

CITY OF VERSAILLES
Versailles, Kentucky

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**
June 30, 2011

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City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2011

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, 2011. Please read the following in conjunction with the auditors' report on page 12 and the City's financial statements, which begin on page 14.

Using This Annual Report

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

Reporting the City as a Whole

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

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

In the Statement of Net Assets 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, 2011

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 of 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 Assets and the Statement of Activities. In fact, the City's water, sewer and sanitation fund (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

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

Notes to the Financial Statements

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

Other Information

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

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2011

Financial Analysis of the City as a Whole

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|----------------------------|---------------|-----------------------------|----------------|-----------------------------|----------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Current & Other Assets | \$ 4.3 | \$ 3.5 | \$ 2.2 | \$ 2.6 | \$ 6.5 | \$ 6.1 |
| Capital Assets | 4.4 | 6.2 | 46.9 | 49.4 | 51.3 | 55.6 |
| Total Assets | <u>8.7</u> | <u>9.7</u> | <u>49.1</u> | <u>52.0</u> | <u>57.8</u> | <u>61.7</u> |
| Long Term Debt Outstanding | 0.2 | 0.2 | 22.3 | 22.7 | 22.5 | 22.9 |
| Current Liabilities | 0.7 | 0.4 | 1.6 | 2.0 | 2.3 | 2.4 |
| Total Liabilities | <u>0.9</u> | <u>0.6</u> | <u>23.9</u> | <u>24.7</u> | <u>24.8</u> | <u>25.3</u> |
| Invested in Capital Assets, Net of Debt | 4.4 | 6.2 | 19.3 | 21.7 | 23.7 | 27.9 |
| Restricted | 0.7 | 0.7 | 3.9 | 3.6 | 4.6 | 4.3 |
| Unrestricted | 2.7 | 2.2 | 2.0 | 2.0 | 4.7 | 4.2 |
| Total Net Assets | <u>\$ 7.8</u> | <u>\$ 9.1</u> | <u>\$ 25.2</u> | <u>\$ 27.3</u> | <u>\$ 33.0</u> | <u>\$ 36.4</u> |

The City's total governmental net assets increased from \$7.8 at 2010 to \$9.1 at 2011. This fluctuation is largely due to current year capital projects such as Crossfield Drive and Dan Court/Dan Drive. These projects were funded by grant revenues from the State of Kentucky.

In the business-type activity (Enterprise Fund), total net assets increased by approximately \$2.1 million, primarily due to current year capital projects such as the Clifton/McCracken Pike water line extension, interceptor sewer system and pump stations and the purchase of the Grassy Springs Farm property. These projects were funded by current year grant proceeds from the State of Kentucky and/or with prior year funds designated for capital projects.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2011

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|----------------------------------|-------------------------|----------------|--------------------------|----------------|--------------------------|----------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Revenues: | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 0.1 | \$ 0.1 | \$ 5.2 | \$ 5.6 | \$ 5.3 | \$ 5.7 |
| Operating Grants & Contributions | 1.6 | 1.6 | 0.0 | 0.0 | 1.6 | 1.6 |
| Capital Grants & Contributions | 0.4 | 2.2 | 0.1 | 1.2 | 0.5 | 3.4 |
| Investment Earnings | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| General Revenues | | | | | | |
| Taxes | 0.6 | 0.6 | 0.0 | 0.0 | 0.6 | 0.6 |
| Licenses | 4.2 | 4.3 | 0.0 | 0.0 | 4.2 | 4.3 |
| Intergovernmental | 0.6 | 0.5 | 0.0 | 0.0 | 0.6 | 0.5 |
| Other Revenues | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 |
| Total Revenue | \$ 7.7 | \$ 9.5 | \$ 5.4 | \$ 6.9 | \$ 13.1 | \$ 16.4 |
| Expenses: | | | | | | |
| Program Expenses | | | | | | |
| General Government | \$ 1.6 | \$ 1.5 | \$ - | \$ - | \$ 1.6 | \$ 1.5 |
| Police & 911 | 4.5 | 4.5 | 0.0 | 0.0 | 4.5 | 4.5 |
| Fire | 1.0 | 1.0 | 0.0 | 0.0 | 1.0 | 1.0 |
| Streets | 0.8 | 1.0 | 0.0 | 0.0 | 0.8 | 1.0 |
| Cemetery | 0.3 | 0.3 | 0.0 | 0.0 | 0.3 | 0.3 |
| Water/Sewer/Sanitation | 0.0 | 0.0 | 4.8 | 4.9 | 4.8 | 4.9 |
| Total Expenses | 8.2 | 8.3 | 4.8 | 4.9 | 13.0 | 13.2 |
| Change in Net Assets | \$ (0.50) | \$ 1.20 | \$ 0.60 | \$ 2.00 | \$ 0.10 | \$ 3.20 |

Governmental activity revenue increased by approximately \$1.8 million from 2010 to 2011; as shown in Table A-2. The increase in revenue was a result of capital grant revenue.

Business-type activity (enterprise) revenues increased from \$5.4 million in 2010 to \$6.9 million in 2011, mainly due to an increase in water, sewer and sanitation rates. Additionally, the City received \$1.2 million in grant revenue for capital projects.

Overall, governmental activity expenses increased from \$8.2 million to \$8.3 million, which was mainly attributable to the increase in the employee benefit retirement contribution rate and other overall economic inflationary factors. Business-type activity expenses increased from \$4.8 in 2010, to \$4.9 in 2011. This increase is also a reflection in an overall inflationary increase in general operating expenses.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2011

Governmental Activities

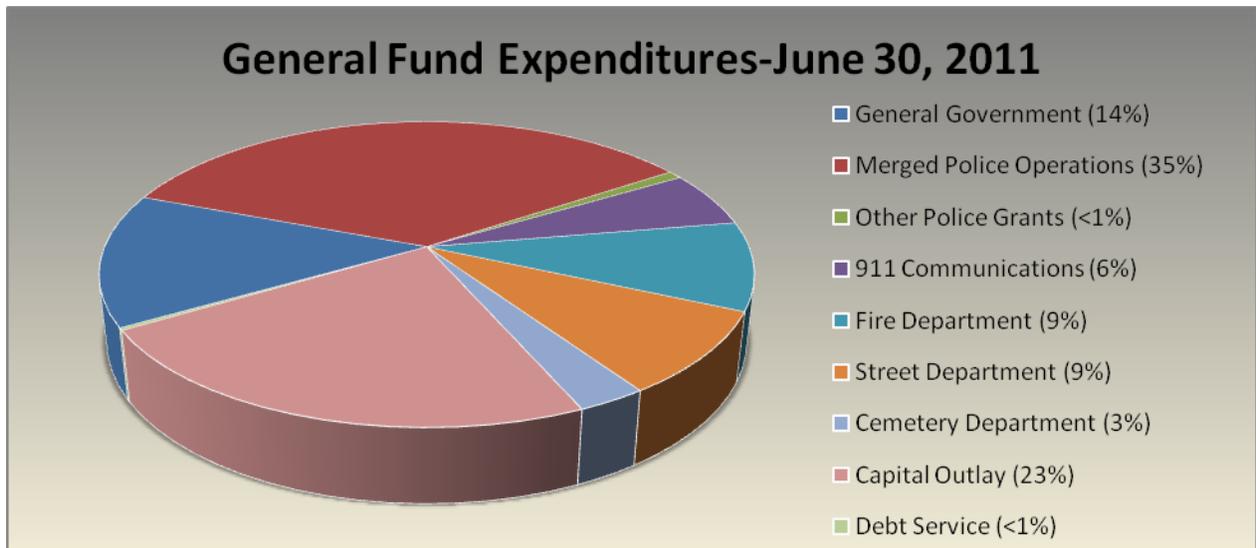
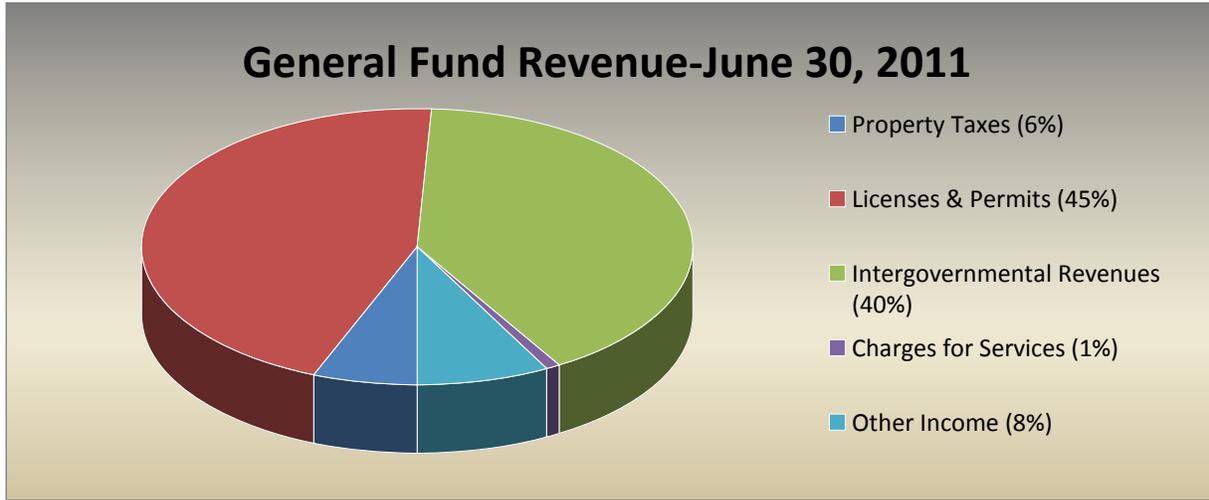
Table A-3 details a condensed statement of the fiscal year's governmental activities according to the governmental fund statements shown on pages 16 and 17 and in the supplementary information on page 42.

| Table A-3 | | | | | |
|---|---------------------|--|----------------------|--|---------------------|
| Condensed Governmental Activities - Revenues and Expenditures | | | | | |
| | 2010 | | 2011 | | Change |
| Revenues: | | | | | |
| Taxes | \$ 583,832 | | \$ 579,291 | | \$ (4,541) |
| Licenses and Permits | 4,262,805 | | 4,237,619 | | (25,186) |
| Intergovernmental | 2,015,936 | | 3,826,107 | | 1,810,171 |
| Charges for Services | 79,201 | | 83,827 | | 4,626 |
| Other Income | 811,213 | | 729,754 | | (81,459) |
| Total Revenues | \$ 7,752,987 | | \$ 9,456,598 | | \$ 1,703,611 |
| Expenditures: | | | | | |
| General Government | \$ 1,427,840 | | \$ 1,417,245 | | \$ (10,595) |
| Police Department | 3,484,390 | | 3,500,451 | | 16,061 |
| Other Police and Grants | 111,510 | | 83,600 | | (27,910) |
| 911 Communications | 583,753 | | 591,367 | | 7,614 |
| Fire Department | 918,946 | | 939,112 | | 20,166 |
| Street Department | 754,231 | | 884,986 | | 130,755 |
| Cemetery Department | 285,865 | | 294,587 | | 8,722 |
| Capital Outlay | 391,630 | | 2,309,798 | | 1,918,168 |
| Debt Service | 25,598 | | 25,598 | | 0 |
| Total Expenditures | \$ 7,983,763 | | \$ 10,046,744 | | \$ 2,062,981 |

The information above shows that revenues for governmental fund increased by approximately \$1.7 million from 2010 to 2011. As previously stated, this increase was a result of an increase in grant money received related to capital projects.

Expenses increased by approximately \$2.1 million from 2010 to 2011. As previously stated, the bulk of the increase was attributable to the increase in additional capital outlay projects totaling approximately \$1.9 million. Also of note to the Street Department expenses, the Municipal Aid Road Fund monies in the amount of \$148,898 were not expended during the fiscal year. When this is taken into consideration, the Street Department's net affect is a change of (\$18,143).

City of Versailles, Kentucky
 Management's Discussion and Analysis (MD&A)(Continued)
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Budget Highlights

The City's fiscal year budget was amended mid-year to include additional revenues received in the amount approximately \$750,000 for the Crossfield Drive project, the 2010 Firefighters Assistance Grant revenue and various police department grant revenue sources. Total amended revenues for General Fund were approximately \$1.3 million. Operating and/or Capital Expenses of the General Fund were amended to Crossfield Drive related expenses, Grassy Springs related purchase expenses and amendments to existing operating budget line-items such as road salt, motor fuels and overtime expenses related to salt spreading. In the Enterprise Fund, the budget was also amended to include a portion of Grassy Springs Farm purchase expense, final payment for the sewer flush truck, as well as adjusting existing operating budget line items due to inflation.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2011

Table A-4
General Fund - Budget & Actual

| | Budget | Actual | Difference |
|------------------------------------|----------------------|---------------------|---------------------|
| Property Taxes | \$ 608,000 | \$ 579,291 | \$ (28,709) |
| Licenses and Permits | 4,176,000 | 4,237,619 | 61,619 |
| Intergovernmental | 3,695,056 | 3,660,509 | (34,547) |
| Charges for Services | 71,000 | 76,937 | 5,937 |
| Other Income | 1,034,000 | 678,710 | (355,290) |
| Total Revenues | \$ 9,584,056 | \$ 9,233,066 | \$ (350,990) |
| General Fund - Expenditures | | | |
| General Government | \$ 1,571,168 | \$ 1,417,245 | \$ (153,923) |
| Merged Police Operations | 3,791,595 | 3,500,451 | (291,144) |
| Other Police Grants | 0 | 83,600 | 83,600 |
| 911 Communications | 642,994 | 591,367 | (51,627) |
| Fire Department | 941,960 | 939,112 | (2,848) |
| Street Department | 839,700 | 736,088 | (103,612) |
| Cemetery Department | 316,850 | 291,565 | (25,285) |
| Capital Outlay | 2,186,853 | 2,309,798 | 122,945 |
| Debt Service | 0 | 25,598 | 25,598 |
| Total Expenditures | \$ 10,291,120 | \$ 9,894,824 | \$ (396,296) |

The City budgeted \$9.5 million in revenues for 2011 and generated \$9.3 million. Licenses and permits revenue showed an increase of \$61,619 which was a result of increase enforcement and check and balance processes put in place with the Kentucky Department of Insurance to further review insurance premium tax. Also, bank and utility franchise taxes were increased. There was a decrease in the collection of property taxes most attributable to foreclosures and economic factors. Budgeted amounts for "Other Income" included show a budget line-item for "carry-over" from 2010 for the 911 cash account in the amount of \$370,000. This item is required to be reported by the State as a budget line item, but are not actual anticipated revenues to be received by the City. When the \$370,000 is netted against the total "difference" amount of (\$350,990) as shown above, the net effect of total revenues (budgeted to actual) is a positive \$19,010.

The City budgeted \$10.2 million in expenditures, but actually expended only \$9.8. Contributing factors to expenses being decreased as a whole, was partly due to salaries and benefits being below their budgeted amounts in the Clerk's office and Police Department. There were several budgeted line-item expenses in the various General Fund departments that were under budget, which would indicate that each department was conservative in administering their fiscal year budgets.

Other factors contributing to the expenditures being less than budgeted would include the asset forfeiture revenues and expenses, which cannot be anticipated at budget preparation time. Additionally, Capital Outlay expenditures show an increase of \$122,945 (budget versus actual), which ultimately occurs because of the purchase of Grassy Springs property, which expended both funds from General Fund and Enterprise Fund.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2011

| | Budget | Actual | Difference |
|-----------------------|---------------------|---------------------|-----------------------|
| Charges for Services | \$ 5,046,500 | \$ 5,510,090 | \$ 463,590 |
| Grants/Bond Sources | 2,840,000 | 1,121,901 | (1,718,099) |
| Interest Income | 18,000 | 110,224 | 92,224 |
| Other Income | 60,000 | 87,639 | 27,639 |
| Total Revenues | \$ 7,964,500 | \$ 6,829,854 | \$ (1,134,646) |

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

| | Budget | Actual | Difference |
|----------------------------|---------------------|---------------------|------------------|
| Salaries | \$ 575,500 | \$ 572,898 | \$ (2,602) |
| Payroll Taxes | 45,000 | 40,051 | (4,949) |
| Employee benefits | 139,900 | 132,558 | (7,342) |
| Advertising and printing | 6,500 | 1,869 | (4,631) |
| Professional and technical | 15,000 | 16,544 | 1,544 |
| Repairs and maintenance | 102,000 | 112,215 | 10,215 |
| Utilities | 275,000 | 362,286 | 87,286 |
| Telephone and postage | 22,500 | 21,825 | (675) |
| Insurance | 49,900 | 47,901 | (1,999) |
| Chemicals | 140,000 | 138,185 | (1,815) |
| Uniforms | 3,500 | 2,703 | (797) |
| Motor fuel | 20,000 | 27,337 | 7,337 |
| Office supplies | 3,000 | 3,731 | 731 |
| Other materials | 17,000 | 25,910 | 8,910 |
| Other expenses | 143,600 | 107,653 | (35,947) |
| Purchase of water | 10,000 | 16,067 | 6,067 |
| Training/travel | 5,000 | 5,732 | 732 |
| Lab analysis | 22,000 | 20,634 | (1,366) |
| Purchase of water meters | 20,000 | 27,714 | 7,714 |
| Misc expense | 20,000 | 3,075 | (16,925) |
| Total Expenditure | \$ 1,635,400 | \$ 1,686,888 | \$ 51,488 |

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2011

| Table A-7 | | | | |
|---|---------------------|--|---------------------|--------------------|
| Enterprise Fund - Sewer Department Expenditures - Budget & Actual | | | | |
| | Budget | | Actual | Difference |
| Salaries | \$ 432,000 | | \$ 399,964 | \$ (32,036) |
| Payroll Taxes | 33,500 | | 28,613 | (4,887) |
| Employee benefits | 107,400 | | 99,793 | (7,607) |
| Advertising and printing | 5,000 | | 1,970 | (3,030) |
| Professional and technical | 20,000 | | 6,289 | (13,711) |
| Repairs and maintenance | 150,000 | | 134,004 | (15,996) |
| Utilities | 150,000 | | 184,429 | 34,429 |
| Telephone and postage | 20,700 | | 18,708 | (1,992) |
| Insurance | 32,000 | | 33,783 | 1,783 |
| Chemicals | 32,000 | | 42,631 | 10,631 |
| Uniforms | 3,000 | | 1,843 | (1,157) |
| Motor fuel | 17,000 | | 19,238 | 2,238 |
| Office supplies | 1,500 | | 1,773 | 273 |
| Other materials | 2,500 | | 8,410 | 5,910 |
| Other expenses | 58,600 | | 8,986 | (49,614) |
| Sludge removal | 69,000 | | 101,257 | 32,257 |
| Misc expense | 10,000 | | 70 | (9,930) |
| Training/travel | 3,500 | | 2,356 | (1,144) |
| Lab analysis | 30,000 | | 23,042 | (6,958) |
| Dumpster collection | 3,000 | | 2,481 | (519) |
| Total Expenditures | \$ 1,180,700 | | \$ 1,119,640 | \$ (61,060) |

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2011

| | Budget | Actual | Difference |
|---------------------------|-------------------|-------------------|-------------------|
| Salaries | \$ 227,500 | \$ 227,982 | \$ 482 |
| Payroll Taxes | 17,800 | 16,519 | (1,281) |
| Employee benefits | 60,100 | 51,780 | (8,320) |
| Advertising and printing | 3,000 | 1,809 | (1,191) |
| Repairs and maintenance | 20,000 | 15,487 | (4,513) |
| Utilities | 3,000 | 3,347 | 347 |
| Telephone and postage | 7,900 | 8,206 | 306 |
| Insurance | 22,000 | 20,334 | (1,666) |
| Uniforms | 2,000 | 1,830 | (170) |
| Motor fuel | 25,000 | 24,743 | (257) |
| Other materials | 3,000 | 2,829 | (171) |
| Landfill expense | 153,000 | 162,585 | 9,585 |
| Total Expenditures | \$ 544,300 | \$ 537,451 | \$ (6,849) |

Capital Assets

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

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-----------------------------|-------------------------|--------------|--------------------------|---------------|--------------------------|---------------|
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| | Land | \$1.5 | \$1.5 | \$0.2 | \$2.1 | \$1.7 |
| Buildings & Improvements | 0.8 | 1.0 | 28.1 | 27.3 | 28.9 | 28.3 |
| Equipment | 0.9 | 0.8 | 0.6 | 0.4 | 1.5 | 1.2 |
| Vehicles | 0.7 | 0.5 | 0.1 | 0.1 | 0.8 | 0.6 |
| Construction in Progress | 0.5 | 2.4 | 13.7 | 15.5 | 14.2 | 17.9 |
| Total Capital Assets | \$4.4 | \$6.2 | \$42.7 | \$45.4 | \$47.1 | \$51.6 |

City of Versailles, Kentucky
 Management's Discussion and Analysis (MD&A)(Continued)
 June 30, 2011

Debt

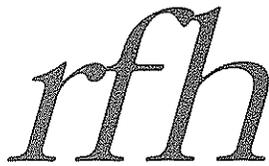
| Table A-10 | | | | | | |
|--|----------------------------|-------------|-----------------------------|----------------|-----------------------------|----------------|
| Table A-6 provides a summary of all the City's outstanding indebtedness. | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
| | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 |
| Notes Payable | \$ 0.1 | \$ - | \$ - | \$ - | \$ 0.1 | \$ - |
| Bonds Payable | - | - | 23.3 | 23.8 | 23.3 | 23.8 |
| Total Debt Outstanding | \$ 0.1 | \$ - | \$ 23.3 | \$ 23.8 | \$ 23.4 | \$ 23.8 |

Economic Factors and Next Year's Budget and Rates

The City's elected officials and Mayor considered many factors when setting the fiscal year 2011 budget. Some of the contributing factors were the local economy and trend, anticipated grant revenues, and the ever-rising costs of retirement and health insurance expenses.

Contacting the City's Financial Management

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

Honorable Fred Siegelman, Mayor
and the City Council
City of Versailles, Kentucky

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA/PFS
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Versailles, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Versailles, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2011, on our consideration of the City of Versailles, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 11 and 40 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.

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www.rfhco.com

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Versailles, Kentucky's financial statements as a whole. The combining nonmajor fund financial statements, and long-term debt schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 31, 2011

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2011

| | Primary Government | | | Component Unit Public Properties |
|---|----------------------------|-----------------------------|----------------------|--|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 557,723 | \$ 415,054 | \$ 972,777 | \$ 1,809 |
| Investments | 2,508,054 | 400,000 | 2,908,054 | - |
| Accounts receivable (net) | 1,069,712 | 702,620 | 1,772,332 | - |
| Grants receivable | 82,971 | 98,143 | 181,114 | - |
| Accrued interest receivable | - | 592 | 592 | - |
| Current lease receivable (net) | - | - | - | 411,058 |
| Other receivables | 137,089 | - | 137,089 | - |
| Inventories | - | 109,963 | 109,963 | - |
| Internal balances | (833,091) | 833,091 | - | - |
| Total current assets | <u>3,522,458</u> | <u>2,559,463</u> | <u>6,081,921</u> | <u>412,867</u> |
| Noncurrent assets | | | | |
| Restricted cash and cash equivalents | - | 1,917,690 | 1,917,690 | 787,829 |
| Restricted investments | - | 1,708,846 | 1,708,846 | - |
| Capital assets | | | | |
| Construction in progress | 2,389,639 | 15,463,477 | 17,853,116 | - |
| Land and improvements | 1,529,735 | 2,106,509 | 3,636,244 | - |
| Plant and utility systems, net | - | 27,844,775 | 27,844,775 | - |
| Depreciable buildings, property, and equipment, net | 2,252,984 | - | 2,252,984 | - |
| Long term lease receivable (net) | - | - | - | 5,676,214 |
| Other assets | - | 367,956 | 367,956 | 121,590 |
| Total noncurrent assets | <u>6,172,358</u> | <u>49,409,253</u> | <u>55,581,611</u> | <u>6,585,633</u> |
| Total assets | <u>\$ 9,694,816</u> | <u>\$ 51,968,716</u> | <u>\$ 61,663,532</u> | <u>\$ 6,998,500</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 95,137 | \$ 522,254 | \$ 617,391 | \$ 3,349 |
| Accrued leave payable | 900 | 14,433 | 15,333 | - |
| Accrued payroll liabilities | 32,402 | 8,614 | 41,016 | - |
| Other accrued liabilities | 39,038 | 18,438 | 57,476 | - |
| Accrued interest payable | - | 90,683 | 90,683 | 47,255 |
| Deposits | - | 219,978 | 219,978 | - |
| Deferred revenue | 174,886 | - | 174,886 | 541,989 |
| Current portion of long-term obligation | 24,609 | 1,181,387 | 1,205,996 | 371,228 |
| Total current liabilities | <u>366,972</u> | <u>2,055,787</u> | <u>2,422,759</u> | <u>963,821</u> |
| Noncurrent liabilities | | | | |
| Noncurrent portion of long-term obligations | | | | |
| Compensated absences | 241,000 | 57,000 | 298,000 | - |
| Bonds and notes payable | - | 22,608,614 | 22,608,614 | 5,873,507 |
| Total liabilities | <u>607,972</u> | <u>24,721,401</u> | <u>25,329,373</u> | <u>6,837,328</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 6,172,358 | 21,624,760 | 27,797,118 | - |
| Restricted for | | | | |
| Debt service and construction | - | 3,612,036 | 3,612,036 | - |
| Other purposes | 748,908 | - | 748,908 | 161,172 |
| Unrestricted | 2,165,578 | 2,010,519 | 4,176,097 | - |
| Total net assets | <u>9,086,844</u> | <u>27,247,315</u> | <u>36,334,159</u> | <u>161,172</u> |
| Total liabilities and net assets | <u>\$ 9,694,816</u> | <u>\$ 51,968,716</u> | <u>\$ 61,663,532</u> | <u>\$ 6,998,500</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, 2011

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Unit Public Properties |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-type Activities | Total | |
| Primary government | | | | | | | | |
| Governmental activities | | | | | | | | |
| General government | \$ 1,480,266 | \$ - | \$ - | \$ - | \$ (1,480,266) | \$ - | \$ (1,480,266) | |
| Police operations | 3,876,534 | 3,827 | 1,469,980 | 42,454 | (2,360,273) | - | (2,360,273) | |
| Disptach | 610,454 | - | - | - | (610,454) | - | (610,454) | |
| Fire department | 1,011,787 | - | - | 59,702 | (952,085) | - | (952,085) | |
| Street department | 974,039 | - | 164,703 | 2,092,268 | 1,282,932 | - | 1,282,932 | |
| Cemetery | 306,134 | 80,000 | - | - | (226,134) | - | (226,134) | |
| Interest on long-term debt | 1,968 | - | - | - | (1,968) | - | (1,968) | |
| Total governmental activities | <u>8,261,182</u> | <u>83,827</u> | <u>1,634,683</u> | <u>2,194,424</u> | <u>(4,348,248)</u> | <u>-</u> | <u>(4,348,248)</u> | |
| Business type activities | | | | | | | | |
| Utilities-Water, sewer & sanitation | 4,908,612 | 5,597,729 | - | 1,121,901 | - | 1,811,018 | 1,811,018 | |
| Total business-type activities | <u>4,908,612</u> | <u>5,597,729</u> | <u>-</u> | <u>1,121,901</u> | <u>-</u> | <u>1,811,018</u> | <u>1,811,018</u> | |
| Total primary government | <u>\$ 13,169,794</u> | <u>\$ 5,681,556</u> | <u>\$ 1,634,683</u> | <u>\$ 3,316,325</u> | <u>(4,348,248)</u> | <u>1,811,018</u> | <u>(2,537,230)</u> | |
| Component Unit | | | | | | | | |
| Public Properties Corporation | \$ 348,052 | \$ 67,784 | \$ - | \$ - | | | | \$ (280,268) |
| General revenue | | | | | | | | |
| Taxes | | | | | | | | |
| Property taxes, levied for general purposes | | | | | | | | |
| | | | | | 579,291 | - | 579,291 | - |
| License fees | | | | | | | | |
| Franchise | | | | | | | | |
| | | | | | 272,470 | - | 272,470 | - |
| Payroll | | | | | | | | |
| | | | | | 2,177,807 | - | 2,177,807 | - |
| Insurance premiums | | | | | | | | |
| | | | | | 1,456,908 | - | 1,456,908 | - |
| Net profits | | | | | | | | |
| | | | | | 298,396 | - | 298,396 | - |
| Occupational | | | | | | | | |
| | | | | | 32,038 | - | 32,038 | - |
| E911 wireless funding fees | | | | | | | | |
| | | | | | 523,917 | - | 523,917 | - |
| Investment earnings | | | | | | | | |
| | | | | | 97,565 | 110,224 | 207,789 | 241,405 |
| Miscellaneous | | | | | | | | |
| | | | | | 108,272 | - | 108,272 | - |
| Total general revenues | | | | | | | | |
| | | | | | 5,546,664 | 110,224 | 5,656,888 | 241,405 |
| Transfers | | | | | | | | |
| | | | | | - | - | - | - |
| Gain(loss) on disposal of assets | | | | | | | | |
| | | | | | (5,864) | - | (5,864) | - |
| Total general revenues, transfers and losses | | | | | | | | |
| | | | | | 5,540,800 | 110,224 | 5,651,024 | 241,405 |
| Change in Net Assets | | | | | | | | |
| | | | | | 1,192,552 | 1,921,242 | 3,113,794 | (38,863) |
| Net assets-beginning, as restated | | | | | | | | |
| | | | | | 7,894,292 | 25,326,073 | 33,220,365 | 200,035 |
| NET ASSETS-ENDING | | | | | | | | |
| | | | | | \$ 9,086,844 | \$ 27,247,315 | \$ 36,334,159 | \$ 161,172 |

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

**CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|------------------------------------|---------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 523,259 | \$ 34,464 | \$ 557,723 |
| Investments | 2,008,254 | 499,800 | 2,508,054 |
| Accounts receivable, net | 1,031,696 | 23,016 | 1,054,712 |
| Other receivables | 137,089 | - | 137,089 |
| Grants receivable | 82,971 | - | 82,971 |
| Due from other funds | - | 191,628 | 191,628 |
| | <u>\$ 3,783,269</u> | <u>\$ 748,908</u> | <u>\$ 4,532,177</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 95,137 | \$ - | \$ 95,137 |
| Accrued payroll liabilities | 32,402 | - | 32,402 |
| Other accrued liabilities | 39,038 | - | 39,038 |
| Compensated absences | 900 | - | 900 |
| Deferred revenue | 174,886 | - | 174,886 |
| Due to other funds | 1,024,719 | - | 1,024,719 |
| | <u>1,367,082</u> | <u>-</u> | <u>1,367,082</u> |
| FUND BALANCE | | | |
| Fund Balance | | | |
| Restricted | - | 748,908 | 748,908 |
| Unassigned | 2,416,187 | - | 2,416,187 |
| | <u>2,416,187</u> | <u>748,908</u> | <u>3,165,095</u> |
| Total Fund Balance | <u>2,416,187</u> | <u>748,908</u> | <u>3,165,095</u> |
| Total Liabilities and Fund Balance | <u>\$ 3,783,269</u> | <u>\$ 748,908</u> | <u>\$ 4,532,177</u> |

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

Fund balances reported above \$ 3,165,095

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 6,172,358

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

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (265,609)

The accompanying notes are an integral part of the financial statements. \$ 9,086,844

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2011

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------------------|---|---|
| REVENUES | | | |
| Taxes | \$ 579,291 | \$ - | \$ 579,291 |
| Licenses and permits | 4,237,619 | - | 4,237,619 |
| Intergovernmental revenues | 3,660,509 | 165,598 | 3,826,107 |
| Charges for services | 76,937 | 6,890 | 83,827 |
| Other income | <u>678,710</u> | <u>51,044</u> | <u>729,754</u> |
| Total Revenues | <u>9,233,066</u> | <u>223,532</u> | <u>9,456,598</u> |
| EXPENDITURES | | | |
| Current | | | |
| General government | 1,417,245 | - | 1,417,245 |
| Merged police operations | 3,500,451 | - | 3,500,451 |
| Other police operations/grants | 83,600 | - | 83,600 |
| 911 communications | 591,367 | - | 591,367 |
| Fire department | 939,112 | - | 939,112 |
| Street department | 736,088 | 148,898 | 884,986 |
| Cemetery department | 291,565 | 3,022 | 294,587 |
| Capital outlay | 2,309,798 | - | 2,309,798 |
| Debt service | <u>25,598</u> | <u>-</u> | <u>25,598</u> |
| Total Expenditures | <u>9,894,824</u> | <u>151,920</u> | <u>10,046,744</u> |
| Excess of Revenues Over (Under) Expenditures | (661,758) | 71,612 | (590,146) |
| Other Sources | | | |
| Transfers in (out) | 16,902 | (16,902) | - |
| Proceeds from sale of assets | <u>5,000</u> | <u>-</u> | <u>5,000</u> |
| Net change in fund balances | (639,856) | 54,710 | (585,146) |
| Fund Balance, beginning of year, as restated - Note 15 | <u>3,056,043</u> | <u>694,198</u> | <u>3,750,241</u> |
| Fund Balance end of year | <u>\$ 2,416,187</u> | <u>\$ 748,908</u> | <u>\$ 3,165,095</u> |
| Net change in fund balances | | | \$ (585,146) |
| Add: Capital outlay | | | 2,309,798 |
| Add: Contributed fixed assets | | | 3,000 |
| Add: Debt service | | | 25,598 |
| Less: Change in long term compensated absences | | | (32,300) |
| Less: Loss on disposal of capital asset | | | (10,865) |
| Less: Depreciation on governmental activities | | | (515,565) |
| Less: Interest on long term debt | | | <u>(1,968)</u> |
| Change in net assets | | | <u>\$ 1,192,552</u> |

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

**CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2011**

| | Business Type Activities |
|--|--|
| | Water, Sewer & Sanitation |
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 415,054 |
| Investments | 400,000 |
| Accounts receivable, net | 702,620 |
| Grants receivable | 98,143 |
| Accrued interest receivable | 592 |
| Due from other funds | 833,091 |
| Inventory | 109,963 |
| Total current assets | 2,559,463 |
| Noncurrent assets | |
| Restricted assets | |
| Cash and cash equivalents | 1,917,690 |
| Investments | 1,708,846 |
| Construction in progress | 15,463,477 |
| Land | 2,106,509 |
| Property and equipment | 40,148,528 |
| Less accumulated depreciation | (12,303,753) |
| Bond issue costs, net | 367,956 |
| Total noncurrent assets | 49,409,253 |
| Total assets | \$ 51,968,716 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable | \$ 522,254 |
| Accrued leave | 14,433 |
| Accrued payroll | 8,614 |
| Other accrued liabilities | 18,438 |
| Accrued interest | 90,683 |
| Deposits | 219,978 |
| Due to other funds | - |
| Current portion-long term debt | 1,181,387 |
| Total current liabilities | 2,055,787 |
| Noncurrent liabilities | |
| Compensated absences | 57,000 |
| Long term debt | 22,608,614 |
| Total noncurrent liabilities | 22,665,614 |
| Total liabilities | 24,721,401 |
| NET ASSETS | |
| Invested in capital assets, net of debt | 21,624,760 |
| Restricted for debt service and construction | 3,612,036 |
| Unrestricted | 2,010,519 |
| Total net assets | 27,247,315 |
| Total liabilities and net assets | \$ 51,968,716 |

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
for the year ended June 30, 2011

| | Business Type Activities |
|--|--|
| | Water, Sewer & Sanitation |
| OPERATING REVENUES | |
| Charges for services | \$ 5,510,090 |
| Other revenues | 87,639 |
| | 5,597,729 |
| OPERATING EXPENSES | |
| Salaries | 1,200,844 |
| Payroll taxes | 85,183 |
| Employee benefits | 284,131 |
| Advertising and printing | 5,648 |
| Professional and technical | 22,833 |
| Repairs and maintenance | 261,706 |
| Utilities | 550,062 |
| Telephone and postage | 48,739 |
| Insurance | 102,018 |
| Chemicals | 180,816 |
| Technical supplies | 1,773 |
| Uniforms | 6,376 |
| Motor fuel | 71,318 |
| Office supplies | 3,731 |
| Other materials | 37,149 |
| Other expenses | 119,771 |
| Purchase of water | 16,067 |
| Landfill expense | 162,585 |
| Sludge removal | 101,257 |
| Depreciation and amortization | 960,220 |
| Training/travel | 8,088 |
| Lab analysis | 43,676 |
| Purchase of water meters | 27,714 |
| Dumpster collection | 2,481 |
| | 4,304,186 |
| Total operating expenses | |
| Operating income (loss) | 1,293,543 |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment income | 110,224 |
| Interest expense | (604,426) |
| Gain on sale of assets | - |
| | - |
| Excess of nonoperating revenues over expenses | (494,202) |
| CAPITAL CONTRIBUTIONS | |
| Contributed capital | - |
| Capital grant proceeds | 1,121,901 |
| | 1,121,901 |
| Net income (loss) | 1,921,242 |
| Beginning net assets, as restated - Note 15 | 25,326,073 |
| NET ASSETS ENDING | \$ 27,247,315 |

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, 2011**

| | <u>Business Type Activities</u> Water, Sewer & Sanitation |
|---|--|
| Cash Flows from Operating Activities: | |
| Receipts from customers | \$ 5,645,592 |
| Cash payments to employees | (1,554,565) |
| Internal activity - payments to other funds | (394,408) |
| Cash payments to others for services | <u>(1,585,520)</u> |
| Net cash provided by operating activities | <u>2,111,099</u> |
| Cash flows from capital and related financing activities: | |
| Purchase of construction in progress | (1,088,793) |
| Purchase of property, plant and equipment | (367,261) |
| Gain on sale of assets | - |
| Grant revenue | 1,023,758 |
| Payment of bond principal | (1,094,494) |
| Interest expense | <u>(1,027,105)</u> |
| Net cash (used) by capital and related financing activities | <u>(2,553,895)</u> |
| Cash flows from investing activities: | |
| Purchase of investments | (96,358) |
| Investment income | <u>109,909</u> |
| Net cash provided by in investing activities | <u>13,551</u> |
| Net increase (decrease) in cash and cash equivalents | (429,245) |
| Cash and cash equivalents July 1, 2010 | <u>2,761,989</u> |
| Cash and cash equivalents June 30, 2011 | <u>\$ 2,332,744</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | |
| Operating income (loss) | \$ 1,293,543 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation and amortization | 960,220 |
| Loss on disposal | - |
| Changes in assets and liabilities: | |
| Receivables, net | 47,864 |
| Due from other funds | - |
| Inventory | 17,734 |
| Accounts payable | 188,827 |
| Payroll liabilities | 15,592 |
| Other liabilities | (18,273) |
| Due to other funds | <u>(394,408)</u> |
| Net provided by operating activities | <u>\$ 2,111,099</u> |
| Reconciliation of total cash and cash equivalents | |
| Current assets - cash and cash equivalents | \$ 415,054 |
| Restricted assets - cash and cash equivalents | <u>1,917,690</u> |
| Total cash and cash equivalents | <u>\$ 2,332,744</u> |
| Land purchased with note payable | <u>\$ 1,575,000</u> |

The accompanying notes are an integral part of the financial statements

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

| | Agency Fund | Private Purpose Trust | Totals |
|---|----------------|-----------------------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 194,702 | \$ - | \$ 194,702 |
| Accounts receivable | - | | - |
| Investments | - | 83,343 | 83,343 |
| Other receivables | - | - | - |
| Total assets | \$ 194,702 | \$ 83,343 | \$ 278,045 |
| LIABILITIES | | | |
| Accounts payable | \$ 35,033 | \$ - | \$ 35,033 |
| Other liabilities | 158,835 | - | 158,835 |
| Total liabilities | 193,868 | - | 193,868 |
| NET ASSETS | | | |
| Held in trust for payroll and other purposes | \$ 834 | \$ 83,343 | \$ 84,177 |

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
for the year ended June 30, 2011

| | Agency Fund | Private Purpose Trust | Totals |
|---------------------------|----------------|-----------------------------|-----------|
| ADDITIONS | | | |
| Investment income | \$ - | \$ 12,462 | \$ 12,462 |
| Total investment earnings | - | 12,462 | 12,462 |
| Less investment expense | | | |
| Trust fees | - | 700 | 700 |
| Transfers | - | 2,214 | 2,214 |
| Miscellaneous | - | 490 | 490 |
| Total investment expenses | - | 3,404 | 3,404 |
| Net investment earnings | - | 9,058 | 9,058 |
| Total additions | - | 9,058 | 9,058 |
| Beginning net assets | 834 | 74,285 | 75,119 |
| Ending net assets | \$ 834 | \$ 83,343 | \$ 84,177 |

The accompanying notes are an integral
part of the financial statements

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Discretely Presented Component Units – The component units column in the government-wide financial statements includes the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City. The following component units are included in the City's reporting entity because the primary government is able to impose its will on the organizations.

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

B. Basis of Presentation

The City's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No 34, "**Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments**" which consists of the following:

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, continued

Government-wide Financial Statements

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

Fund Financial Statements

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

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

The following funds are used by the City of Versailles:

Governmental Funds

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

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

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

Proprietary Funds

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, continued

Proprietary Funds, continued

Enterprise Funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The City enterprise operations include the following:

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

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

C. Basis of Accounting

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

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting, continued

Fund Financial Statements, continued

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

D. Budgeting

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

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

E. Cash and Cash Equivalents

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

F. 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.

G. Inventory

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

H. 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 |

I. 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 assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-term Obligations

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

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

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

K. Compensated Absences

City employees are allowed to accumulate unlimited sick leave and vacation time equal to two 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.

L. Fund Balances

As of June 30, 2011, the City of Versailles implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balances of the governmental funds are classified as follows:

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

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

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

Unassigned — all other spendable amounts.

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fund Balances (continued)

As of June 30, 2011 fund balances are composed of the following:

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------|---------------------|-----------------------------------|--------------------------------|
| Restricted: | | | |
| Road surface repairs | \$ - | \$ 249,108 | \$ 249,108 |
| Cemetery permanent fund | | 499,800 | 499,800 |
| Unassigned | <u>2,416,187</u> | - | <u>2,416,187</u> |
| Total fund balances | <u>\$ 2,416,187</u> | <u>\$ 748,908</u> | <u>\$ 3,165,095</u> |

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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.

N. Accounts Receivable

The Water and Sewer accounts receivable are for services to customers. If a customer fails to pay within 25 days after the prior month's bill, 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.

O. Estimates

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

P. 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.

Q. Proprietary Revenues

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 31, 2011, 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, 2011, have not been evaluated by the City.

2. CASH AND INVESTMENTS

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

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011 the City held investments in three municipal bonds. Ratings of the municipal bonds were as follows :

| <u>Municipal Security</u> | <u>Rating</u> |
|---|---------------|
| Kentucky Asset/Liability General Fund Revenue Bonds | Aa3 |
| Rhode Island St Economic Dev. Corp Bonds | Aa3 |
| Morehead St University Build America Bonds | Aa3 |
| Kentucky Association of Counties Series A | not available |
| Henderson County Kentucky Build America Bonds | not available |

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

The City's bank deposits were substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$7,507,367 and the bank balances totaled \$7,540,971. As of June 30, 2011 \$5,872,401 was held as collateral by the custodial banks in the City's name.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

2. CASH AND INVESTMENTS (continued)

COMPONENT UNIT

The Public Properties Corporation's bank deposits were substantially covered by federal depository insurance or by collateral held by the custodial banks in the Corporation's name. The carrying amount of the Corporation's deposits totaled \$789,638, and the bank balances totaled \$789,638. As of June 30, 2011, \$1,076,588 was held as collateral by the custodial banks in the Corporation's name.

Concentration of Credit Risk

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

The City's investments at June 30, 2011 are as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | | | |
|-------------------------|---------------------|---|---------------------|-------------|---------------------|
| | | <u>1 year or less</u> | <u>1-5</u> | <u>6-10</u> | <u>More Than 10</u> |
| Certificates of deposit | \$ 2,527,942 | \$ 2,310,000 | \$ 217,942 | \$ - | \$ - |
| U.S. govt. obligations | 8,052 | 8,052 | - | - | - |
| Mutual funds | 386,560 | 386,560 | - | - | - |
| Municipal bonds | <u>1,694,346</u> | <u>757,596</u> | <u>936,750</u> | - | - |
| Total | <u>\$ 4,616,900</u> | <u>\$ 3,462,208</u> | <u>\$ 1,154,692</u> | <u>\$ -</u> | <u>\$ -</u> |

3. ACCOUNTS RECEIVABLE

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

| | <u>General Fund</u> | <u>Nonmajor Funds</u> | <u>Governmental Funds Total</u> |
|-----------------------------------|---------------------|-----------------------|---------------------------------|
| Governmental Funds: | | | |
| Taxes | \$ 46,469 | \$ - | \$ 46,469 |
| Licenses, permits, billings | 989,341 | - | 989,341 |
| Charges for Service | - | - | - |
| Intergovernmental | 20,765 | 23,016 | 43,781 |
| Other | <u>4,121</u> | <u>-</u> | <u>4,121</u> |
| Gross receivables | 1,060,696 | 23,016 | 1,083,712 |
| Less: allowance for uncollectible | <u>(29,000)</u> | <u>-</u> | <u>(29,000)</u> |
| Net receivables | <u>\$ 1,031,696</u> | <u>\$ 23,016</u> | <u>\$ 1,054,712</u> |
| Business Type Activities: | | | |
| Customer | \$ 685,247 | | |
| Other | 24,373 | | |
| Less: allowance for uncollectible | <u>(7,000)</u> | | |
| Net receivables | <u>\$ 702,620</u> | | |

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

4. CAPITAL ASSETS

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

| <u>Governmental activities</u> | Balance July 1, 2010 | <u>Additions</u> | <u>Deductions</u> | Balance June 30, 2011 |
|--|-------------------------|---------------------|---------------------|--------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,529,735 | \$ - | \$ - | \$ 1,529,735 |
| Construction in progress | 516,414 | 2,120,998 | (247,773) | 2,389,639 |
| Total | <u>2,046,149</u> | <u>2,120,998</u> | <u>(247,773)</u> | <u>3,919,374</u> |
| Capital assets being depreciated: | | | | |
| Buildings and Improvements | 2,633,694 | 291,127 | - | 2,924,821 |
| Equipment | 2,301,286 | 53,037 | (27,072) | 2,327,251 |
| Vehicles | 2,544,558 | 95,410 | (84,083) | 2,555,885 |
| Total | <u>7,479,538</u> | <u>439,574</u> | <u>(111,155)</u> | <u>7,807,957</u> |
| Total capital assets | <u>9,525,687</u> | <u>2,560,572</u> | <u>(358,928)</u> | <u>11,727,331</u> |
| Less accumulated depreciation | | | | |
| Buildings and improvements | 1,861,528 | 91,320 | - | 1,952,848 |
| Equipment | 1,409,964 | 178,398 | (27,071) | 1,561,291 |
| Vehicles | 1,868,204 | 245,847 | (73,217) | 2,040,834 |
| Total accumulated depreciation | <u>5,139,696</u> | <u>515,565</u> | <u>(100,288)</u> | <u>5,554,973</u> |
| Governmental activities capital assets, net | <u>\$ 4,385,991</u> | <u>\$ 2,045,007</u> | <u>\$ (258,640)</u> | <u>\$ 6,172,358</u> |
| <u>Business-Type Activities</u> | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 170,642 | \$ 1,935,867 | \$ - | \$ 2,106,509 |
| Construction in progress | 13,716,925 | 1,746,552 | - | 15,463,477 |
| Total | <u>13,887,567</u> | <u>3,682,419</u> | <u>-</u> | <u>17,569,986</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 15,576,265 | - | - | 15,576,265 |
| Equipment | 1,364,439 | 6,393 | - | 1,370,832 |
| Vehicles | 277,620 | - | - | 277,620 |
| Improvements | 22,923,811 | - | - | 22,923,811 |
| Total | <u>40,142,135</u> | <u>6,393</u> | <u>-</u> | <u>40,148,528</u> |
| Total capital assets | <u>54,029,702</u> | <u>3,688,812</u> | <u>-</u> | <u>57,718,514</u> |
| Less accumulated depreciation | | | | |
| Buildings | 1,825,754 | 308,876 | - | 2,134,630 |
| Equipment | 825,882 | 89,352 | - | 915,234 |
| Vehicles | 146,789 | 28,411 | - | 175,200 |
| Improvements | 8,580,398 | 498,291 | - | 9,078,689 |
| Total accumulated depreciation | <u>11,378,823</u> | <u>924,930</u> | <u>-</u> | <u>12,303,753</u> |
| Business-type activities capital assets, net | <u>\$ 42,650,879</u> | <u>\$ 2,763,882</u> | <u>\$ -</u> | <u>\$ 45,414,761</u> |

Current year additions to construction in progress include capitalized interest of \$430,483.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

4. CAPITAL ASSETS (continued)

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

| | | | |
|--------------------------|-------------------|---------------------------|-------------------|
| Governmental activities: | | Business-type activities: | |
| General government | \$ 60,450 | Water | \$ 597,708 |
| Police operations | 276,463 | Sewer | 295,866 |
| Dispatch | 19,087 | Sanitation | <u>31,356</u> |
| Fire department | 68,033 | Total | <u>\$ 924,930</u> |
| Street department | 81,021 | | |
| Cemetery | <u>10,511</u> | | |
| Total | <u>\$ 515,565</u> | | |

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

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

5. LONG TERM DEBT

GOVERNMENTAL ACTIVITIES

NOTES PAYABLE

On August 13, 2009 the City entered into an agreement to finance the City's portion of the cost of repairs on the Falling Springs Arts and Recreation Center for \$70,000. The loan bears interest at a rate of 4.0% and is uncollateralized. Payments are due on December 13th of each year and the loan matures on December 13, 2011.

The annual requirements to amortize all notes outstanding as of June 30, 2011, are as follows:

| | | | |
|----------------|------------------|-----------------|------------------|
| <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2012 | <u>\$ 24,609</u> | <u>\$ 1,004</u> | <u>\$ 25,613</u> |

The changes in long term debt during 2011 are as follows:

| | | | | |
|----------------------|---------------------|------------------|--------------------|----------------------|
| | <u>July 1, 2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2011</u> |
| Falling Springs Note | \$ 48,239 | \$ - | \$ (23,630) | \$ 24,609 |
| Compensated Absences | <u>208,700</u> | <u>32,300</u> | <u>-</u> | <u>241,000</u> |
| Total | <u>\$ 256,939</u> | <u>\$ 32,300</u> | <u>\$ (23,630)</u> | <u>\$ 265,609</u> |

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. LONG TERM DEBT (continued)

BUSINESS-TYPE-ACTIVITIES

BONDS AND NOTES PAYABLE

On August 1, 2005 the City of Versailles issued \$8,465,000 of Water and Sewer Revenue Series Bonds. The Series 2005 bonds are a fixed rate debt with the first interest payment due June 1, 2006 and the first principal payment due December 1, 2006. The bonds mature on December 1, 2025. Interest is paid semiannually, with principal due on December 1, of each year.

On August 26, 2008 the City entered into an agreement to finance the purchase of a sewer flush truck for \$155,000. The loan bears interest at a rate of 4.0% and it collateralized by the flush truck. Payments are due on January 1st of each year and the loan matures on January 1, 2011.

On February 7, 2011 the City entered into an agreement to purchase land previously operated by the City as a landfill. The City issued two separate promissory notes for \$1,525,000 and \$50,000 respectively. Both notes bear interest at a rate of 3.5% and are collateralized by the land. The \$1,525,000 note is due in quarterly payments beginning on July 1, 2011. A final balloon payment will be due on April 1, 2016. The \$50,000 note is due in full on March 1, 2012.

At June 30, 2011, the business type activities had the following bonds and notes payable outstanding:

| <u>Description</u> | <u>Series</u> | <u>Amount</u> | <u>Current Portion</u> |
|-------------------------------|---------------|----------------------|----------------------------|
| Revenue Bonds | 2001 | \$ 6,360,000 | \$ 460,000 |
| Revenue Bonds | 2004 | 8,450,000 | 395,000 |
| Revenue Bonds | 2005 | 7,405,001 | 235,000 |
| Flush Truck Note Payable | | - | - |
| Note Payable (\$1,525,000) | | 1,525,000 | 41,387 |
| Note Payable (\$50,000) | | <u>50,000</u> | <u>50,000</u> |
| Total payable | | 23,790,001 | <u>\$ 1,181,387</u> |
| Less: current portion payable | | <u>(1,181,387)</u> | |
| Total long-term portion | | <u>\$ 22,608,614</u> | |

The annual requirements to amortize all revenue bonds and notes outstanding as of June 30, 2011, are as follows:

| <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------|----------------------|---------------------|----------------------|
| 2012 | \$ 1,181,387 | \$ 983,661 | \$ 2,165,048 |
| 2013 | 1,171,050 | 930,194 | 2,101,244 |
| 2014 | 1,222,487 | 883,332 | 2,105,819 |
| 2015 | 1,257,839 | 821,946 | 2,079,785 |
| 2016 | 2,642,238 | 795,307 | 3,437,545 |
| 2017-2021 | 7,260,000 | 2,796,621 | 10,056,621 |
| 2022-2026 | <u>9,055,000</u> | <u>2,745,386</u> | <u>11,800,386</u> |
| | <u>\$ 23,790,001</u> | <u>\$ 9,956,447</u> | <u>\$ 33,746,448</u> |

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. LONG TERM DEBT (continued)

The changes in long term debt during 2011 are as follows:

| | <u>July 1, 2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2011</u> |
|----------------------|----------------------|---------------------|---------------------|----------------------|
| W & S Revenue Bonds | \$ 23,265,001 | \$ - | \$ 1,050,000 | \$ 22,215,001 |
| Flush Truck Note | 80,195 | - | 80,195 | - |
| Notes Payable | - | 1,575,000 | - | 1,575,000 |
| Compensated Absences | <u>60,000</u> | <u>-</u> | <u>3,000</u> | <u>57,000</u> |
| Total | <u>\$ 23,405,196</u> | <u>\$ 1,575,000</u> | <u>\$ 1,133,195</u> | <u>\$ 23,847,001</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.

Water and Sewer Revenue Debt Reserve Account

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

Water and Sewer Maintenance and Operation Account

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

Water and Sewer Depreciation Account

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

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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. LONG TERM DEBT (continued)

COMPLIANCE WITH BOND ORDINANCES (continued)

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

COMPONENT UNITS

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

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

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

At June 30, 2011, the Corporation had the following bonds and leases payable outstanding:

| <u>Description</u> | <u>Series</u> | <u>Amount</u> | <u>Current Portion</u> |
|------------------------------------|---------------|---------------------|------------------------|
| Revenue Bonds | 2006 | \$ 4,780,000 | \$ 285,000 |
| Revenue Bonds | 2006B | <u>1,570,000</u> | <u>95,000</u> |
| Total payable at par | | 6,350,000 | 380,000 |
| Less: unamortized defeasance costs | | <u>(96,493)</u> | <u>(8,772)</u> |
| | | 6,253,507 | <u>\$ 371,228</u> |
| Less: current portion payable | | <u>(380,000)</u> | |
| Total long-term portion | | <u>\$ 5,873,507</u> | |

The annual requirements to amortize all revenue bonds and leases outstanding as of June 30, 2011, are as follows:

| <u>June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------|---------------------|---------------------|---------------------|
| 2012 | \$ 380,000 | \$ 249,906 | \$ 629,906 |
| 2013 | 395,000 | 234,406 | 629,406 |
| 2014 | 410,000 | 218,406 | 628,406 |
| 2015 | 425,000 | 201,806 | 626,806 |
| 2016 | 445,000 | 184,506 | 629,506 |
| 2017-2021 | 2,520,000 | 635,391 | 3,155,391 |
| 2021-2023 | <u>1,775,000</u> | <u>205,970</u> | <u>1,980,970</u> |
| | <u>\$ 6,350,000</u> | <u>\$ 1,930,391</u> | <u>\$ 8,280,391</u> |

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. LONG TERM DEBT (continued)

The changes in long term debt during 2011 are as follows:

| | <u>July 1, 2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2011</u> |
|---------------------|---------------------|------------------|--------------------|----------------------|
| KCTCS Revenue Bonds | \$ <u>6,715,000</u> | \$ <u>-</u> | \$ <u>365,000</u> | \$ <u>6,350,000</u> |

6. PROJECT FINANCING

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

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

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

| | |
|---|---------------------|
| <u>June 30</u> | |
| 2012 | \$ 637,020 |
| 2013 | 637,020 |
| 2014 | 637,020 |
| 2015 | 637,020 |
| 2016 | 637,020 |
| 2017-2021 | 3,185,100 |
| 2022-2023 | <u>1,220,955</u> |
| Net minimum lease payments | 7,591,155 |
| Less amount representing interest | <u>(1,503,883)</u> |
| Present value of minimum lease payments | <u>\$ 6,087,272</u> |

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

7. RETIREMENT PLAN

County Employees' Retirement System

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

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

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

Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's wages for non-hazardous classifications and 33.25% for hazardous job classifications, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

| <u>Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|-------------|----------------------------------|-----------------------------------|
| 2011 | \$ 1,496,888 | 100% |
| 2010 | \$ 1,527,304 | 100% |
| 2009 | \$ 1,416,496 | 100% |

Kentucky Deferred Compensation Plan

The City of Versailles also allows its employees to participate in the Kentucky Deferred Compensation (KDC) plan, which is authorized under Kentucky Revised Statutes 18A.230 – 18A.275. All state, public school and university employees, and employees of local political subdivisions that have elected to participate are eligible to join this tax-deferred supplemental retirement plan. The Kentucky Public Employees' Deferred Compensation Authority administers KDC, under the direction of a Board of Trustees. Employees are allowed to contribute to a 457 retirement plan or to a variety of 401(k) retirement plans. The plan consists only of employee contributions. Participating employees are required to contribute a minimum monthly contribution of \$30. During the fiscal year, employees contributed \$52,812 to the plan.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

8. COMMITMENTS AND CONTINGENCIES

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

During the year the City was involved in various litigation. One suit involving sewer line easements and a condemnation action has been settled subsequent to June 30, 2011 and the City has agreed to pay \$111,764 related to the settlement. The entire amount has been accrued as of June 30, 2011 as a result of the settlement.

9. CONCENTRATIONS

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Five industrial companies generated approximately 53% of the City's occupational tax revenue. Three users generated approximately 25% of the utility operation's service revenue. Also, at June 30, 2011, approximately 15% of the utility operation's accounts receivable was due from four users.

10. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2011 were levied in September 2010 on the assessed property located in the City of Versailles as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

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

11. INSURANCE AND RISK MANAGEMENT

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

12. INTERFUND RECEIVABLES AND PAYABLES

Interfund Receivables and Payables as of June 30, 2011 are as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---------------------|----------------------------------|-------------------------------|
| Governmental funds | \$ 191,628 | \$ 1,024,719 |
| Business-type funds | <u>833,091</u> | <u>-</u> |
| | <u>\$ 1,024,719</u> | <u>\$ 1,024,719</u> |

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

13. POLICE OPERATING EXPENDITURES

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

| | Budget | Actual | Variance Favorable (Unfavorable) |
|-----------------------------------|-------------------------|-------------------------|--|
| Police Operating | \$ 3,791,595 | \$ 3,500,451 | \$ 291,144 |
| Police Capital | <u>79,000</u> | <u>78,908</u> | <u>92</u> |
| Total cost shared with County | <u>\$ 3,870,595</u> | <u>\$ 3,579,359</u> | <u>\$ 291,236</u> |

14. SUBSEQUENT EVENTS

On July 14, 2011 the City issued \$6,460,000 of Water and Sewer Refunding Revenue Bonds. These bonds refunded the remaining Water and Sewer Revenue Bonds of 2001. The bonds mature on December 1, 2021.

15. RESTATEMENT OF NET ASSETS

Fund balance of the General Fund and Water and Sewer Fund as of June 30, 2010 has been restated. The City has determined that in prior years insurance expense was overstated in both funds due to a change in the schedule and timing of payments. In addition, the City determined that intergovernmental revenue from the police merger was overstated due to an error in how the calculation was recorded. The City was not properly matching expenses with revenue.

| | General | Water, Sewer & Sanitation |
|--|---------------------|--|
| Fund Balances, June 30, 2010, as previously reported | \$ 2,943,154 | \$ 25,230,054 |
| Decrease in police merger revenue | (175,907) | - |
| Decrease in prior year insurance expense | <u>288,796</u> | <u>96,019</u> |
| Fund balances, June 30, 2010, as restated | <u>\$ 3,056,043</u> | <u>\$ 25,326,073</u> |

SUPPLEMENTAL INFORMATION

CITY OF VERSAILLES, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
GENERAL FUND
for the year ended June 30, 2011

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------|-----------------------|----------------------|--|
| Revenues | | | | |
| Property taxes | \$ 608,000 | \$ 608,000 | \$ 579,291 | \$ (28,709) |
| License and permits | 4,176,000 | 4,176,000 | 4,237,619 | 61,619 |
| Intergovernmental revenues | 2,347,823 | 3,695,056 | 3,660,509 | (34,547) |
| Charges for services | 71,000 | 71,000 | 76,937 | 5,937 |
| Other income | <u>1,034,000</u> | <u>1,034,000</u> | <u>678,710</u> | <u>(355,290)</u> |
| Total revenues | <u>8,236,823</u> | <u>9,584,056</u> | <u>9,233,066</u> | <u>(350,990)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 1,571,168 | 1,571,168 | 1,417,245 | 153,923 |
| Merged police operations | 3,791,595 | 3,791,595 | 3,500,451 | 291,144 |
| Other police operations/grants | - | - | 83,600 | (83,600) |
| 911 communications | 642,994 | 642,994 | 591,367 | 51,627 |
| Fire department | 941,960 | 941,960 | 939,112 | 2,848 |
| Street department | 785,700 | 839,700 | 736,088 | 103,612 |
| Cemetery department | 311,350 | 316,850 | 291,565 | 25,285 |
| Capital outlay | 442,500 | 2,186,853 | 2,309,798 | (122,945) |
| Debt service | <u>-</u> | <u>-</u> | <u>25,598</u> | <u>(25,598)</u> |
| Total expenditures | <u>8,487,267</u> | <u>10,291,120</u> | <u>9,894,824</u> | <u>396,296</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(250,444)</u> | <u>(707,064)</u> | <u>(661,758)</u> | <u>45,306</u> |
| Other Financing Sources (uses) | | | | |
| Proceeds from Sale of Assets | - | - | 5,000 | 5,000 |
| Transfers | <u>-</u> | <u>-</u> | <u>16,902</u> | <u>16,902</u> |
| Total Other Financing Sources (uses) | <u>-</u> | <u>-</u> | <u>21,902</u> | <u>21,902</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures | <u>(250,444)</u> | <u>(707,064)</u> | <u>(639,856)</u> | <u>67,208</u> |
| Fund Balance July 1, 2010 | <u>3,056,043</u> | <u>3,056,043</u> | <u>3,056,043</u> | <u>-</u> |
| Fund Balance June 30, 2011 | <u>\$ 2,805,599</u> | <u>\$ 2,348,979</u> | <u>\$ 2,416,187</u> | <u>\$ 67,208</u> |

**CITY OF VERSAILLES, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011**

| | <u>Municipal Road Aid Fund</u> | <u>Permanent Fund</u> | <u>Total Non-Major Governmental</u> |
|--|--|---------------------------|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 34,464 | \$ - | \$ 34,464 |
| Investments | - | 499,800 | 499,800 |
| Accounts receivable | 23,016 | - | 23,016 |
| Due from other funds | <u>191,628</u> | <u>-</u> | <u>191,628</u> |
| Total Assets | <u>\$ 249,108</u> | <u>\$ 499,800</u> | <u>\$ 748,908</u> |
| LIABILITIES | | | |
| Accounts payable | \$ - | \$ - | \$ - |
| Accrued liabilities | - | - | - |
| Compensated absences | - | - | - |
| Deferred revenue | - | - | - |
| Due to other funds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCE | | | |
| Restricted | 249,108 | 499,800 | 748,908 |
| Unrestricted | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Fund Balance | <u>249,108</u> | <u>499,800</u> | <u>748,908</u> |
| Total Liabilities and Fund Balance | <u>\$ 249,108</u> | <u>\$ 499,800</u> | <u>\$ 748,908</u> |

CITY OF VERSAILLES, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2011

| | Municipal Road Aid Fund | Permanent Fund | Total Non-Major Governmental |
|--|-------------------------------|-----------------------|------------------------------------|
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Licenses and permits | - | - | - |
| Intergovernmental revenues | 165,598 | - | 165,598 |
| Charges for services | - | 6,890 | 6,890 |
| Other income | <u>928</u> | <u>50,116</u> | <u>51,044</u> |
| | | | - |
| Total Revenues | <u>166,526</u> | <u>57,006</u> | <u>223,532</u> |
| EXPENDITURES | | | |
| General government | - | - | - |
| Police department | - | - | - |
| Fire department | - | - | - |
| Street department | 148,898 | - | 148,898 |
| Cemetery department | - | 3,022 | 3,022 |
| Program expenses | - | - | - |
| Debt Service | - | - | - |
| Capital outlay | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenditures | <u>148,898</u> | <u>3,022</u> | <u>151,920</u> |
| Excess of Revenues Over (Under) Expenditures | <u>17,628</u> | <u>53,984</u> | <u>71,612</u> |
| Other Sources | | | |
| Operating transfers in | - | - | - |
| Operating transfers out | <u>-</u> | <u>(16,902)</u> | <u>(16,902)</u> |
| | | | - |
| Total Other Sources | <u>-</u> | <u>(16,902)</u> | <u>(16,902)</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures | 17,628 | 37,082 | 54,710 |
| Fund Balance-July 1, 2010 | <u>231,480</u> | <u>462,718</u> | <u>694,198</u> |
| Fund Balance--June 30, 2011 | <u>\$ 249,108</u> | <u>\$ 499,800</u> | <u>\$ 748,908</u> |

**CITY OF VERSAILLES, KENTUCKY
ENTERPRISE FUND
WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE
SERIES OF 2001**

| <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> |
|--------------------|----------------------|---------------------|---|---------------------------------------|---|
| 2011-12 | 4.050% | \$ 460,000 | \$ 142,601 | \$ 133,286 | \$ 735,887 |
| 2012-13 | 4.150% | 480,000 | 133,286 | 123,326 | 736,612 |
| 2013-14 | 4.250% | 500,000 | 123,326 | 112,701 | 736,027 |
| 2014-15 | 4.250% | 525,000 | 112,701 | 101,545 | 739,246 |
| 2015-16 | 4.350% | 545,000 | 101,545 | 89,691 | 736,236 |
| 2016-17 | 4.450% | 570,000 | 89,691 | 77,009 | 736,700 |
| 2017-18 | 4.550% | 595,000 | 77,009 | 63,473 | 735,482 |
| 2018-19 | 4.650% | 625,000 | 48,941 | 63,473 | 737,414 |
| 2019-20 | 4.700% | 655,000 | 33,550 | 48,941 | 737,491 |
| 2020-21 | 4.750% | 685,000 | 33,549 | 17,280 | 735,829 |
| 2021-22 | 4.800% | <u>720,001</u> | <u>17,280</u> | <u>-</u> | <u>737,281</u> |
| | | <u>\$ 6,360,001</u> | <u>\$ 913,479</u> | <u>\$ 830,725</u> | <u>\$ 8,104,205</u> |

**CITY OF VERSAILLES, KENTUCKY
ENTERPRISE FUND
WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE
SERIES OF 2004**

| Fiscal Year | Interest Rate | Principal Payable by December 1 | Interest Payable by December 1 | Interest Payable by June 1 | Total Principal and Interest |
|----------------|------------------|------------------------------------|-----------------------------------|-------------------------------|------------------------------------|
| 2011-12 | Various Rate | \$ 395,000 | \$ 183,965 | \$ 177,053 | \$ 756,018 |
| 2012-13 | | 405,000 | 177,053 | 169,661 | 751,714 |
| 2013-14 | | 425,000 | 169,661 | 161,586 | 756,247 |
| 2014-15 | | 435,000 | 161,586 | 153,104 | 749,690 |
| 2015-16 | | 455,000 | 153,104 | 144,004 | 752,108 |
| 2016-17 | | 475,000 | 144,004 | 134,266 | 753,270 |
| 2017-18 | | 495,000 | 134,266 | 123,871 | 753,137 |
| 2018-19 | | 515,000 | 123,871 | 112,799 | 751,670 |
| 2019-20 | | 540,000 | 112,799 | 100,919 | 753,718 |
| 2020-21 | | 565,000 | 100,919 | 88,206 | 754,125 |
| 2021-22 | | 590,000 | 88,206 | 74,931 | 753,137 |
| 2022-23 | | 1,000,000 | 74,931 | 51,181 | 1,126,112 |
| 2023-24 | | 1,050,000 | 51,181 | 26,244 | 1,127,425 |
| 2024-25 | | 1,105,000 | 26,244 | - | 1,131,244 |
| | Totals | <u>\$ 8,450,000</u> | <u>\$ 1,701,790</u> | <u>\$ 1,517,825</u> | <u>\$ 11,669,615</u> |

**CITY OF VERSAILLES, KENTUCKY
ENTERPRISE FUND
WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE
SERIES OF 2005**

| Fiscal Year | Interest Rate | Principal Payable by December 1 | Interest Payable by December 1 | Interest Payable by June 1 | Total Principal and Interest |
|----------------|------------------|------------------------------------|-----------------------------------|-------------------------------|------------------------------------|
| 2011-12 | 3.750% | \$ 235,000 | \$ 144,772 | \$ 140,366 | \$ 520,138 |
| 2012-13 | 3.750% | 245,000 | 140,366 | 135,772 | 521,138 |
| 2013-14 | 3.750% | 255,000 | 135,772 | 130,991 | 521,763 |
| 2014-15 | 3.750% | 265,000 | 130,991 | 126,022 | 522,013 |
| 2015-16 | 3.750% | 275,000 | 126,022 | 120,866 | 521,888 |
| 2016-17 | 3.750% | 285,000 | 120,866 | 115,522 | 521,388 |
| 2017-18 | 3.750% | 295,000 | 115,522 | 109,991 | 520,513 |
| 2018-19 | 3.750% | 310,000 | 109,991 | 104,178 | 524,169 |
| 2019-20 | 3.875% | 320,000 | 104,178 | 97,978 | 522,156 |
| 2020-21 | 3.875% | 330,000 | 97,978 | 91,584 | 519,562 |
| 2021-22 | 3.875% | 345,000 | 91,584 | 84,900 | 521,484 |
| 2022-23 | 4.000% | 730,000 | 84,900 | 70,300 | 885,200 |
| 2023-24 | 4.000% | 760,000 | 70,300 | 55,100 | 885,400 |
| 2024-25 | 4.000% | 785,000 | 55,100 | 39,400 | 879,500 |
| 2025-26 | 4.000% | <u>1,970,000</u> | <u>39,400</u> | <u>-</u> | <u>2,009,400</u> |
| | Totals | <u>\$ 7,405,000</u> | <u>\$ 1,567,742</u> | <u>\$ 1,422,970</u> | <u>\$ 10,395,712</u> |

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

| <u>Fiscal Year</u> | <u>Interest Rate</u> | <u>Principal Payable by December 1</u> | <u>Interest Payable by December 1</u> | <u>Interest Payable by June 1</u> | <u>Total Principal and Interest</u> |
|--------------------|----------------------|--|---|---------------------------------------|---|
| 2011-12 | 4.000% | \$ 285,000 | \$ 95,891 | \$ 90,191 | \$ 471,082 |
| 2012-13 | 4.000% | 300,000 | 90,191 | 84,191 | 474,382 |
| 2013-14 | 4.000% | 310,000 | 84,191 | 77,991 | 472,182 |
| 2014-15 | 4.000% | 320,000 | 77,991 | 71,591 | 469,582 |
| 2015-16 | 4.000% | 335,000 | 71,591 | 64,891 | 471,482 |
| 2016-17 | 4.000% | 350,000 | 64,891 | 57,891 | 472,782 |
| 2017-18 | 4.000% | 360,000 | 57,891 | 50,691 | 468,582 |
| 2018-19 | 4.000% | 375,000 | 50,691 | 43,191 | 468,882 |
| 2019-20 | 4.000% | 395,000 | 43,191 | 35,291 | 473,482 |
| 2020-21 | 4.000% | 415,000 | 35,291 | 26,991 | 477,282 |
| 2021-22 | 4.000% | 425,000 | 26,991 | 18,491 | 470,482 |
| 2022-23 | 4.000% | 445,000 | 18,491 | 9,591 | 473,082 |
| 2023-24 | 4.125% | 465,000 | 9,591 | - | 474,591 |
| | | <u>\$ 4,780,000</u> | <u>\$ 726,883</u> | <u>\$ 630,992</u> | <u>\$ 6,137,875</u> |

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

| Fiscal Year | Interest Rate | Principal Payable by January 1 | Interest Payable by January 1 | Interest Payable by July 1 | Total Principal and Interest |
|----------------|------------------|-----------------------------------|----------------------------------|-------------------------------|------------------------------------|
| 2011-12 | 4.000% | \$ 95,000 | \$ 31,913 | \$ 31,913 | \$ 158,826 |
| 2012-13 | 4.000% | 95,000 | 30,013 | 30,013 | 155,026 |
| 2013-14 | 4.000% | 100,000 | 28,113 | 28,113 | 156,226 |
| 2014-15 | 4.000% | 105,000 | 26,113 | 26,113 | 157,226 |
| 2015-16 | 4.000% | 110,000 | 24,013 | 24,013 | 158,026 |
| 2016-17 | 4.000% | 115,000 | 21,813 | 21,813 | 158,626 |
| 2017-18 | 4.100% | 120,000 | 19,513 | 19,513 | 159,026 |
| 2018-19 | 4.100% | 125,000 | 17,053 | 17,053 | 159,106 |
| 2019-20 | 4.100% | 130,000 | 14,490 | 14,490 | 158,980 |
| 2020-21 | 4.100% | 135,000 | 11,825 | 11,825 | 158,650 |
| 2021-22 | 4.100% | 140,000 | 9,058 | 9,058 | 158,116 |
| 2022-23 | 4.125% | 145,000 | 6,188 | 6,188 | 157,376 |
| 2023-24 | 4.125% | 155,000 | 3,197 | 3,197 | 161,394 |
| | Totals | <u>\$ 1,570,000</u> | <u>\$ 243,302</u> | <u>\$ 243,302</u> | <u>\$ 2,056,604</u> |

**CITY OF VERSAILLES, KENTUCKY
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**

Honorable Fred Siegelman, Mayor
and City Council
City of Versailles, Kentucky

We have audited 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 City of Versailles, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Versailles, Kentucky's basic financial statements and have issued our report thereon dated December 31, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Versailles, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Versailles, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Versailles, Kentucky's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting (2011-1). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Versailles, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2011-1.

We noted certain matters that we reported to management of City of Versailles, Kentucky, in a separate letter dated December 31, 2011.

City of Versailles, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Versailles, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 31, 2011

**CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

FINDING:

2011-1

The City is required to have internal controls over purchasing that enable it to properly initiate, authorize, and record all items purchased. In addition, Kentucky Revised Statute (KRS) 65.140 requires all local governments to pay for goods or services purchased within 30 days of receipt of the vendor's invoice.

Currently department heads are responsible for approving all invoices and coding them to the correct account. Each department head is then responsible for forwarding the approved invoices to the City Clerk's office for payment on a timely basis. There are currently no controls in place to ensure that these procedures are being followed. In addition, there are no controls in place to ensure the purchases given to the City Clerk for payment have been appropriately approved by the City Council, if applicable.

During the current year audit unpaid invoices were found in a department head's office that were both delinquent and not approved. The invoices were found and brought to our attention by City personnel. Many of these invoices were outside of the 30 day window set by KRS 65.140. In addition, several invoices were found to include project change orders that were not appropriately approved by the City Council.

We recommend the City review the purchasing policy and procedures and incorporate changes to ensure additional oversight and monitoring of purchases. This will ensure that all invoices are appropriately initiated, authorized and paid in a timely fashion.

RESPONSE:

The City agrees with the finding and has modified it's procedures regarding the processing of invoices for payment. Newly implemented procedures include changes in how mail is opened and disseminated to department heads and additional procedures for tracking invoices received. The City Clerk's office now maintains a log of all invoices received to ensure all invoices are approved and paid timely. In addition, the City Clerk's office will now verify that all invoices that include change orders are appropriately approved by the City Council by cross referencing the change order with the official minutes. These additional procedures will help ensure that all invoices are appropriately initiated, authorized and paid in a timely fashion.

**CITY OF VERSAILLES, KENTUCKY
INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Mayor and City Council
City of Versailles, Kentucky

Compliance

We have audited City of Versailles, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Versailles, Kentucky's major federal programs for the year ended June 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Versailles, Kentucky's management. Our responsibility is to express an opinion City of Versailles, Kentucky's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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. Our audit does not provide a legal determination of City of Versailles, Kentucky's compliance with those requirements.

In our opinion, City of Versailles, Kentucky, complied, in all material respects, with the 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, 2011.

Internal Control over Compliance

Management of City of Versailles, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Versailles, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 31, 2011

CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

| Federal Grantor Program Title | Federal CFDA Number | Pass Through Contract Number | Federal Expenditures |
|--|---------------------------|------------------------------------|-------------------------|
| U. S. Department of Agriculture Emergency Watershed Protection Program | 10.923 | 68-5C16-11-015 | \$ 82,395 |
| Department of Transportation State and Community Highway Safety Cluster (Note 2) | 20.600 | PT-11-46 | 14,148 |
| Department of Homeland Security Assistance to Firefighters Grant | 97.044 | EMW-2010-FO-05640 | 51,452 |
| Flood Mitigation Assistance (Note 3) | 97.029 | FMA-PJ-04-KY-2008-004 | 44,479 |
| Hazard Mitigation Grant (Note 3) | 97.039 | DR-1757-0004 | 371,369 * |
| Recovery Act - Homeland Security Grant Program Cluster (Note 1) | 97.067 | P02 094 1100002208 1 | <u>14,800</u> |
| Total Department of Homeland Security | | | 482,100 |
| U.S. Department of Justice Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) | 16.804 | 2009-DJ-BX-1230 | <u>9,860</u> |
| Total Federal Financial Assistance | | | <u>\$ 588,503</u> |

***Denotes Major Program**

Notes:

- (1) Pass Through Grantor -Kentucky Office of Homeland Security
- (2) Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet, Office of Highway Safety
- (3) Pass Through Grantor - Commonwealth of Kentucky, Kentucky Division of Emergency Management

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fayette County Attorney and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2011**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
considered to be material weaknesses Yes No

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
considered to be material weaknesses Yes None Reported

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

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133? Yes No

Major Programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 97.039 | Hazard Mitigation Grant |

Dollar threshold used to distinguish between type A
and type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2011-1

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE