,124. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 484,436	\$ 759,032
Changes of assumptions	1,037,603	6,015
Net difference between projected and actual earnings on Plan investments	253,588	-
Changes in proportion and differences between City contributions and proportionate share of contributions	93,927	146,849
City contributions subsequent to the measurement date	<u>428,330</u>	<u>-</u>
 Total	 <u>\$ 2,297,884</u>	 <u>\$ 911,896</u>

The \$428,330 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, 2022. Contributions exclude \$17,152 of contributions for employees that previously retired and were subsequently re-employed. Contributions also include an allocation for the implicit subsidy of \$69,729, 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,	
2022	\$ 300,032
2023	\$ 193,785
2024	\$ 214,783
2025	\$ 199,204
2026	\$ 49,854

Actuarial Assumptions – The total OPEB liability in the June 30, 2020, 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	3.30 to 10.30%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend:	
Pre – 65:	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65:	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.25%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.34% and 5.30% 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 24-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 2.45%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index." 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, 2021

9. 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	4.34%	\$ 2,620,563	4.30%	\$ 5,681,551
Current discount rate	5.34%	\$ 2,039,814	5.30%	\$ 4,185,385
1% increase	6.34%	\$ 1,562,827	6.30%	\$ 2,979,779

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	\$	1,579,326	\$	2,990,999
Current trend rate	\$	2,039,814	\$	4,185,385
1% increase	\$	2,598,628	\$	5,653,780

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

10. 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, 2021:

Douglas Avenue/Crossfield Drive MUP - \$236,065

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

11. CONCENTRATIONS

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Five industrial companies generated approximately 34% of the City's occupational tax revenue. Four users generated approximately 16% of the utility operation's service revenue. Also, at June 30, 2021, approximately 11% of the utility operation's accounts receivable was due from four users.

12. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2021 were levied in September 2020 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

13. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

14. 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	\$ 4,442,167	\$ 4,218,956	\$ 223,211
Police Capital	<u>196,000</u>	<u>189,931</u>	<u>6,069</u>
 Total cost shared with County	 <u>\$ 4,638,167</u>	 <u>\$ 4,408,887</u>	 <u>\$ 229,280</u>

Classification and reporting per the above varies from the financial statements due to differences in classification between the interlocal agreement and generally accepted accounting principles.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

15. 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 345 new hires and Yokohama Industries America, Inc. is for up to 134 new hires. There were no revenues abated on either agreement during 2021.

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 2021, \$16,940 of revenue was abated.

16. COVID-19 PANDEMIC

During 2021, various restrictions were placed on travel and business across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The City is evaluating the impact of COVID-19 and related responses on the operations and finances of the City. Restrictions placed on the local businesses could negatively impact the City's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF VERSAILLES, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
GENERAL FUND
for the year ended June 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Property taxes	\$ 679,000	\$ 731,000	\$ 727,179	\$ (3,821)
License and permits	6,233,000	6,413,000	6,688,166	275,166
Intergovernmental revenues	2,085,565	4,397,111	2,873,007	(1,524,104)
Charges for services	91,000	101,000	126,784	25,784
Other income	<u>1,295,450</u>	<u>1,320,450</u>	<u>1,285,200</u>	<u>(35,250)</u>
 Total revenues	 <u>10,384,015</u>	 <u>12,962,561</u>	 <u>11,700,336</u>	 <u>(1,262,225)</u>
Expenditures				
Current				
General government	1,935,983	2,484,146	2,187,924	296,222
Merged police operations	4,442,167	4,442,167	4,189,450	252,717
Other police operations/grants	30,000	65,000	46,309	18,691
911 communications	901,380	901,380	832,872	68,508
Fire department	1,605,366	1,605,366	1,375,353	230,013
Street department	1,051,628	1,086,628	1,049,531	37,097
Cemetery department	328,909	328,909	311,096	17,813
Capital outlay	372,690	691,245	566,072	125,173
Debt service	<u>434,000</u>	<u>434,000</u>	<u>430,352</u>	<u>3,648</u>
 Total expenditures	 <u>11,102,123</u>	 <u>12,038,841</u>	 <u>10,988,959</u>	 <u>1,049,882</u>
Excess of Revenues Over (Under) Expenditures	 <u>(718,108)</u>	 <u>923,720</u>	 <u>711,377</u>	 <u>(212,343)</u>
Other Financing Sources (Uses)				
Proceeds from the sale of assets	-	-	28,575	28,575
Transfers	<u>-</u>	<u>-</u>	<u>20,639</u>	<u>20,639</u>
 Total Other Financing Sources (uses)	 <u>-</u>	 <u>-</u>	 <u>49,214</u>	 <u>49,214</u>
Excess of Revenues and Other Sources Over (Under) Expenditures	 <u>(718,108)</u>	 <u>923,720</u>	 <u>760,591</u>	 <u>(163,129)</u>
Fund Balance, July 1, 2020	<u>6,799,775</u>	<u>6,799,775</u>	<u>6,799,775</u>	<u>-</u>
Fund Balance, June 30, 2021	<u>\$ 6,081,667</u>	<u>\$ 7,723,495</u>	<u>\$ 7,560,366</u>	<u>\$ (163,129)</u>

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net pension liability	0.088599%	0.088599%	0.093242%	0.087756%	0.088281%	0.090752%	0.091200%	0.084499%
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	\$ 5,527,073	\$ 6,414,137	\$ 6,481,003
City's covered employee payroll	\$ 2,058,814	\$ 2,146,544	\$ 2,308,636	\$ 2,249,067	\$ 2,331,079	\$ 2,425,156	\$ 2,504,768	\$ 2,334,800
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%	227.91%	256.08%	277.58%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	59.97%	53.32%	53.54%	50.45%	47.81%

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 Eight Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net pension liability	0.482254%	0.482254%	0.483150%	0.440924%	0.417738%	0.459272%	0.456288%	0.452975%
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	\$ 11,107,296	\$ 12,604,022	\$ 13,657,355
City's covered employee payroll	\$ 2,489,255	\$ 2,543,977	\$ 2,595,363	\$ 2,458,224	\$ 2,478,969	\$ 2,750,780	\$ 2,809,570	\$ 2,727,223
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%	403.79%	448.61%	500.78%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	57.52%	49.78%	49.26%	46.63%	44.11%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 259,822	\$ 294,935	\$ 295,040	\$ 279,608	\$ 325,186	\$ 351,163	\$ 406,273	\$ 450,616	\$ 494,376
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>	<u>406,273</u>	<u>450,616</u>	<u>494,376</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<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	\$ 2,504,768	\$ 2,334,800	\$ 2,561,532
Employer contributions as a percentage of covered-employee payroll	12.62%	13.74%	12.78%	12.43%	13.95%	14.48%	16.22%	19.30%	19.30%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 500,340	\$ 553,824	\$ 538,019	\$ 497,695	\$ 538,184	\$ 610,673	\$ 698,740	\$ 819,803	\$ 787,218
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>	<u>698,740</u>	<u>819,803</u>	<u>787,218</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<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	\$ 2,809,570	\$ 2,727,223	\$ 2,618,822
Employer contributions as a percentage of covered-employee payroll	20.10%	21.77%	20.73%	20.25%	21.71%	22.20%	24.87%	30.06%	30.06%

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 Five Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net OPEB liability	0.087756%	0.088281%	0.090748%	0.091177%	0.084474%
City's proportionate share of the net OPEB liability (asset)	\$ 1,392,061	\$ 1,774,750	\$ 1,661,230	\$ 1,533,556	\$ 2,039,814
City's covered employee payroll	\$ 2,249,067	\$ 2,331,079	\$ 2,425,156	\$ 2,504,768	\$ 2,334,800
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	61.90%	76.13%	68.50%	61.23%	87.37%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%

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 Five Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net OPEB liability	0.440924%	0.417738%	0.459297%	0.456199%	0.452911%
City's proportionate share of the net OPEB liability (asset)	\$ 2,063,481	\$ 3,453,313	\$ 3,274,608	\$ 3,375,226	\$ 4,185,385
City's covered employee payroll	\$ 2,458,224	\$ 2,478,969	\$ 2,750,780	\$ 2,809,570	\$ 2,727,223
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	83.94%	139.30%	119.04%	120.13%	153.47%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 142,676	\$ 110,547	\$ 113,585	\$ 104,357	\$ 110,260	\$ 113,982	\$ 131,751	\$ 111,137	\$ 121,929
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>	<u>131,751</u>	<u>111,137</u>	<u>121,929</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<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	\$ 2,504,768	\$ 2,334,800	\$ 2,561,532
Employer contributions as a percentage of covered-employee payroll	6.93%	5.15%	4.92%	4.64%	4.73%	4.70%	5.26%	4.76%	4.76%

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

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

	2014	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 435,620	\$ 354,376	\$ 352,450	\$ 311,949	\$ 231,784	\$ 257,198	\$ 294,162	\$ 259,632	\$ 253,824
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>	<u>294,162</u>	<u>259,632</u>	<u>253,824</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<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	\$ 2,809,570	\$ 2,727,223	\$ 2,618,822
Employer contributions as a percentage of covered-employee payroll	17.50%	13.93%	13.58%	12.69%	9.35%	9.35%	10.47%	9.52%	9.69%

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

June 30, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years..

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average for non-hazardous and 3.05% to 3.55% to 19.05% on average for hazardous.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

June 30, 2017 – Pension and OPEB – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

CITY OF VERSAILLES, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2021

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

June 30, 2013 – Pension – Hazardous and Nonhazardous

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

SUPPLEMENTARY INFORMATION

**CITY OF VERSAILLES, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2021**

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
ASSETS			
Cash and cash equivalents	\$ 327,264	\$ -	\$ 327,264
Investments	-	734,367	734,367
Accounts receivable	18,828	-	18,828
 Total assets	 \$ 346,092	 \$ 734,367	 \$ 1,080,459
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
 Total liabilities	 -	 -	 -
FUND BALANCE			
Restricted	346,092	734,367	1,080,459
 Total fund balance	 346,092	 734,367	 1,080,459
 Total liabilities and fund balance	 \$ 346,092	 \$ 734,367	 \$ 1,080,459

CITY OF VERSAILLES, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2021

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental revenues	163,997	-	163,997
Charges for services	-	12,780	12,780
Other income	701	99,679	100,380
Total revenues	164,698	112,459	277,157
EXPENDITURES			
Current			
General government	-	-	-
Police department	-	-	-
Fire department	-	-	-
Street department	-	-	-
Cemetery department	-	4,341	4,341
Program expenses	-	-	-
Debt service	-	-	-
Capital outlay	-	-	-
Total expenditures	-	4,341	4,341
Excess of Revenues Over (Under) Expenditures	164,698	108,118	272,816
Other Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	-	(20,639)	(20,639)
Total other sources (uses)	-	(20,639)	(20,639)
Excess of Revenues and Other Sources Over (Under) Expenditures	164,698	87,479	252,177
Fund Balance, July 1, 2020	181,394	646,888	828,282
Fund Balance, June 30, 2021	\$ 346,092	\$ 734,367	\$ 1,080,459

**CITY OF VERSAILLES, KENTUCKY
GENERAL FUND
GENERAL OBLIGATION BOND AMORTIZATION SCHEDULE
SERIES 2019**

Fiscal Year	Interest Rate	Principal Payable by July 1	Interest Payable by July 1	Interest Payable by January 1	Total Principal and Interest
2021-22	3.00%	\$ 245,000	\$ 93,375	\$ 89,700	\$ 428,075
2022-23	3.00%	255,000	89,700	85,875	430,575
2023-24	3.00%	265,000	85,875	81,900	432,775
2024-25	3.00%	270,000	81,900	77,850	429,750
2025-26	3.00%	280,000	77,850	73,650	431,500
2026-27	3.00%	285,000	73,650	69,375	428,025
2027-28	3.00%	295,000	69,375	64,950	429,325
2028-29	3.00%	305,000	64,950	60,375	430,325
2029-30	3.00%	315,000	60,375	55,650	431,025
2030-31	3.00%	325,000	55,650	50,775	431,425
2031-32	3.00%	335,000	50,775	45,750	431,525
2032-33	3.00%	345,000	45,750	40,575	431,325
2033-34	3.00%	355,000	40,575	35,250	430,825
2034-35	3.00%	365,000	35,250	29,775	430,025
2035-36	3.00%	375,000	29,775	24,150	428,925
2036-37	3.00%	385,000	24,150	18,375	427,525
2037-38	3.00%	395,000	18,375	12,450	425,825
2038-39	3.00%	410,000	12,450	6,300	428,750
2039-40	3.00%	420,000	6,300	-	426,300
		<u>\$ 6,225,000</u>	<u>\$ 1,016,100</u>	<u>\$ 922,725</u>	<u>\$ 8,163,825</u>

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

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal Payable by December 1</u>	<u>Interest Payable by December 1</u>	<u>Interest Payable by June 1</u>	<u>Total Principal and Interest</u>
2021-22	3.500%	\$ <u>665,000</u>	\$ <u>11,638</u>	\$ <u>-</u>	\$ <u>676,638</u>
	Totals	\$ <u>665,000</u>	\$ <u>11,638</u>	\$ <u>-</u>	\$ <u>676,638</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>
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>\$ 4,070,000</u>	<u>\$ 140,008</u>	<u>\$ 88,972</u>	<u>\$ 4,298,980</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>
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>\$ 4,750,000</u>	<u>\$ 198,135</u>	<u>\$ 145,438</u>	<u>\$ 5,093,573</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>
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
2028-29	3.350%	675,000	82,269	70,963	828,232
2029-30	3.500%	695,000	70,963	58,800	824,763
2030-31	3.650%	720,000	58,800	45,660	824,460
2031-32	3.800%	750,000	45,660	31,410	827,070
2032-33	3.900%	780,000	31,410	16,200	827,610
2033-34	4.000%	<u>810,000</u>	<u>16,200</u>	<u>-</u>	<u>826,200</u>
	Totals	<u>\$ 5,710,000</u>	<u>\$ 1,013,902</u>	<u>\$ 911,301</u>	<u>\$ 7,635,203</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>
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
2028-29	2.250%	615,000	127,247	120,713	862,960
2029-30	3.000%	630,000	120,713	113,625	864,338
2030-31	3.000%	645,000	113,625	103,950	862,575
2031-32	3.000%	665,000	103,950	93,975	862,925
2032-33	3.000%	685,000	93,975	83,700	862,675
2033-34	3.000%	705,000	83,700	73,125	861,825
2034-35	3.000%	1,575,000	73,125	49,500	1,697,625
2035-36	3.000%	1,625,000	49,500	25,125	1,699,625
2036-37	3.000%	1,675,000	25,125	-	1,700,125
		<u>\$ 10,000,000</u>	<u>\$ 1,758,489</u>	<u>\$ 1,619,442</u>	<u>\$ 13,377,931</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
2021-22	3.000%	\$ -	\$ 252,644	\$ 252,644	\$ 505,288
2022-23	3.000%	-	252,644	252,644	505,288
2023-24	3.000%	-	252,644	252,644	505,288
2024-25	3.000%	-	252,644	252,644	505,288
2025-26	3.000%	-	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
2028-29	3.500%	725,000	231,569	218,881	1,175,450
2029-30	3.500%	750,000	218,881	205,756	1,174,637
2030-31	3.500%	780,000	205,756	192,106	1,177,862
2031-32	3.500%	805,000	192,106	178,019	1,175,125
2032-33	3.500%	830,000	178,019	163,494	1,171,513
2033-34	3.500%	860,000	163,494	148,444	1,171,938
2034-35	3.500%	890,000	148,444	132,869	1,171,313
2035-36	3.500%	915,000	132,869	116,856	1,164,725
2036-37	3.500%	950,000	116,856	100,231	1,167,087
2037-38	3.625%	2,715,000	100,231	51,022	2,866,253
2038-39	3.625%	2,815,000	51,022	-	2,866,022
		<u>\$ 14,440,000</u>	<u>\$ 3,497,330</u>	<u>\$ 3,244,686</u>	<u>\$ 21,182,016</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>
2021-22	2.00%	\$ 555,000	\$ 17,100	\$ 11,550	\$ 583,650
2022-23	2.00%	570,000	11,550	5,850	587,400
2023-24	2.00%	<u>585,000</u>	<u>5,850</u>	<u>-</u>	<u>590,850</u>
		<u>\$ 1,710,000</u>	<u>\$ 34,500</u>	<u>\$ 17,400</u>	<u>\$ 1,761,900</u>

**CITY OF VERSAILLES, KENTUCKY
 COMPONENT UNIT - PUBLIC PROPERTIES CORPORATION
 REVENUE REFUNDING BONDS
 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
2021-22	5.00%	\$ 250,000	\$ 92,088	\$ 85,838	\$ 427,926
2022-23	5.00%	260,000	85,838	79,338	425,176
2023-24	5.00%	275,000	79,338	72,463	426,801
2024-25	5.00%	290,000	72,463	65,213	427,676
2025-26	5.00%	305,000	65,213	57,588	427,801
2026-27	5.00%	320,000	57,588	49,588	427,176
2027-28	4.00%	335,000	49,588	42,888	427,476
2028-29	4.00%	345,000	42,888	35,988	423,876
2029-30	4.00%	360,000	35,988	28,788	424,776
2030-31	3.50%	375,000	28,788	22,225	426,013
2031-32	3.50%	390,000	22,225	15,400	427,625
2032-33	3.50%	400,000	15,400	8,400	423,800
2033-34	4.00%	420,000	8,400	-	428,400
		<u>\$ 4,325,000</u>	<u>\$ 655,805</u>	<u>\$ 563,717</u>	<u>\$ 5,544,522</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 Mayor and City Council
City of Versailles, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of and for the year ended June 30, 2021, 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 December 13, 2021.

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) as a basis for designing 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 deficiency in internal controls, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2021-001).

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 financial statements. 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
December 13, 2021



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and City Council
City of Versailles, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Versailles, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Versailles, Kentucky's major federal programs for the year ended June 30, 2021. City of Versailles, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Versailles, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Versailles, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Versailles, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Versailles, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the City of Versailles, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Versailles, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Versailles, Kentucky's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
December 13, 2021

CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2021

GRANTOR/PROGRAM TITLE	Federal AL Number	Pass/Through Contract Number	Grant Contract Period	Passed Through to Subrecipients	Expenditures
U.S. Department of the Treasury (TREAS) Passed through the Kentucky Department for Local Government COVID-19 - Coronavirus Relief Fund for States	21.019	N/A	7/1/2020-6/30/2021	\$ -	\$ 702,130
Total U.S. Department of the Treasury				\$ -	\$ 702,130
U.S. Department of Justice Equitable Sharing Program	16.922	N/A	7/1/2020-6/30/2021	\$ -	\$ 24,454
Total U.S. Department of Justice				\$ -	\$ 24,454
U.S. Department of Transportation Passed through the Kentucky Transportation Cabinet Highway Planning and Construction	20.205	N/A	7/1/2020-6/30/2021	\$ -	\$ 19,210
State and Community Highway Safety	20.600	N/A	7/1/2020-6/30/2021	-	8,512
Total U.S. Department of Transportation				\$ -	\$ 27,722
U.S. Department of Homeland Security COVID-19 - Assistance to Firefighters Grant	97.044	N/A	7/1/2020-6/30/2021	\$ -	\$ 7,877
Total U.S. Department of Homeland Security				\$ -	\$ 7,877
Total federal awards expended				\$ -	\$ 762,183

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Versailles, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

Note 2 - Indirect Cost Rates

The City did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2021**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses XYes __None reported

Non-compliance material to financial statements noted __Yes XNo

Federal Awards:

Internal control over major programs:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses __Yes XNone reported

Type of auditor's report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR 200.516(a)? __Yes XNo

Major Program:

AL Numbers	Name of Federal Program or Cluster
21.019	COVID-19 - Coronavirus Relief Fund

Dollar threshold used to distinguish between type A
and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? __Yes XNo

CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2021

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2021-001 – Significant Deficiency – Capital Asset Recording

Criteria: The City is responsible for establishing and maintaining effective internal controls over the capital asset recording process of the City.

Condition: During our audit, we identified material misstatements that were not identified by the City's internal controls over financial reporting of capital assets. Several large water and sewer projects were completed during 2021, but the City failed to recognize that the assets were placed in service.

Cause: The City failed to recognize the completion of ongoing construction projects and begin depreciation on these assets that were placed in service during the year.

Effect: The City required accounting adjustments to ensure the capital assets were properly stated in accordance with generally accepted accounting principles. Adjustments include additional depreciation expense for \$417,692 in the Water and Sewer Fund.

Recommendation: We recommend management review capital asset activity and the depreciation schedule prior to the audit and ensure all completed construction projects are properly recorded and depreciated.

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. 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. In addition, the City Treasurer has implemented a plan with the outside CPA firm to perform a mid-year review which will include a compressive review of the audit adjustments and development of a plan to address each one.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

Finding 2020-001 – Material Weakness – Audit Adjustments

Audit adjustments were necessary to properly record receivables, payables, expenses, revenues, and deferred revenue.

Status: The City made improvements with finding and it was significantly resolved; however, material adjustments were necessary related to capital assets and related depreciation (2021-001).