

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

MAY 14 2012

PROPOSED REVISION OF RULES )  
REGARDING THE PROVISION OF )  
WHOLESALE WATER SERVICE BY THE )  
CITY OF VERSAILLES TO NORTHEAST )  
WOODFORD WATER DISTRICT )

PUBLIC SERVICE  
COMMISSION

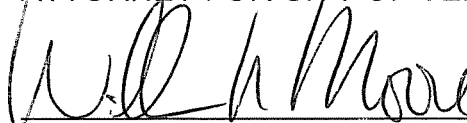
CASE NO. 2011-00419

**NOTICE OF FILING OF ADDITIONAL DOCUMENTS  
REQUESTED BY HEARING OFFICER**

Now comes the City of Versailles, by counsel, pursuant to the request of Hon. James Gardner in his capacity as hearing officer for the above-styled matter and submits the following documents requested of the City at the final hearing held on May 3, 2012, to wit:

1. Final Official Statement regarding the City of Versailles Water and Sewer Revenue Bonds, Series of 2001 in the amount of \$ 9,800,000;
2. Final Official Statement regarding the City of Versailles Water and Sewer Revenue Bonds, Series of 2004 in the amount of \$ 8,635,000; and
3. Letter to City of Versailles from Moody's Investor Services dated August 9, 2004 with attached rating information regarding the City's bonds.

ATTORNEY FOR CITY OF VERSAILLES



WILLIAM K. MOORE  
MOORE LAW OFFICE, PLLC  
126 South Main Street  
Versailles, KY 40383  
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CERTIFICATE OF SERVICE

It is hereby certified that true copies of the foregoing have been served by mailing, postage prepaid, to: Northeast Woodford Water District, 225 South Main Street, Suite A, Versailles, KY 40383 and to Hon. Joseph Hoffman, attorney for said District, United Bank Building, Versailles, KY 40383 on this 14<sup>th</sup> day of May, 2012.

  
\_\_\_\_\_  
WILLIAM K. MOORE



**FINAL OFFICIAL STATEMENT  
CITY OF VERSAILLES WATER AND SEWER  
REVENUE BONDS, SERIES OF 2001  
\$9,800,000**

FINAL OFFICIAL STATEMENT DATED SEPTEMBER 25, 2001

**BANK INTEREST DEDUCTION ELIGIBLE**

**Moody's Rating: "Aaa"  
(See "Rating" Herein)**

**BOOK-ENTRY-ONLY SYSTEM**

**\$9,800,000  
CITY OF VERSAILLES, KENTUCKY  
WATER AND SEWER REVENUE BONDS  
SERIES OF 2001**

Dated: September 15, 2001

Due: As shown below

The Bonds will be issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. Accordingly, principal, interest and premium, if any, on the Bonds will be paid by Central Bank & Trust Co., Lexington, Kentucky, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Bonds. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof, and will bear interest payable on June 1, 2002 and thereafter semiannually on each December 1 and June 1.

The Bonds maturing on and after December 1, 2012, shall be subject to prior redemption at the option of the City on and after December 1, 2011, as discussed herein.

Payment of the scheduled principal of and interest on the Bonds when due will be guaranteed by a municipal bond insurance policy to be issued simultane

**SCHEDULE OF MATURITIES**

<u>Date</u>	<u>Amount</u>	<u>Cusip #</u> <u>925224</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Date</u>	<u>Amount</u>	<u>Cusip #</u> <u>925224</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
12/1/2002	\$330,000	JD 0	3.50%	2.45%	12/1/2012	\$480,000	JP 3	4.15%	4.15%
12/1/2003	340,000	JE 8	3.50	2.60	12/1/2013	500,000	JQ 1	4.25	4.25
12/1/2004	350,000	JF 5	3.50	2.85	12/1/2014	525,000	JR 9	4.25	4.35
12/1/2005	365,000	JG 3	3.50	3.10	12/1/2015	545,000	JS 7	4.35	4.45
12/1/2006	380,000	JH 1	4.00	3.30	12/1/2016	570,000	JT 5	4.45	4.55
12/1/2007	395,000	JJ 7	4.00	3.55	12/1/2017	595,000	JU 2	4.55	4.65
12/1/2008	410,000	JK 4	4.00	3.75	12/1/2018	625,000	JV 0	4.65	4.75
12/1/2009	425,000	JL 2	4.00	3.85	12/1/2019	655,000	JW 8	4.70	4.80
12/1/2010	445,000	JM 0	4.00	3.95	12/1/2020	685,000	JX 6	4.75	4.85
12/1/2011	460,000	JN 8	4.05	4.05	12/1/2021	720,000	JY 4	4.80	4.90

(Plus accrued interest)

The Bonds are issued pursuant to authority contained in Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes. The Bonds are not obligations of the City under any Constitutional or statutory limitation of the Commonwealth of Kentucky, but are special obligations payable only from and secured by a pledge of a fixed portion of the gross income and revenues to be derived from the operation of the combined and consolidated municipal water and sewer system (the "System").

*In the opinion of Bond Counsel, interest on the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law, regulations and court decisions, except as to certain recipients, and the Bonds and interest thereon are exempt from income taxes and ad valorem taxes in the Commonwealth of Kentucky and any political subdivision thereof. See "Tax Exemption" herein.*

The Bonds are issued subject to approval of legality by Henry M. Reed III, Louisville, Kentucky, Bond Counsel to the City. Delivery of the Bonds is expected on or about October 9, 2001.

**Banc One Capital Markets**

**J.B. Hilliard, W.L. Lyons, Inc.**

**Compass Bank**

**CITY OF VERSAILLES**

The Honorable Fred Siegelman, Mayor  
Allison B. White, Clerk/Treasurer  
William Moore, Attorney  
Bart Miller, Public Works Director

Council Members

Geoffrey Reid  
Mary Ellen Bradley  
Luther Bland, Jr.  
Nickie Shryrock  
Owen Roberts  
Roy Benson

**BOND COUNSEL**

Henry M. Reed III  
Louisville, Kentucky

**FINANCIAL ADVISOR**

First Kentucky Securities Corporation  
Frankfort, Kentucky

**TRUSTEE/ PAYING AGENT/BOND REGISTRAR/CONSTRUCTION DEPOSITORY**

Central Bank & Trust Co.  
Lexington, Kentucky

**BOOK-ENTRY-ONLY SYSTEM**

(i)

**No dealer, broker, salesman, or other person has been authorized by the City of Versailles, Kentucky, or First Kentucky Securities Corporation, the Financial Advisor, to give any information or representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official**

**Statement does not constitute an offer to sell or the solicitation of any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Except where otherwise indicated, the information set forth herein has been obtained from the City of Versailles, Kentucky, and is believed to be reliable; however, such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Financial Advisor, or by Bond Counsel. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to the date hereof.**

**TABLE OF CONTENTS**

**Page**

Description of the Bonds .....	1
Authorization .....	1
Terms .....	1
Book Entry .....	1
Optional Redemption Provision .....	2
Statutory Authority, Purpose of Issue and Security .....	2
Uses and Sources of Funds .....	3
The MBIA Insurance Corporation Insurance Policy .....	3
MBIA .....	4
MBIA Information .....	4
Financial Strength Ratings of MBIA .....	5
Disposition of Bond Proceeds .....	5
Flow of Funds .....	5
Certain Provisions of the Bond Ordinance .....	7
Paying Agent and Registrar .....	7
Parity Bonds .....	7
Arbitrage Provisions .....	7
Ordinance to Constitute a Contract .....	8
Other Covenants .....	8
Continuing Disclosure .....	8
Tax Exemption .....	9
Tax Treatment of Original Issue Discount .....	9
Absence of Material Litigation .....	10
Approval of Legality .....	10
Financial Advisor .....	10
Rating .....	10

- Appendix A: City of Versailles, Kentucky Water and Sewer System
- Appendix B: Debt Service Requirements on Series 2001 Revenue Bonds
- Appendix C: Continuing Disclosure Agreement
- Appendix D: Form of Financial Guaranty Insurance Policy

## **SERIES OF 2001**

**Dated September 15, 2001**

This Official Statement, which includes the cover page, is being distributed by the City of Versailles, Kentucky, (the "City") to furnish pertinent information to all who may become holders of its Water and Sewer Revenue Bonds, Series of 2001, dated September 15, 2001 (the "Bonds") being offered hereby pursuant to the provisions of Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, and pursuant to the terms of a Bond Ordinance adopted by the City.

The summaries and references to Sections of the Kentucky Revised Statutes, the Bond Ordinance, as included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document.

### **DESCRIPTION OF THE BONDS**

#### ***Authorization***

Pursuant to Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, the City Council of the City adopted a Bond Ordinance (i) authorizing the issuance of \$9,800,000 Water and Sewer Revenue Bonds; (ii) approving the publication of a Notice of Sale of Bonds; (iii) approving the terms and conditions of bond sale; and (iv) authorizing the Mayor of the City to execute the Official Statement related to Bonds.

#### ***Terms***

The Bonds will be dated September 15, 2001, will bear interest payable June 1, 2002, and thereafter semiannually on each December 1 and June 1 at the rates established upon acceptance of a bid for said Bonds and, will mature on the dates and in the amounts set forth on the cover page.

#### ***Book Entry***

The following information regarding DTC and Cede & Co. will be applicable to the Bonds as long as a book entry system is utilized. The City does not assume any responsibility for the accuracy or completeness of the information set forth under this caption "Book Entry", and the City is not required to supervise, and will not supervise, the operation of the book entry system described herein.

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain



other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Upon issuance of the Bonds, DTC Participants shall receive a credit balance in the records of DTC. ***The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") will be recorded through the records of the applicable DTC Participant.***

Beneficial Owners will receive a written confirmation of their purchase provided by the applicable DTC Participant, providing details of the Bonds acquired. Transfers of ownership interests in the Bonds ("Beneficial Ownership Interests") will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except as specifically provided in the Ordinance.

1

The City has no responsibility or liability for any aspects of the records relative to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership.

Principal, sinking fund, and interest payments on the Bonds will be made to DTC or its nominee, as registered owner of the Bonds. Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in either form or registered in "street name", and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its DTC Participant, to the Paying Agent and Registrar, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant to transfer the DTC Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Paying Agent and Registrar, as appropriate. The requirements for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

The Paying Agent and Registrar, so long as a book entry method is used for the Bonds, will send only to DTC any notice of redemption or other notices required to be sent to Bondholders. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The City and the Paying Agent and Registrar cannot and do not represent or give any assurances that DTC, the DTC Participants or Indirect Participants or others will distribute payments of debt service charges on the Bonds paid to DTC or its nominee, as the registered

owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

***Optional Redemption Provision***

The Bonds maturing on and after December 1, 2012, are subject to redemption prior to their stated maturities on any date falling on or after December 1, 2011, in whole, or from time to time, in part, in any order of maturities (less than all of a single maturity to be selected by lot), at the option of the City at the following redemption prices (expressed as percentages of principal amount), plus accrued interest to the redemption date, all in the manner provided by the Resolution:

<u>If Redeemed:</u>	<u>Redemption Price</u>
December 1, 2011 through November 30, 2012	101.0%
December 1, 2012 through November 30, 2013	100.5%
December 1, 2013 and thereafter	100.0%

***Statutory Authority, Purpose of Issue and Security***

The Bonds are authorized pursuant to the provisions of Chapter 58 of the Kentucky Revised Statutes, including KRS 58.010 through 58.140, and a Bond Ordinance passed and adopted by the City Council of the City. The Bonds are revenue bonds and do not constitute a direct indebtedness of the City but are payable solely from and secured by a pledge of the first gross revenues derived from the operation of the combined and consolidated municipal water and sewer system ("System").

In addition to the Outstanding Bonds identified below, the City presently has outstanding \$4,310,000 of its Water Revenue Bond Anticipation Notes, Series of 2000, dated October 1, 2000 ("Notes"). Said Notes are payable from (i) the proceeds of the City's Water and Sewer Revenue Bonds, Series of 2003 to be issued on the basis of parity with these Bonds and the Outstanding Bonds, (ii) the proceeds of Renewal Notes, or (iii) the revenues of the System

The Series 2001 Bonds will rank on the basis of parity as to security and source of payment with certain of the City's outstanding Water and Sewer Refunding Revenue Bonds, Series of 1996, dated October 1, 1996; and Water and Sewer Refunding Revenue Bonds, Series of 1999, dated January 1, 1999 ("Outstanding Bonds"). Prior to the delivery of the Series 2001 Bonds, the City will obtain the required certification that the net income and revenues of the combined and consolidated municipal water and sewer System for twelve consecutive

months out of the eighteen months preceding the issuance of the Series 2001 Bonds were equal to at least 1.30 times the maximum amount of principal and interest that will become due in any System fiscal year on all Outstanding Bonds and these Series 2001 Bonds.

The proceeds of the Bonds are being issued to meet the costs associated with the first phase of the expansion of the water plant, upgrading and expanding the capacity of the sewage treatment plant and financing various other improvements to the System, including rehabilitation of certain portions of the sewer lines. This process was begun in 1999, and the expansion and upgrade is expected to be approximately \$20,000,000. The City has secured a \$1,000,000 grant from the State of Kentucky for application to the completion of the Project and is pursuing other potential sources of grant moneys. The City anticipates issuing additional bonds sufficient to complete the Project as needed, and expects that a System rate increase will be required prior to issuance of the additional bonds.

### USES AND SOURCES OF FUNDS

#### Uses of Funds:

Project Costs	\$8,875,079
Underwriting Discount	108,719
Debt Service Reserve	740,103
Costs of Bond Issuance	73,500
Contingency	<u>2,599</u>
<b>Total Project Costs</b>	<b><u>\$9,800,000</u></b>

#### Sources of Funds

Par Amount of Bonds	<u>\$9800,000</u>
<b>Total Sources of Funds</b>	<b><u>\$9800,000</u></b>

### THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so p (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered

from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

3

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.]

## **MBIA**

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth in the heading "The MBIA Insurance Corporation Insurance Policy". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **MBIA Information**

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2000;
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001; and
- (3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-10000. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, and (3) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference

room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2000, MBIA had admitted assets of \$7.6 billion (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2001, MBIA had admitted assets of \$8.1 billion (unaudited), total liabilities of \$5.8 billion (unaudited), and total capital and surplus of \$2.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

### **Financial Strength Ratings of MBIA**

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

### **DISPOSITION OF BOND PROCEEDS**

Upon issuance and delivery of the Bonds, all sums representing accrued interest received from the purchaser(s) shall be deposited in the Bond Fund (hereinafter described) and shall be used for payment of interest coming due on the Bonds.

Next, there shall be set aside and paid from the proceeds of the Bonds all expenses incident to the authorization, sale and delivery thereof.

Next, there shall be set aside and paid from the proceeds of the Bonds a Debt Service Reserve deposit equal to the maximum annual debt service requirements for these 2001 Bonds.

The entire remaining proceeds of the Bonds shall be deposited, until needed for construction purposes, with the Construction Depository (Central Bank & Trust Co., Lexington, Kentucky), into a special account called "City of Versailles Water & Sewer System Series 2001 Construction Fund" (the "Construction Fund").

### *Flow of Funds*

The income and revenues of the combined and consolidated Water and Sewer System shall be collected, segregated, accounted for and distributed as follows:

Revenue Fund - A separate and special fund or account of the City has heretofore been created and shall be continued and is designated the "City of Versailles Water and Sewer Revenue Fund" (the "Revenue Fund") into which the City has pledged to deposit promptly as received all cash revenues of the System. The moneys in this Fund shall be applied by the City only for the purposes and in the order of priorities as described below.

5

Bond Fund - There has previously been created with the Depository a separate account designated the "Water and Sewer Revenue Bond and Interest Redemption Fund of 1960" (the "Bond Fund") and such account shall continue to be maintained so long as any Bonds are outstanding. Within the Bond Fund there is, and shall continue to be maintained, the "Water and Sewer Debt Reserve Fund of 1960" (the "Debt Reserve Fund") into which there shall be deposited and maintained an amount equal to the maximum amount of principal of and interest on all outstanding Water and Sewer Revenue Bonds in any year (the "Required Minimum Balance") including any parity bonds issued in the future, so long as any Bonds remain outstanding.

At any time when the Debt Reserve Fund contains an amount below the required minimum balance, whether because of the issuance of parity bonds or because of authorized withdrawals, there shall be transferred to the Bond Fund from the Revenue Fund, and as a first charge thereon, on or before the 20<sup>th</sup> day of each month, a sum equal to one-fifth (1/5) of the interest becoming due on the next succeeding interest due date plus one-tenth (1/10) of the principal becoming due on the next succeeding December 1.

At any time when the Required Minimum Balance has been accumulated in the Debt Reserve Fund, the transfers from the Revenue Fund to the Bond Fund on or before the 20<sup>th</sup> day of each month shall be equal to one-sixth (1/6) of the interest to become due on the next succeeding interest due date plus one-twelfth (1/12) of the principal becoming due on the next succeeding December 1.

All provisions relating to deposits and accumulations in the Bond Fund shall be cumulative, and if there be failure to deposit the prescribed amounts in any one or more months, a sum equal to the deficiency shall be deposited as soon as available, and the same shall be in addition to the amounts otherwise prescribed to be deposited in the Bond Fund for the succeeding month or months.

Moneys held in the Debt Reserve Fund may, upon order of the City Council, be invested in bonds, notes or certificates of indebtedness of the United States Government maturing not later than three (3) years from date of investment. Income from any such investments shall be accumulated in the Debt Reserve Fund.

Amounts on deposit in the Bond Fund and the Debt Reserve Fund are irrevocably pledged solely for the payment of the principal of and interest on such Water and Sewer Revenue Bonds as may be outstanding from time to time and for no other purpose.

Withdrawals from the Debt Reserve Fund may be made if and to the extent at any time required to prevent default in the payment of principal of or interest on any bonds which by their terms are payable from the Bond Fund and for no other purpose.

Note Fund - Following the required deposits to the Bond Fund and Debt Service Reserve Fund, monthly transfers shall be made in amounts equal to one-sixth (1/6) of the interest becoming due on the City's outstanding Notes which shall be deposited in the Water and Sewer Revenue Bond Anticipation Note Fund ("Note Fund").

KIA Loan Fund - Following the required deposits to the Bond Fund, Debt Reserve Fund and Note Fund monthly transfers shall be made from the Revenue Fund sufficient to meet the City's obligations under its Loan Agreement with the Kentucky Infrastructure Authority ("KIA") which shall be deposited in the KIA Loan Fund.

Maintenance and Operation Fund - A separate fund or account of the City has previously been created and shall continue to be maintained so long as any bonds are outstanding, such account designated the "Maintenance and Operation Fund". After observing the priority of deposits into the Bond Fund and KIA Loan Fund, there shall be deposited each month in the Maintenance and Operation Fund a sum equal to the anticipated expenses of operating and maintaining the System for the next ensuing month.

Depreciation Fund - The City has created and maintains a special account with the Depository Bank identified as the "Depreciation Fund" which shall continue to be maintained so long as any of the Water and Sewer Revenue Bonds are outstanding. The City covenants that, after observing the priorities of deposits into the Bond Fund and KIA Loan Fund, it will transfer monthly into the Depreciation Fund an amount equal to ten percent (10%) of the funds remaining in the Revenue Fund, so long as the unexpended balance remaining in the Depreciation Fund is less than \$100,000. The City further covenants that it will additionally deposit into the Depreciation Fund the proceeds from the sale of any equipment no longer usable or needed, all fees or charges collected from potential customers to aid in the financing of the cost of extensions and improvements, and any proceeds received from property damage insurance.

Moneys in the Depreciation Fund may be withdrawn and used by the City for (a) paying the costs of unusual or extraordinary repairs, renewals or replacements; (b) paying the costs of constructing additions and improvements to the System which will either enhance its revenue producing capacity or provide a higher degree of service; or the prevention of default in the payment of interest on and/or principal of any bonds outstanding from time to time.

Surplus in Revenue Fund - Whenever all specified and required transfers and payments into the above special funds have been made, and the prescribed reserves have been accumulated to the required amounts and there is a balance in the Revenue Fund in excess of the estimated amount required to be transferred and paid into the special funds during the next succeeding three (3) months, such excess may



be transferred to the Depreciation Fund, or may be used to purchase or retire bonds, or for the payment of payment of the interest on or principal of other obligations of the City incurred in connection with the System, or for any other lawful purpose.

### **CERTAIN PROVISIONS OF THE BOND ORDINANCE**

The Bond Ordinance contains various covenants of the City and provisions for the payment of the Bonds in accordance with their terms, certain of which are summarized below. Reference is made to the Bond Ordinance for a full and complete statement of its provisions.

The City has authorized the issuance of its City of Versailles, Kentucky, Water and Sewer Revenue Bonds, in an aggregate amount of \$9,800,000. The Bonds are fully registered and in denominations in multiples of \$5,000. The Bonds bear interest payable on June 1 and December 1 in each year, beginning June 1, 2002, at such interest rate or rates as may be fixed by the City, as a result of an advertised sale of said Bonds in competitive bidding therefor. Said Bonds shall mature on December 1, 2002 and each December 1 thereafter of the respective years as provided in the Bond Ordinance and elsewhere herein.

#### ***Paying Agent and Registrar***

Central Bank & Trust Co., Lexington, Kentucky, has been named Paying Agent and Bond Registrar. Interest and principal payments will be made by the Paying Agent by wire transfer to DTC on each due date. Please see "Book Entry" supra.

#### ***Parity Bonds***

The City reserves the right to issue additional bonds in the future in order to pay the costs of additions, extensions and improvements to the System ranking on parity with these 2001 Revenue Bonds, together with the Outstanding Bonds. Neither these Bonds, the Outstanding Bonds previously issued and presently outstanding, nor bonds issued in the future in accordance with the restrictions and conditions contained in the Ordinance shall be entitled to priority, one over the other, in the application of the revenues pledged.

Prior to the issuance of such parity bonds, there shall be procured and filed with the City Clerk a statement by an independent public accountant not in the regular employ of the City reciting the conclusion that the net revenues of the System during a period of twelve consecutive months out of the eighteen months immediately preceding the issuance of such parity bonds were equal to at least 1.30 times the maximum amount that will become due in any succeeding fiscal year of the System for both principal of and interest on all Bonds then outstanding and also the parity bonds then proposed to be issued. In the event that the net revenues for such period were inadequate to meet the foregoing requirements; the amount of gross revenues reflected in such certificate may be adjusted to reflect any revision in the schedule of rates being imposed at the time and also reflect the additional estimated net revenues to be realized through the extensions; betterments and improvements of the System to be acquired or constructed through the issuance of such additional bonds, such adjustments to be based upon certification by a consulting engineer of national reputation not in the regular employ of the City.

The City further reserves the right to issue additional bonds payable from the revenues pledged but not ranking on parity with these 2001 Bonds and the Outstanding Bonds.

Upon the retirement of the Outstanding Bonds, the required parity coverage requirement shall be reduced from 1.30 to 1.20 times the maximum annual debt service for these Series 2001 Bonds and any parity bonds.

### ***Arbitrage Provisions***

The City shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the City on the Bonds shall, for the purpose of Federal income taxation, be excludable from the gross income of the recipients under any valid provision of law.

The City shall not permit at any time any of the proceeds of the Bonds or other funds of the City to be used to acquire any securities or obligations the acquisition of which would cause any such Bond to be an "arbitrage bond", as defined in the Internal Revenue Code of 1986, as amended (the "Code"), unless under any valid provision of law hereafter enacted, the interest paid by the City on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the Code.

7

### ***Ordinance to Constitute a Contract***

The provisions of the Ordinance shall constitute a contract between the City and the Registered Owners of any Bonds from time to time outstanding and, after the sale of such Bonds, no change in the provisions of the Resolution shall be permitted while any of said Bonds remain outstanding and unpaid, except as expressly authorized in the Ordinance.

### ***Other Covenants***

The City further covenants that so long as any of the bonds issued pursuant to the authority of the 2001 Ordinance remain outstanding and unpaid:

- (A) It will perform all duties required by law and by the terms of the Ordinance.
- (B) It will maintain the System in good condition and will make renewals and replacements as same may be required.
- (C) It will not sell, mortgage, pledge, lease or in any manner dispose of the System or the revenues thereof, except as permitted by the Ordinance.
- (D) It will establish, enforce and collect reasonable rates and charges to be adequate at all times to operate and maintain the System, provide for depreciation thereof and for orderly payment of principal and interest on all outstanding bonds.
- (E) It will adopt, by July 1 of each year, a budget of current expenses for the System and an estimate of gross revenues for the ensuing fiscal year, and to the extent that gross revenues are insufficient, it will revise its rates and charges.
- (F) It will not at any time reduce the prevailing schedule of rates and charges without first obtaining the written determination of a consulting engineer that the proposed reduction will not adversely affect the ability of the City to meet all the requirements set forth in the Ordinance.
- (G) It will at all times segregate and regularly make application of the revenues of the System in accordance with the Ordinance.
- (H) It will keep proper books of record, separate from all other municipal records.

(I) It will within 90 days after the end of each fiscal year cause an audit to be made of the books of record by an independent accountant.

Any Registered Owner of 2001 Bonds may enforce and compel performance by the City of all duties imposed by law or the Ordinance.

(K) If there be any default in the payment of the principal of or interest on any of the 2001 Bonds, any Registered Owner of said bonds may file suit and any court having jurisdiction may appoint a receiver to administer the System on behalf of the City with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System and for payment of operating expenses and to apply the revenues in conformity with the Ordinance.

(L) It will cause each municipal officer or other person (other than depository banks) having custody of any moneys administered under the provisions of the Ordinance to be bonded at all times in a amount at least equal to the maximum amount of such moneys in custody at any time.

(M) It will maintain at all times insurance of all insurable properties constituting parts of the System to the full insurable value thereof against damage or destruction by fire, windstorm and the hazards covered by the standard "extended coverage" policy endorsements.

(N) Pursuant to KRS 95.934 rates and charges for sewer service provided by the System shall be billed simultaneously with rates for water service provided by the System and water service will be discontinued to any premises where there is failure to pay any part of the aggregate charges so billed including such interest, penalties and fees for disconnection and/or reconnection as may be prescribed from time to time.

#### **CONTINUING DISCLOSURE**

As a result of the City and issuing agencies acting on behalf of the City having outstanding, at the time the Bonds referred to herein are offered for public sale, municipal securities in excess of \$10,000,000, the City will enter into a written agreement for the benefit of all parties who may become Registered Owners or Beneficial Owners of the Bonds whereunder said City shall be obligated to (i) supply to the repositories designated under said Rule by the Municipal Securities Rule Making Board notice of any of the "material events" outlined in said Rule should same occur and (ii) supply financial information on an annual basis. A draft of said agreement is attached hereto as Appendix C.

Financial Information regarding the City may be obtained from the City Clerk, City of Versailles, Kentucky, Post Office Box 625, Versailles, Kentucky, 40383 (phone number: (859) 873-4581).

#### **TAX EXEMPTION**

With regard to the Internal Revenue Code of 1986, as amended, Bond Counsel advises as follows:

- (A) The Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.
- (B) The interest income from the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law; provided, that the corporate entities noted below are advised of certain tax consequences as follows:
- 1) In the computation of the corporate minimum tax, earnings and profits may include otherwise tax-exempt interest on the Bonds; this provision applies to corporations only.
  - 2) Property and casualty insurance companies may be denied certain loss reserve deductions to the extent of otherwise tax-exempt interest on the Bonds.
- (C) As a result of designations and certifications by the City, indicating the issuance of less than \$10,000,000 of "qualified tax-exempt obligations" during the calendar year ending December 31, 2001, the Bonds may be treated by financial institutions as if they were acquired before August 8, 1986.
- (D) The interest income from the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law for individuals; however, said income must be included in the calculation of "modified adjusted gross income" in the determination of whether and to what extent Social Security benefits are subject to Federal income taxation.

#### **TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT**

The initial public offering price to be paid for certain Bonds (each a "Discount Bond") is less than the amount payable on such Bond at its stated maturity.

An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that stated maturity are sold to the public at such price) and the amount payable at stated maturity constitutes interest to the initial purchaser of such Discount Bonds. A portion of such interest, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at stated maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest at the yield to stated maturity on such Discount Bond.

Further, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by the Tax Reform Act of 1986 and the environmental tax imposed by the Superfund Revenue Act of 1986, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may

result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable dispositions of a Discount Bond prior to stated maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under the applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

#### **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the City taken with respect to the issuance or sale thereof.

#### **APPROVAL OF LEGALITY**

Legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approval of Henry M. Reed III, Louisville, Kentucky, Bond Counsel to the City. The approving legal opinion of Bond Counsel will be printed on the Bonds and will contain a statement of tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the Bonds under the headings "Description of the Bonds", "Certain Provisions of the Bond Ordinance", "Continuing Disclosure", "Tax Exemption" and "Tax Treatment of Original Issue Discount", and is of the opinion that such information is a fair summary of the principal provisions of the instruments and information therein described. Bond Counsel has not otherwise participated in the preparation of the Official Statement and has not verified the accuracy or completeness of any financial information, projections, or computations related thereto, and therefore can make no representation with respect to such information.

#### **FINANCIAL ADVISOR**

The Bonds were sold on a publicly advertised, competitive basis. First Kentucky Securities Corporation, Frankfort, Kentucky, Financial Advisor to the City, will receive a fee, subject to delivery of the Bonds, for its advisory services.

**RATING**

Moody's Investors Service ("Moody's") has assigned the rating of "Aaa" to the Bonds, on the basis of the financial guaranty insurance policy to be simultaneously delivered with the Bonds. Such rating reflects only the opinion of such organization. There can be no assurance that such rating will be maintained for any given period of time or that it will not be revised or withdrawn entirely. Any downward revision or withdrawal of such rating may have a material adverse effect on the market price of the Bonds.

This Official Statement does not, as of its date, contain any untrue statement of a material fact or omit to state a material fact which should be included herein for the purpose for which the Official Statement is to be used or which is necessary in order to make the statements contained herein, in light of the circumstances under which they were made, not misleading in any material respect.



All quotations from, and summaries and explanations of, the Kentucky Revised Statutes and the Bond Ordinance contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of the Bond Ordinance may be obtained from First Kentucky Securities Corporation, P. O. Box 554, Frankfort, Kentucky 40602-0554.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holder of any of the Bonds.

CITY OF VERSAILLES, KENTUCKY

s/           Fred Siegelman            
          Mayor

ATTEST:

s/           Allison B. White            
          City Clerk

**APPENDIX A**

*City of Versailles, Kentucky*  
*Water and Sewer System*

CITY OF VERSAILLES KENTUCKY  
WATER AND SEWER SYSTEM

The City of Versailles owns and operates a combined water and sewer utility serving approximately 5,245 water customers and 4,475 sewer customers. Improvements have been made to meet the demands of continued growth of the area. Funds for financing the improvements were derived from revenues of the system, water and sewer revenue bond issues and from federal and state grants for the sewerage facilities.

The City's water distribution system includes adequate mains, services and elevated treated water storage at the present time.

*Water Connections and Water Pumpage*

<u>Year</u>	<u>Average Daily Pumpage (Gals.) *</u>	<u>Maximum Daily Pumpage (Gals.)</u>	<u>Average Number Water Services</u>
2000	2,811,899	3,600,000	5,395
1999	2,971,773	3,600,000	5,245
1998	2,939,281	3,600,000	5,095
1997	2,567,890	3,600,000	4,955



1996	2,508,308	3,600,000	4,834
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\* "Average Daily Pumpage" includes water bought as needed from Kentucky American Water.

***Sewer Connections and Sewer Pumpage***

<u>Year</u>	<u>Average Daily Wastewater Pumpage (Gals.)</u>	<u>Average Number Sewer Customers</u>
2000	1,870,000	4,605
1999	1,790,000	4,475
1998	2,250,000	4,453
1997	2,320,000	4,323
1996	2,330,000	4,129

***Water and Sewer Service Rates (effective July 1, 2000)***

**Water Service**

	<u>Inside City</u>		<u>Outside City</u>
Minimum Monthly Charge	\$3.50	Minimum Monthly Charge	\$5.50
First 1,000 gal.	\$3.50 minimum	First 1,000 gal.	\$5.50 minimum
Next 9,000 gal.	\$1.72	Next 9,000 gal.	\$2.15
Next 15,000 gal.	\$1.67	Next 15,000 gal.	\$2.09
Next 75,000 gal.	\$1.64	Next 75,000 gal.	\$2.05
Next 900,000 gal.	\$1.62	Next 900,000 gal.	\$2.03
All Over 1,000,000 gal.	\$1.60	All Over 1,000,000 gal.	\$2.00

**Sewer Service**

	<b><u>Inside City</u></b>		<b><u>Outside City</u></b>
Minimum Monthly Charge	\$3.30	Minimum Monthly Charge	\$5.95
First 1,000 gal.	\$3.30	First 1,000 gal.	\$5.95
Next 9,000 gal.	\$1.42	Next 9,000 gal.	\$2.46
Next 15,000 gal.	\$1.31	Next 15,000 gal.	\$2.33
Next 75,000 gal.	\$1.25	Next 75,000 gal.	\$2.18
Next 900,000 gal.	\$1.20	Next 900,000 gal.	\$2.13
All Over 1,000,000 gal.	\$1.18	All Over 1,000,000 gal.	\$2.11

A-1

***Ten Largest Users of Water System (July 1, 2000-June 30, 2001)***

<b><u>Customer's Name</u></b>	<b><u>Usage (Gallons)</u></b>	<b><u>Charge</u></b>
Northeast Woodford Water District	13,817,100	\$221,373.96
South Woodford Water District	12,143,100	194,589.96
United L-N Glass, Inc.	9,222,200	147,855.56
Osram Sylvania Products	4,427,200	71,135.56

World Color (Quebecor)	2,402,100	38,732.60
Y H America, Inc.	1,436,800	23,284.88
Osram Sylvania Products	1,224,800	19,874.64
Texas Instruments, Inc.	626,900	10,216.14
Versailles Municipal Housing Authority	600,900	9,794.94
Methodist Home	447,100	9,159.53

*Assessment of Taxable Property*

<b>Fiscal Year</b>		<b>Bank Franchise</b>
<b><u>Ended June 30</u></b>	<b><u>Real Property</u></b>	<b><u>&amp; Deposit Tax</u></b>
2000	\$351,415,244	\$264,300,296
1999	358,987,315	249,081,825
1998	320,835,049	228,746,696
1997	312,453,349	134,223,070
1996	284,244,084	190,033,009

*Property Tax Rates (Per \$100 of Assessed Value)*

<b>Fiscal Year</b>		
<b><u>Ended June 30</u></b>	<b><u>Real Property</u></b>	<b><u>Bank Shares</u></b>
2000	.047	.224

1999	.044	.224
1998	.048	.224
1997	.046	.224
1996	.050	.224

*Taxes Levied and Collected (Includes Bank Shares)*

<b>Fiscal Year</b>		
	<b><u>Taxes Levied</u></b>	<b><u>Taxes Collected</u></b>
<b><u>Ended June 30</u></b>		
1999	\$158,106.75	\$205,975.87
1998	153,942.23	189,998.00
1997	142,122.04	196,538.00

		<b>Amount of</b>	<b>Outstanding</b>
<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Original Issue</u>	<u>September 15, 2001</u>
October 1, 1996	12/1/05	\$ 710,000	\$ 565,000
January 1, 1999	12/1/10	2,715,000	2,300,000

*Outstanding Water and Sewer Bond Anticipation Notes*

		<b>Amount of</b>	<b>Outstanding</b>
<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Original Issue</u>	<u>September 15, 2001</u>
October 1, 2000	10/1/03	\$4,310,000	\$4,310,000

*Debt Service Coverage*

The Bond Ordinance requires that, prior to the issuance of parity bonds, a certification by a Certified Public Accountant, not in the regular employ of the City, be obtained to the effect that the net revenues of the System are no less than 1.30 times the maximum amount of principal of and interest on the Prior Bonds and the bonds proposed to be issued in any year prior to the final maturities.

Following is the calculation of coverage of maximum debt service by net revenues, as adjusted, after issuance of the 2001 Bonds, using amounts for the fiscal year ended June 30, 2000:

Gross Revenues	\$3,751,252
Operating Expenses	2,158,348
Less Depreciation	<u>(433,138)</u>
Net Operating Expenses	<u>1,725,210</u>
Net Operating Revenues	2,026,042

Debt Service - Maximum	
Principal and Interest in 2011	1,091,348
Debt Service Covered	1.86x

***General Information***

Located in the heart of thoroughbred country, Woodford County is the home of many beautiful horse farms. Woodford County, with a land area of 191 square miles, had an estimated 1998 population of 22,830.

Versailles, the county seat of Woodford County, is located in central Kentucky's famous Bluegrass Region. Versailles is located 15 miles west of Lexington, Kentucky; 63 miles southeast of Louisville, Kentucky; 88 miles south of Cincinnati, Ohio; and 186 miles north of Knoxville, Tennessee. Versailles had an estimated 1998 population of 8,233.

Woodford County firms employed 9,569 people in 1997. Contract construction firms provided 351 jobs; manufacturing firms in the county reported 3,797 employees; wholesale and retail trade provided 1,514 jobs; 1,384 were employed in the service industry; and state and local government accounted for 949 jobs.

Major highways serving Versailles and Woodford County are U.S. Highways 60 and 62, both "AAA"-rated trucking highways. The Blue Grass Parkway is located three miles south of Versailles. Thirty-one common carrier trucking companies provide interstate and/or intrastate service to Versailles. The Lexington and Ohio Railroad provides branch line rail service to Versailles. Scheduled commercial airline service is available at Blue Grass Airport, eight miles east of the city.

A-3

***Largest Manufacturing Employers in Versailles***

The following represents the largest manufacturing firms in Versailles in 1999:

<u>Firm, Year Established and Product</u>	<u>1999 Employment</u>
Quebecor World	1,500

Book Publishing and printing; staple, saddle Stitch and perfect binding	
Texas Instruments, Inc. (1954) Thermostats, relays, pressure switches and motor protectors; control circuit boards	800
Osram Sylvania, Inc. (1964) Fluorescent lamps	690
Osram Sylvania, Inc., Glass Plant (1972) Glass tubing	300
YH America, Inc.-Div. 1 (1989) Automotive air conditioning and power steering hoses; fittings and assembly	300
Kuhlman Electric Corporation (1969) Instrument transformers	190
United L-N Glass, Inc. (1987) Automobile windshield and side window glass	100
Ruggles Sign Co. (1946) Electric, fluorescent, metal, neon, plastic and wooden signs	40
Woodford Feed Company (1940) Feed and fertilizer grinding, mixing and Blending	35
McKinney Production Coating (1991) Production spray painting service of steel or Postal baskets and small automobile parts	25

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Source: Kentucky Cabinet for Economic Development, Division of Research and Planning.

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A-4

*Woodford County Municipal Bond Debt (as of June 30, 1999)*

	<u>Original Amount Issued</u>	<u>Principal Amount Outstanding</u>
<b><u>Woodford County</u></b>		
Courthouse Public Corporation	\$4,735,000	\$3,995,000
Public Project Public Corporation	2,660,000	1,360,000
Lease Purchase Public Corporation	387,000	349,000
<b><u>City of Versailles</u></b>		
Water & Sewer Revenue	4,780,000	3,070,000
Kentucky Infrastructure Loan	220,819	56,760
<b><u>City of Midway</u></b>		
Industrial Facility Revenue	2,230,000	2,230,000
Sewer Revenue	800,000	680,000
Kentucky Infrastructure Loan	648,538	564,088



**North Woodford County Water District**

Water Revenue	787,000	671,000
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**North Woodford County Water District**

Water Revenue	370,000	108,000
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**South Woodford County Water District**

Water Revenue	1,070,000	922,000
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**Woodford County School District**

School Building Revenue	16,710,000	8,370,000
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Source: 1999 Kentucky Local Debt Report

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**APPENDIX B**

*Debt Service Requirements*  
*on*  
*Series 2001 Revenue Bonds*

**CITY OF VERSAILLES, KENTUCKY  
WATER AND SEWER REVENUE BONDS  
SERIES OF 2001**

**DEBT SERVICE REQUIREMENTS**

			<b>Period</b>	Fiscal
<b><u>Date</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>	<b><u>Total</u></b>
6/1/02		\$ 295,735.11	\$ 295,735.11	\$295,735.11
12/1/02	\$ 330,000	207,938.75	537,938.75	
6/1/03		202,163.75	202,163.75	740,102.50
12/1/03	340,000	202,163.75	542,163.75	
6/1/04		196,213.75	196,213.75	738,377.50
12/1/04	350,000	196,213.75	546,213.75	
6/1/05		190,088.75	190,088.75	736,302.50
12/1/05	365,000	190,088.75	555,088.75	
6/1/06		183,701.25	183,701.25	738,790.00
12/1/06	380,000	183,701.25	563,701.25	
6/1/07		176,101.25	176,101.25	739,802.50
12/1/07	395,000	176,101.25	571,101.25	
6/1/08		168,201.25	168,201.25	739,302.50
12/1/08	410,000	168,201.25	578,201.25	
6/1/09		160,001.25	160,001.25	738,202.50
12/1/09	425,000	160,001.25	585,001.25	
6/1/10		151,501.25	151,501.25	736,502.50
12/1/10	445,000	151,501.25	596,501.25	
6/1/11		142,601.25	142,601.25	739,102.50
12/1/11	460,000	142,601.25	602,601.25	
6/1/12		133,286.25	133,286.25	735,887.50
12/1/12	480,000	133,286.25	613,286.25	
6/1/13		123,326.25	123,326.25	736,612.50
12/1/13	500,000	123,326.25	623,326.25	
6/1/14		112,701.25	112,701.25	736,027.50
12/1/14	525,000	112,701.25	637,701.25	
6/1/15		101,545.00	101,545.00	739,246.25
12/1/15	545,000	101,545.00	646,545.00	
6/1/16		89,691.25	89,691.25	736,236.25
12/1/16	570,000	89,691.25	659,691.25	
6/1/17		77,008.75	77,008.75	736,700.00
12/1/17	595,000	77,008.75	672,008.75	
6/1/18		63,472.50	63,472.50	735,481.25
12/1/18	625,000	63,472.50	688,472.50	
6/1/19		48,941.25	48,941.25	737,413.75
12/1/19	655,000	48,941.25	703,941.25	
6/1/20		33,548.75	33,548.75	737,490.00

12/1/20	685,000	33,548.75	718,548.75	
6/1/21		17,280.00	17,280.00	735,828.75
12/1/21	<u>720,000</u>	<u>17,280.00</u>	<u>737,280.00</u>	737,280.00
Totals	<u>\$9,800,000</u>	<u>\$5,246,423.86</u>	<u>\$15,046,423.86</u>	

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Source: Financial Advisor

B-1

**APPENDIX C**

*Continuing Disclosure Agreement*

## **CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement ("Agreement") made and entered into as of the 15th day of September, 2001 by and between the City of Versailles, Kentucky ("City"), Central Bank & Trust Co., Lexington, Kentucky ("Bank") and the Registered and Beneficial Owners hereinafter identified as third party beneficiaries to this Agreement. For the purposes of this Agreement "Beneficial

Owner" means the person or entity treated as the owner of the Bonds for federal income tax purposes and "Registered Owner" means the person or entity named on the registration books of the bond registrar.

The City has never failed under previous written agreements to comply in all material respects with any previous undertaking with regard to the Rule to provide required financial reports or notices of material events.

**WITNESSETH:**

WHEREAS, the City pursuant to the provisions of Sections 58.010 through 58.150 of the Kentucky Revised Statutes ("KRS") and the City's Bond Ordinance has authorized the issuance, sale and delivery of \$9,800,000 of the City's Water and Sewer Revenue Bonds, Series of 2001, dated September 15, 2001 ("Bonds"), which Bonds were offered for sale under the terms and conditions of a Final Official Statement ("FOS") prepared by First Kentucky Securities Corporation, Frankfort, Kentucky ("Financial Advisor") and approved by the authorized representatives of the City, and

WHEREAS, the Securities and Exchange Commission ("SEC"), pursuant to the Securities and Exchange Act of 1934, has amended the provisions of SEC Rule 15c2-12 relating to financial disclosures by the issuers of municipal securities under certain circumstances ("Rule"), and

WHEREAS, it is intended by the parties to this Agreement that all terms utilized herein shall have the same meanings as defined by the Rule, and

WHEREAS, the City is an "obligated person" as defined by the Rule and subject to the provisions of said Rule, and

WHEREAS, failure by the City to observe the requirements of the Rule will inhibit the subsequent negotiation, transfer and exchange of the Bonds with a resulting diminution in the market value thereof to the detriment of the Registered and Beneficial Owners of said Bonds and the City;

NOW, THEREFORE, in order to comply with the provisions of the Rule and in consideration of the purchase of the Bonds by the Registered and Beneficial Owners, the parties hereto agree as follows:

**1. ANNUAL FINANCIAL INFORMATION.**

The City agrees to provide the annual financial information contemplated by Rule 15c2-12(b)(5)(i) relating to the City for its fiscal years ending June 30 of each year to the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRS") as required by SEC Regulations and the State Information Depository ("SID"), if any (the Commonwealth of Kentucky has not established a SID as of the date of this Agreement) within nine (9) months of the close of each fiscal year.

For the purposes of the Rule "annual financial information" means financial information or operating data provided annually, of the type included in the FOS with respect to the Assessments and the Bonds, and shall include annual audited financial statements for the in order that the recipients will be provided with ongoing information regarding revenues and operating expenses of the City.

The annual financial information shall be prepared in accordance with Generally Accepted Accounting Principles, Generally Accepted Auditing Standards or in accordance with the appropriate sections of KRS or Kentucky Administrative Regulations.

The parties hereto agree that this Agreement is entered into among them for the benefit of those who become Registered and Beneficial Owners of the Bonds as third party beneficiaries to said Agreement.

C-1

## 2. MATERIAL EVENTS NOTICES.

Under the Rule, Section 15c2-12(b)(5)(i)(C), the following eleven (11) events must be disclosed to the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRS") or to the Municipal Securities Rule Making Board ("MSRB") and to the if any:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bondholders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing the repayment of the Bonds; and



(11) Rating changes.

Notice of said material events shall be given to the entities identified in this Section by the City on a timely basis in light of the date of occurrence of the material events. Notwithstanding the foregoing, the provisions of the documents under which the Bonds are authorized and issued do not provide for a debt service reserve, credit enhancements or credit or liquidity providers.

In accordance with Rule Section 15c2-12(b)(5)(i)(D), the City agrees that in the event of a failure to provide the financial information required under Section 1 of this Agreement, it will notify each NRMSIR or MSRB and SID of such failure in a timely manner.

### **3. SPECIAL REQUESTS FOR INFORMATION.**

Upon the request of any Registered or Beneficial Owner of the Bonds or the original purchaser of the Bonds or any subsequent broker-dealer buying or selling said Bonds on the secondary market ("Underwriters"), the City shall cause financial information or operating data regarding the City to be made available on a timely basis following such request as set forth in Section 1.

### **4. DISCLAIMER OF LIABILITY.**

The City hereby disclaims any liability for monetary damages for any breach of the commitments set forth in this Agreement and remedies for any breach of the continuing disclosure undertaking shall be limited to an action for specific performance or mandamus in a court of competent jurisdiction in Kentucky following notice and an opportunity to cure such a breach.

### **5. FINAL OFFICIAL STATEMENT.**

That the Final Official Statement prepared by the Financial Advisor and approved by the authorized representatives of the City is hereby incorporated in this Agreement as fully as if copied herein and the "financial information" required under Section 1 hereof shall in summary form update the specific information set forth in said FOS.

C-2

### **6. DURATION OF THE AGREEMENT.**

This Agreement shall be in effect so long as any of the Bonds remain outstanding and unpaid; provided, however, that the right is reserved in the City to delegate its responsibilities under the Agreement to a competent agent or trustee, or to adjust the format of the presentation of annual financial information so long as the intent and purpose of the Rule to present adequate and accurate financial information regarding the City is served.

## 7. AMENDMENT; WAIVER

Notwithstanding any other provision of this Agreement, the City may amend this Agreement, and any provision of this Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 1, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders of the Bonds in the same manner as provided in the Bond Ordinance for amendments to the Bond Ordinance with the consent of the holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Registered Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Agreement, the City shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 15c2-12(b)(5)(i)(C) of the Rule, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

## 8. DEFAULT

In the event of a failure of the City to comply with any provision of this Agreement, the Bank may and, at the request of any Underwriter or any Registered or Beneficial Owner of Bonds, shall, or any Registered or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Bond Ordinance, and the sole remedy under this Agreement in the event of any failure of the City to comply with this Agreement shall be an action to compel performance.

In witness whereof the parties hereto have executed this Agreement as of the date first above written.

**CITY OF VERSAILLES, KENTUCKY**

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Mayor

Attest:

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City Clerk

**CENTRAL BANK & TRUST CO.  
LEXINGTON, KENTUCKY**

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Vice President

C-3

**APPENDIX D**

*Form of Financial Guaranty Insurance Policy*



**FINAL OFFICIAL STATEMENT  
CITY OF VERSAILLES WATER AND SEWER  
REVENUE BONDS, SERIES OF 2004  
\$8,635,000**

**FINAL OFFICIAL STATEMENT  
DATED JULY 28, 2004**

Moody's Rating: "Aaa"  
(See "Rating" Herein)

BANK INTEREST DEDUCTION ELIGIBLE

**BOOK-ENTRY-ONLY SYSTEM**

**\$8,635,000  
CITY OF VERSAILLES, KENTUCKY  
WATER AND SEWER REVENUE BONDS  
SERIES OF 2004**

**Dated: August 1, 2004**

**Due: As shown below**

The Bonds will be issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. Accordingly, principal, interest and premium, if any, on the Bonds will be paid by Central Bank & Trust Co., Lexington, Kentucky, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Bonds. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof, and will bear interest payable on December 1, 2004 and thereafter semiannually on each June 1 and December 1.

The Bonds maturing on and after December 1, 2015, shall be subject to prior redemption at the option of the City on and after December 1, 2014, as discussed herein.

**SCHEDULE OF MATURITIES**

**\$90,000 2.50% Term Bonds due December 1, 2007 - Yield 2.50% - Cusip # 925224 JZ 1 (plus accrued interest)**  
**\$95,000 3.30% Term Bonds due December 1, 2010 - Yield 3.30% - Cusip # 925224 KA 4 (plus accrued interest)**

**\$8,450,000 Serial Bonds (plus accrued interest)**

<u>Due</u>	<u>Cusip #</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Due</u>	<u>Cusip #</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
12/1/11	KB 2	\$395,000	3.50%	3.50%	12/1/18	KJ 5	\$515,000	4.30%	4.30%
12/1/12	KC 0	405,000	3.65	3.65	12/1/19	KK 2	540,000	4.40	4.40
12/1/13	KD 8	425,000	3.80	3.80	12/1/20	KL 0	565,000	4.50	4.50
12/1/14	KE 6	435,000	3.90	3.90	12/1/21	KM 8	590,000	4.50	4.60
12/1/15	KF 3	455,000	4.00	4.00	12/1/22	KN 6	1,000,000	4.75	NRO
12/1/16	KG 1	475,000	4.10	4.10	12/1/23	KP 1	1,050,000	4.75	NRO
12/1/17	KH 9	495,000	4.20	4.20	12/1/24	KQ 9	1,105,000	4.75	NRO

The scheduled payment of principal and interest on the Bonds, when due, will be guaranteed under an insurance policy for the Bonds to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.



The Bonds are issued pursuant to authority contained in Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes. The Bonds are not obligations of the City under any Constitutional or statutory limitation of the Commonwealth of Kentucky, but are special obligations payable only from and secured by a pledge of a fixed portion of the gross income and revenues to be derived from the operation of the combined and consolidated municipal water and sewer system (the "System").

*In the opinion of Bond Counsel, interest on the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law, regulations and court decisions, except as to certain recipients, and the Bonds and interest thereon are exempt from income taxes and ad valorem taxes in the Commonwealth of Kentucky and any political subdivision thereof. See "Tax Exemption" herein.*

The Bonds are issued subject to approval of legality by Henry M. Reed III, Louisville, Kentucky, Bond Counsel to the City. Delivery of the Bonds is expected on or about August 11, 2004

**NATCITY INVESTMENTS, INC.**

**Duncan-Williams, Inc.**

**J.J.B. Hilliard, W.L. Lyons, Inc**

**Ross, Sinclair & Associates, Inc.**

**CITY OF VERSAILLES**

The Honorable Fred Siegelman, Mayor  
Freda B. Combs, Clerk/Treasurer  
William Moore, Attorney  
Bart Miller, Public Works Director

Council Members

Geoffrey Reid  
Mary Ellen Bradley  
Luther Bland, Jr.  
Nikkie Shryock  
Owen Roberts  
Roy Benson

**BOND COUNSEL**

Henry M. Reed III  
Louisville, Kentucky

**FINANCIAL ADVISOR**

First Kentucky Securities Corporation  
Frankfort, Kentucky

**PAYING AGENT/BOND REGISTRAR/CONSTRUCTION DEPOSITORY**

Central Bank & Trust Co.  
Lexington, Kentucky

**BOOK-ENTRY-ONLY SYSTEM**

No dealer, broker, salesman, or other person has been authorized by the City of Versailles, Kentucky, or First Kentucky Securities Corporation, the Financial Advisor, to give any information or representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Except where otherwise indicated, the information set forth herein has been obtained from the City of Versailles, Kentucky, and is believed to be reliable; however, such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Financial Advisor, or by Bond Counsel. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to the date hereof.

## TABLE OF CONTENTS

	Page
Description of the Bonds .....	1
Authorization.....	1
Terms.....	1
Book Entry .....	1
Optional Redemption Provision .....	2
Mandatory Term Bond Redemption Provision .....	2
Statutory Authority, Purpose of Issue and Security .....	3
Bond Insurance .....	3
The MBIA Insurance Corporation Insurance Policy .....	3
MBIA .....	4
MBIA Information .....	4
Financial Strength Ratings of MBIA .....	5
Uses and Sources of Funds .....	5
Disposition of Bond Proceeds.....	5
Flow of Funds.....	5
Certain Provisions of the Bond Ordinance .....	7
Paying Agent and Registrar.....	7
Parity Bonds .....	7
Arbitrage Provisions.....	7
Ordinance to Constitute a Contract .....	8
Other Covenants .....	8
Continuing Disclosure .....	8
Tax Exemption.....	9
Tax Treatment of Original Issue Discount .....	9
Absence of Material Litigation .....	10
Approval of Legality.....	10
Financial Advisor.....	10
Underwriting.....	10
Rating.....	10
Appendix A: City of Versailles, Kentucky Water and Sewer System	
Appendix B: Debt Service Requirements on Series 2004 Revenue Bonds	
Appendix C: Financial Statement as of June 30, 2003	
Appendix D: Continuing Disclosure Agreement	
Appendix E: Form of Municipal Bond Insurance Policy	



**FINAL OFFICIAL STATEMENT**  
**\$8,635,000**  
**CITY OF VERSAILLES, KENTUCKY**  
**WATER AND SEWER REVENUE BONDS**  
**SERIES OF 2004**

**Dated August 1, 2004**

This Official Statement, which includes the cover page, is being distributed by the City of Versailles, Kentucky, (the "City") to furnish pertinent information to all who may become holders of its Water and Sewer Revenue Bonds, Series of 2004, dated August 1, 2004 (the "Bonds") being offered hereby pursuant to the provisions of Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, and pursuant to the terms of a Bond Ordinance adopted by the City.

The summaries and references to Sections of the Kentucky Revised Statutes, the Bond Ordinance, as included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document.

**DESCRIPTION OF THE BONDS**

**Authorization**

Pursuant to Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, the City Council of the City adopted a Bond Ordinance (i) authorizing the issuance of \$8,635,000 Water and Sewer Revenue Bonds; (ii) approving the publication of a Notice of Sale of Bonds; (iii) approving the terms and conditions of bond sale; and (iv) authorizing the Mayor of the City to execute the Official Statement related to the Bonds.

**Terms**

The Bonds will be dated August 1, 2004, will bear interest payable December 1, 2004, and thereafter semiannually on each June 1 and December 1 at the rates established upon acceptance of a bid for said Bonds and, will mature on the dates and in the amounts set forth on the cover page.

**Book Entry**

The following information regarding DTC and Cede & Co. will be applicable to the Bonds as long as a book entry system is utilized. The City does not assume any responsibility for the accuracy or completeness of the information set forth under this caption "Book Entry", and the City is not required to supervise, and will not supervise, the operation of the book entry system described herein.

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Upon issuance of the Bonds, DTC Participants shall receive a credit balance in the records of DTC. *The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") will be recorded through the records of the applicable DTC Participant.* Beneficial Owners will receive a written confirmation of their purchase provided by the applicable DTC Participant, providing details of the Bonds acquired. Transfers of ownership interests in the Bonds ("Beneficial Ownership Interests") will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will **not** receive certificates representing their ownership interest in the Bonds, except as specifically provided in the Ordinance.

The City has no responsibility or liability for any aspects of the records relative to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership.

Principal, sinking fund, and interest payments on the Bonds will be made to DTC or its nominee, as registered owner of the Bonds. Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its DTC Participant, to the Paying Agent and Registrar, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant to transfer the DTC Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Paying Agent and Registrar, as appropriate. The requirements for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

The Paying Agent and Registrar, so long as a book entry method is used for the Bonds, will send only to DTC any notice of redemption or other notices required to be sent to Bondholders. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

The City and the Paying Agent and Registrar cannot and do not represent or give any assurances that DTC, the DTC Participants or Indirect Participants or others will distribute payments of debt service charges on the Bonds paid to DTC or its nominee, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

**Optional Redemption Provision**

The Bonds maturing on and after December 1, 2015, shall be subject to redemption by the City prior to maturity, in whole or in part, in the inverse order of their maturities (less than all of a single maturity to be selected by lot), on any date, on or after December 1, 2014, at a redemption price equal to the principal amount of the Bonds called for redemption, plus unpaid interest accrued to the date of redemption, without premium.

**Mandatory Sinking Fund Redemption**

The Bonds maturing on December 1, 2007 and December 1, 2010 are subject to mandatory sinking fund redemption on December 1 of the years in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount Subject to Redemption</u>
2005	\$30,000
2006	30,000
2007 *	30,000

<u>Year</u>	<u>Principal Amount Subject to Redemption</u>
2008	\$30,000
2009	35,000
2010 *	30,000

\*Maturity

### **Statutory Authority, Purpose of Issue and Security**

The Bonds are authorized pursuant to the provisions of Chapter 58 of the Kentucky Revised Statutes, including KRS 58.010 through 58.140, and a Bond Ordinance passed and adopted by the City Council of the City. The Bonds are revenue bonds and do not constitute a direct indebtedness of the City but are payable solely from and secured by a pledge of the first gross revenues derived from the operation of the combined and consolidated municipal water and sewer system ("System").

The Series 2004 Bonds will rank on the basis of parity as to security and source of payment with certain of the City's outstanding Water and Sewer Refunding Revenue Bonds, Series of 1996, dated October 1, 1996; Water and Sewer Refunding Revenue Bonds, Series of 1999, dated January 1, 1999; and Water and Sewer Revenue Bonds, Series of 2001, dated September 15, 2001 ("Outstanding Bonds"). Prior to the delivery of the Series 2004 Bonds, the City will obtain the required certification that the net income and revenues of the combined and consolidated municipal water and sewer System for twelve consecutive months out of the eighteen months preceding the issuance of the Series 2004 Bonds were equal to at least 1.30 times the maximum amount of principal and interest that will become due in any System fiscal year on all Outstanding Bonds and these Series 2004 Bonds after adjustment to reflect increased rates and charges for service which became effective in June of 2004.

The proceeds of the Bonds are being issued to meet the costs associated with the second phase of the expansion of the water plant (which includes replacing the main water line from the plant to the City and expanding the water plant capacity from 4,000,000 to 10,000,000 gallons per day), upgrading and expanding the sludge handling capability of the sewage treatment plant, and financing various other improvements to the System, including rehabilitation of certain portions of the sewer lines. This process was begun in 1999, and the expansion and upgrade is expected to be approximately \$21,000,000. The City has received grants for portions of the project, anticipates issuing additional bonds sufficient to complete the Project as needed, and expects that a System rate increase will be required prior to issuance of the additional bonds.

### **BOND INSURANCE**

#### **The MBIA Insurance Corporation Insurance Policy**

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix E for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bonds the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of

the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

## **MBIA**

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading “Bond Insurance”. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

## **MBIA Information**

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

**Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the [Bonds/Securities] offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.**

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2004 MBIA had admitted assets of \$10.3 billion (unaudited), total liabilities of \$6.5 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

### Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

### USES AND SOURCES OF FUNDS

#### Uses of Funds:

Project Costs	\$8,003,902.65
Underwriting Discount	160,018.60
Debt Service Reserve	401,210.00
Costs of Bond Issuance	<u>69,868.75</u>
<b>Total Project Costs</b>	<b><u>\$8,635,000.00</u></b>

#### Sources of Funds

Par Amount of Bonds	<u>\$8,635,000.00</u>
<b>Total Sources of Funds</b>	<b><u>\$8,635,000.00</u></b>

### DISPOSITION OF BOND PROCEEDS

Upon issuance and delivery of the Bonds, all sums representing accrued interest received from the purchaser(s) shall be deposited in the Bond Fund (hereinafter described) and shall be used for payment of interest coming due on the Bonds.

Next, there shall be set aside and paid from the proceeds of the Bonds all expenses incident to the authorization, sale and delivery thereof.

Next, there shall be set aside and paid from the proceeds of the Bonds a Debt Service Reserve.

The entire remaining proceeds of the Bonds shall be deposited, until needed for construction purposes, with the Construction Depository (Central Bank & Trust Co., Lexington, Kentucky), into a special account called "City of Versailles Water & Sewer System Series 2004 Construction Fund" (the "Construction Fund").

#### **Flow of Funds**

The income and revenues of the combined and consolidated Water and Sewer System shall be collected, segregated, accounted for and distributed as follows:

Revenue Fund - A separate and special fund or account of the City has heretofore been created and shall be continued and is designated the "City of Versailles Water and Sewer Revenue Fund" (the "Revenue Fund") into which the City has pledged to deposit promptly as received all cash revenues of the System. The moneys in this Fund shall be applied by the City only for the purposes and in the order of priorities as described below.

Bond Fund - There has previously been created with the Depository a separate account designated the "Water and Sewer Revenue Bond and Interest Redemption Fund of 1960" (the "Bond Fund") and such account shall continue to be maintained so long as any Bonds are outstanding. Within the Bond Fund there is, and shall continue to be maintained, the "Water and Sewer Debt Reserve Fund of 1960" (the "Debt Reserve Fund") into which there shall be deposited and maintained an amount equal to the maximum amount of principal of and interest on all outstanding Water and Sewer Revenue Bonds in any year (the "Required Minimum Balance") including any parity bonds issued in the future, so long as any Bonds remain outstanding.

At any time when the Debt Reserve Fund contains an amount below the required minimum balance, whether because of the issuance of parity bonds or because of authorized withdrawals, there shall be transferred to the Bond Fund from the Revenue Fund, and as a first charge thereon, on or before the 20<sup>th</sup> day of each month, a sum equal to one-fifth (1/5) of the interest becoming due on the next succeeding interest due date plus one-tenth (1/10) of the principal becoming due on the next succeeding December 1.

At any time when the Required Minimum Balance has been accumulated in the Debt Reserve Fund, the transfers from the Revenue Fund to the Bond Fund on or before the 20<sup>th</sup> day of each month shall be equal to one-sixth (1/6) of the interest to become due on the next succeeding interest due date plus one-twelfth (1/12) of the principal becoming due on the next succeeding December 1.

All provisions relating to deposits and accumulations in the Bond Fund shall be cumulative, and if there be failure to deposit the prescribed amounts in any one or more months, a sum equal to the deficiency shall be deposited as soon as available, and the same shall be in addition to the amounts otherwise prescribed to be deposited in the Bond Fund for the succeeding month or months.

Moneys held in the Debt Reserve Fund may, upon order of the City Council, be invested in bonds, notes or certificates of indebtedness of the United States Government maturing not later than three (3) years from date of investment. Income from any such investments shall be accumulated in the Debt Reserve Fund.

Amounts on deposit in the Bond Fund and the Debt Reserve Fund are irrevocably pledged solely for the payment of the principal of and interest on such Water and Sewer Revenue Bonds as may be outstanding from time to time and for no other purpose.

Withdrawals from the Debt Reserve Fund may be made if and to the extent at any time required to prevent default in the payment of principal of or interest on any bonds which by their terms are payable from the Bond Fund and for no other purpose.

Following the required deposits to the Bond Fund and Debt Service Reserve Fund, monthly transfers shall be made in amounts equal to one-sixth (1/6) of the interest becoming due on the City's outstanding Notes which shall be deposited in the Water and Sewer Revenue Bond Anticipation Note Fund ("Note Fund").

Following the required deposits to the Bond Fund, Debt Reserve Fund and Note Fund monthly transfers shall be made from the Revenue Fund sufficient to meet the City's obligations under its Loan Agreement with the Kentucky Infrastructure Authority ("KIA") which shall be deposited in the KIA Loan Fund.

Maintenance and Operation Fund - A separate fund or account of the City has previously been created and shall continue to be maintained so long as any bonds are outstanding, such account designated the "Maintenance and Operation Fund". After observing the priority of deposits into the Bond Fund and KIA Loan Fund, there shall be deposited each month in the Maintenance and Operation Fund a sum equal to the anticipated expenses of operating and maintaining the System for the next ensuing month.

Depreciation Fund - The City has created and maintains a special account with the Depository Bank identified as the "Depreciation Fund" which shall continue to be maintained so long as any of the Water and Sewer Revenue Bonds are outstanding. The City covenants that, after observing the priorities of deposits into the Bond Fund and KIA Loan Fund, it will transfer monthly into the Depreciation Fund an amount equal to ten percent (10%) of the funds remaining in the Revenue Fund, so long as the unexpended balance remaining in the Depreciation Fund is less than \$100,000. The City further covenants that it will additionally deposit into the Depreciation Fund the proceeds from the sale of any equipment no longer usable or needed, all fees or charges collected from potential customers to aid in the financing of the cost of extensions and improvements, and any proceeds received from property damage insurance.

Moneys in the Depreciation Fund may be withdrawn and used by the City for (a) paying the costs of unusual or extraordinary repairs, renewals or replacements; (b) paying the costs of constructing additions and improvements to the System which will either enhance its revenue producing capacity or provide a higher degree of service; or the prevention of default in the payment of interest on and/or principal of any bonds outstanding from time to time.

Surplus in Revenue Fund - Whenever all specified and required transfers and payments into the above special funds have been made, and the prescribed reserves have been accumulated to the required amounts and there is a balance in the Revenue Fund in excess of the estimated amount required to be transferred and paid into the special funds during the next succeeding three (3) months, such excess may be transferred to the Depreciation Fund, or may be used to purchase or retire bonds, or for the payment of payment of the interest on or principal of other obligations of the City incurred in connection with the System, or for any other lawful purpose.

### **CERTAIN PROVISIONS OF THE BOND ORDINANCE**

The Bond Ordinance contains various covenants of the City and provisions for the payment of the Bonds in accordance with their terms, certain of which are summarized below. Reference is made to the Bond Ordinance for a full and complete statement of its provisions.

The City has authorized the issuance of its City of Versailles, Kentucky, Water and Sewer Revenue Bonds, in an aggregate amount of \$8,635,000. The Bonds are fully registered and in denominations in multiples of \$5,000. The Bonds bear interest payable on December 1 and June 1 in each year, beginning December 1, 2004, at such interest rate or rates as may be fixed by the City, as a result of an advertised sale of said Bonds in competitive bidding therefor. Said Bonds shall mature on December 1, 2005 and each December 1 thereafter of the respective years as provided in the Bond Ordinance and elsewhere herein.

#### **Paying Agent and Registrar**

Central Bank & Trust Co., Lexington, Kentucky, has been named Paying Agent and Bond Registrar. Interest and principal payments will be made by the Paying Agent by wire transfer to DTC on each due date. Please see "Book Entry" supra.

#### **Parity Bonds**

The City reserves the right to issue additional bonds in the future in order to pay the costs of additions, extensions and improvements to the System ranking on parity with these 2004 Revenue Bonds, together with the Outstanding Bonds. Neither these Bonds, the Outstanding Bonds previously issued and presently outstanding, nor bonds issued in the future in accordance with the restrictions and conditions contained in the Ordinance shall be entitled to priority, one over the other, in the application of the revenues pledged.

Prior to the issuance of such parity bonds, there shall be procured and filed with the City Clerk a statement by an independent public accountant not in the regular employ of the City reciting the conclusion that the net revenues of the System during a period of twelve consecutive months out of the eighteen months immediately preceding the issuance of such parity bonds were equal to at least 1.30 times the maximum amount that will become due in any succeeding fiscal year of the System for both principal of and interest on all Bonds then outstanding and also the parity bonds then proposed to be issued. In the event that the net revenues for such period were inadequate to meet the foregoing requirements; the amount of gross revenues reflected in such certificate may be adjusted to reflect any revision in the schedule of rates being imposed at the time and also reflect the additional estimated net revenues to be realized through the extensions; betterments and improvements of the System to be acquired or constructed through the issuance of such additional bonds, such adjustments to be based upon certification by a consulting engineer of national reputation not in the regular employ of the City.

The City further reserves the right to issue additional bonds payable from the revenues pledged but not ranking on parity with these 2004 Bonds and the Outstanding Bonds.

Upon the retirement of the Outstanding Bonds, dated October 1, 1996 and January 1, 1999, the required parity coverage requirement shall be reduced from 1.30 to 1.20 times the maximum annual debt service for the Outstanding Bonds dated September 15, 2001, these Series 2004 Bonds and any parity bonds.

#### **Arbitrage Provisions**

The City shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the City on the Bonds shall, for the purpose of Federal income taxation, be excludable from the gross income of the recipients under any valid provision of law.

The City shall not permit at any time any of the proceeds of the Bonds or other funds of the City to be used to acquire any securities or obligations the acquisition of which would cause any such Bond to be an "arbitrage bond", as defined in the Internal Revenue Code of 1986, as amended (the "Code"), unless under any valid provision of law hereafter enacted, the interest paid by the City on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the Code.

## **Ordinance to Constitute a Contract**

The provisions of the Ordinance shall constitute a contract between the City and the Registered Owners of any Bonds from time to time outstanding and, after the sale of such Bonds, no change in the provisions of the Resolution shall be permitted while any of said Bonds remain outstanding and unpaid, except as expressly authorized in the Ordinance.

## **Other Covenants**

The City further covenants that so long as any of the bonds issued pursuant to the authority of the 2004 Ordinance remain outstanding and unpaid:

- (A) It will perform all duties required by law and by the terms of the Ordinance.
- (B) It will maintain the System in good condition and will make renewals and replacements as same may be required.
- (C) It will not sell, mortgage, pledge, lease or in any manner dispose of the System or the revenues thereof, except as permitted by the Ordinance.
- (D) It will establish, enforce and collect reasonable rates and charges to be adequate at all times to operate and maintain the System, provide for depreciation thereof and for orderly payment of principal and interest on all outstanding bonds.
- (E) It will adopt, by July 1 of each year, a budget of current expenses for the System and an estimate of gross revenues for the ensuing fiscal year, and to the extent that gross revenues are insufficient, it will revise its rates and charges.
- (F) It will not at any time reduce the prevailing schedule of rates and charges without first obtaining the written determination of a consulting engineer that the proposed reduction will not adversely affect the ability of the City to meet all the requirements set forth in the Ordinance.
- (G) It will at all times segregate and regularly make application of the revenues of the System in accordance with the Ordinance.
- (H) It will keep proper books of record, separate from all other municipal records.
- (I) It will within 90 days after the end of each fiscal year cause an audit to be made of the books of record by an independent accountant.
- (J) Any Registered Owner of 2004 Bonds may enforce and compel performance by the City of all duties imposed by law or the Ordinance.
- (K) If there be any default in the payment of the principal of or interest on any of the 2004 Bonds, any Registered Owner of said bonds may file suit and any court having jurisdiction may appoint a receiver to administer the System on behalf of the City with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System and for payment of operating expenses and to apply the revenues in conformity with the Ordinance.
- (L) It will cause each municipal officer or other person (other than depository banks) having custody of any moneys administered under the provisions of the Ordinance to be bonded at all times in a amount at least equal to the maximum amount of such moneys in custody at any time.
- (M) It will maintain at all times insurance of all insurable properties constituting parts of the System to the full insurable value thereof against damage or destruction by fire, windstorm and the hazards covered by the standard "extended coverage" policy endorsements.
- (N) Pursuant to KRS 95.934 rates and charges for sewer service provided by the System shall be billed simultaneously with rates for water service provided by the System and water service will be discontinued to any premises where there is failure to pay any part of the aggregate charges so billed including such interest, penalties and fees for disconnection and/or reconnection as may be prescribed from time to time.

## **CONTINUING DISCLOSURE**

As a result of the City and issuing agencies acting on behalf of the City having outstanding, at the time the Bonds referred to herein are offered for public sale, municipal securities in excess of \$10,000,000, the City will enter into a written agreement for the benefit of all parties who may become Registered Owners or Beneficial Owners of the Bonds whereunder said Board shall be obligated to (i) supply to the repositories designated under said Rule by the Municipal Securities Rule Making City notice of any of the "material events" outlined in said Rule should same occur and (ii) supply financial information on an annual basis. A draft of said agreement is attached hereto as Appendix C.

Financial Information regarding the City may be obtained from the City Clerk, City of Versailles, Kentucky, Post Office Box 625, Versailles, Kentucky, 40383 (phone number: (859) 873-4581).



## TAX EXEMPTION

With regard to the Internal Revenue Code of 1986, as amended, Bond Counsel advises as follows:

- (A) The Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.
- (B) The interest income from the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law; provided, that the corporate entities noted below are advised of certain tax consequences as follows:
  - 1) In the computation of the corporate minimum tax, earnings and profits may include otherwise tax-exempt interest on the Bonds; this provision applies to corporations only.
  - 2) Property and casualty insurance companies may be denied certain loss reserve deductions to the extent of otherwise tax-exempt interest on the Bonds.
- (C) As a result of designations and certifications by the City, indicating the issuance of less than \$10,000,000 of "qualified tax-exempt obligations" during the calendar year ending December 31, 2004, the Bonds may be treated by financial institutions as if they were acquired before December 8, 1986.
- (D) The interest income from the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law for individuals; however, said income must be included in the calculation of "modified adjusted gross income" in the determination of whether and to what extent Social Security benefits are subject to Federal income taxation.

## TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT

The initial public offering price to be paid for certain Bonds (each a "Discount Bond") is less than the amount payable on such Bond at its stated maturity.

An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that stated maturity are sold to the public at such price) and the amount payable at stated maturity constitutes interest to the initial purchaser of such Discount Bonds. A portion of such interest, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at stated maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest at the yield to stated maturity on such Discount Bond.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by the Tax Reform Act of 1986 and the environmental tax imposed by the Superfund Revenue Act of 1986, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable dispositions of a Discount Bond prior to stated maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under the applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

## **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the City taken with respect to the issuance or sale thereof.

## **APPROVAL OF LEGALITY**

Legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approval of Henry M. Reed III, Louisville, Kentucky, Bond Counsel to the City. The approving legal opinion of Bond Counsel will be printed on the Bonds and will contain a statement of tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the Bonds under the headings "Description of the Bonds", "Certain Provisions of the Bond Ordinance", "Continuing Disclosure", "Tax Exemption", and "Tax Treatment of Original Issue Discount" and is of the opinion that such information is a fair summary of the principal provisions of the instruments and information therein described. Bond Counsel has not otherwise participated in the preparation of the Official Statement and has not verified the accuracy or completeness of any financial information, projections, or computations related thereto, and therefore can make no representation with respect to such information.

## **FINANCIAL ADVISOR**

The Bonds were sold on a publicly advertised, competitive basis. First Kentucky Securities Corporation, Frankfort, Kentucky, Financial Advisor to the City, will receive a fee, subject to delivery of the Bonds, for its advisory services.

## **UNDERWRITING**

The Bonds are being purchased for reoffering by NatCity Investments, Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$8,485,351.26 (reflecting the par amount of the Bonds, less original issue discount of \$20,856.45, less underwriter's discount of \$139,162.15, plus accrued interest of \$10,369.86). The initial public offering prices which produce the yields set forth on the cover page of this Official Statement may be changed by the Underwriter and the Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the offering prices which produce the yields set forth on the cover page.

## **RATING**

As noted on the cover page of this Official Statement, Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds on the basis of the Insurer's Policy. See "Appendix E- Financial Guaranty Insurance Policy Specimen".

Such rating reflect only the view of said organizations. Any explanation of the significance of such rating may only be obtained from the rating agency at the following address: Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300. There is no assurance that the rating will continue for any given period of time or that a rating will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

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All quotations from, and summaries and explanations of, the Kentucky Revised Statutes and the Bond Ordinance contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of the Bond Ordinance may be obtained from First Kentucky Securities Corporation, P. O. Box 554, Frankfort, Kentucky 40602-0554.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holder of any of the Bonds.

CITY OF VERSAILLES, KENTUCKY

/s/ Fred Siegelman  
Mayor

ATTEST:

/s/ Freda B. Combs  
City Clerk

**APPENDIX A**

*City of Versailles, Kentucky  
Water and Sewer System*

**CITY OF VERSAILLES KENTUCKY  
WATER AND SEWER SYSTEM**

The City of Versailles owns and operates a combined water and sewer utility serving approximately 5,574 water customers and 4,878 sewer customers. Improvements have been made to meet the demands of continued growth of the area. Funds for financing the improvements were derived from revenues of the system, water and sewer revenue bond issues and from federal and state grants for the sewerage facilities.

The City's water distribution system includes adequate mains, services and elevated treated water storage at the present time.

***Water Connections and Water Pumpage***

<u>Year</u>	<u>Average Daily Pumpage (Gals.)</u> **	<u>Maximum Daily Pumpage (Gals.)</u>	<u>Average Number Water Services</u>
2004 *	2,595,200	3,706,400	5,574
2003	2,647,016	3,651,700	5,490
2002	3,048,507	3,798,400	5,412
2001	3,084,065	4,095,360	5,416
2000	2,811,899	3,600,000	5,395

\* Reflects five months in 2004.

\*\* "Average Daily Pumpage" includes water bought as needed from Kentucky American Water.

***Sewer Connections and Sewer Pumpage***

<u>Year</u>	<u>Average Daily Wastewater Pumpage (Gals.)</u>	<u>Average Number Sewer Customers</u>
2004	2,075,000	4,878
2003	1,930,000	4,872
2002	1,580,000	4,768
2001	2,030,000	4,739
2000	1,870,000	4,605

***Water and Sewer Service Rates (effective June 10, 2004)***

**Water Service**

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$3.05	Monthly Meter Charge	\$3.71
Per 1,000 gallons:		Per 1,000 gallons:	
First 150,000 gallons	\$2.31	First 150,000 gallons	\$2.72
Next 850,000 gallons	\$2.24	Next 850,000 gallons	\$2.59
All Over 1,000,000 gallons	\$2.22	All Over 1,000,000 gallons	\$2.53

**Sewer Service**

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$3.29	Monthly Meter Charge	\$4.02
Based on Water Usage, Per 1,000 Gallons:		Based on Water Usage, Per 1,000 Gallons:	
First 150,000 gallons	\$2.25	First 150,000 gallons	\$3.04
Next 850,000 gallons	\$1.98	Next 850,000 gallons	\$2.72
All Over 1,000,000 Gallons	\$1.94	All Over 1,000,000 Gallons	\$2.71

*Ten Largest Users of Water System (July 1, 2003-June 30, 2004)*

<u>Customer's Name</u>	<u>Read in Hundreds Usage (Gallons)</u>	<u>Charge</u>
Northeast Woodford Water District	158,650,000	\$312,896.66
South Woodford Water District	152,648,500	307,674.26
United L-N Glass, Inc.	38,018,200	79,990.80
Osram Sylvania Products	25,427,700	48,126.86
World Color (Quebecor)	27,320,000	61,816.08
Y H America, Inc.	7,772,800	16,002.99
Osram Sylvania Products	8,561,300	18,729.64
Kuhlman, Inc.	4,335,400	8,997.93
Falling Springs Recreation Center	1,287,200	3,015.59
Bluegrass Community Hospital	3,884,600	7,620.49

*Assessment of Taxable Property*

<u>Fiscal Year Ended June 30</u>	<u>Real Property</u>	<u>Bank Franchise &amp; Deposit Tax</u>
2003	\$415,328,310	\$303,339,231
2002	369,050,278	285,341,780
2001	370,695,278	271,222,255
2000	351,415,244	264,300,296

*Property Tax Rates (Per \$100 of Assessed Value)*

<u>Fiscal Year Ended June 30</u>	<u>Real Property</u>	<u>Bank Shares</u>
2003	.044	.224
2002	.048	.224
2001	.046	.224
2000	.047	.224

*Taxes Levied and Collected (Includes Bank Shares)*

<u>Fiscal Year Ended June 30</u>	<u>Taxes Levied</u>	<u>Taxes Collected</u>
2003	323,605.28	252,965.89
2002	239,784.57	254,109.29
2001	230,181.60	175,062.47

***Outstanding Water and Sewer Revenue Bonds***

<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding August 1, 2004</u>
October 1, 1996	12/1/05	\$ 710,000	\$ 315,000
January 1, 1999	12/1/10	2,715,000	1,815,000
September 15, 2001	12/1/21	<u>9,800,000</u>	<u>9,130,000</u>
Total		<u>\$13,225,000</u>	<u>\$11,260,000</u>

***Debt Service Coverage***

The Bond Ordinance requires that, prior to the issuance of parity bonds, a certification by a Certified Public Accountant, not in the regular employ of the City, be obtained to the effect that the net revenues of the System are no less than 1.30 times the maximum amount of principal of and interest on the Prior Bonds and the bonds proposed to be issued in any year prior to the final maturities.

Following is the calculation of estimated coverage of maximum debt service by net revenues, as adjusted, after issuance of the 2004 Bonds, using amounts for the fiscal year ended December 30, 2003:

Gross Revenues	\$3,858,180
Less: Operating Expenses	<u>(1,825,200)</u>
Net Operating Revenues	<u>2,032,980</u>
Debt Service - Maximum Principal and Interest in 2006	1,492,558
Debt Service Covered	1.36 x

***General Information***

Located in the heart of thoroughbred country, Woodford County is the home of many beautiful horse farms. Woodford County, with a land area of 191 square miles, had a 2003 population of 23,659.

Versailles, the county seat of Woodford County, is located in central Kentucky's famous Bluegrass Region. Versailles is located 15 miles west of Lexington, Kentucky; 63 miles southeast of Louisville, Kentucky; 88 miles south of Cincinnati, Ohio; and 186 miles north of Knoxville, Tennessee. Versailles had a 2003 population of 7,487.

Major highways serving Versailles and Woodford County are U.S. Highways 60 and 62, both "AAA"-rated trucking highways. The Blue Grass Parkway is located three miles south of Versailles. Thirty-one common carrier trucking companies provide interstate and/or intrastate service to Versailles. The Lexington and Ohio Railroad provides branch line rail service to Versailles. Scheduled commercial airline service is available at Blue Grass Airport, eight miles east of the city.

The growing enrollment in the Kentucky Community and Technical College System ("KCTCS") is expected to reap benefits for the Woodford County seat in multiple ways.

The KCTCS has announced plans to move its headquarters from Lexington to Versailles, where it has entered into a lease-purchase agreement to occupy the former Texas Instruments facility.

KCTCS President, Dr. Michael McCall, said the move is being made in order to consolidate its administrative operations, which are currently housed in five different buildings.

As part of the agreement, the City of Versailles will renovate the building and then lease it to KCTCS for the cost of the renovation (estimated to be approximately \$6.3 million). When the renovation is paid for, the city will donate the building to KCTCS.

**Total Population**

	1999	2000	2001	2002	2003
Labor Market Area	422,311	443,437	446,951	451,890	457,964
Woodford County	22,773	23,208	23,331	23,403	23,659
Versailles	8,184	7,511	7,471	7,447	7,487
Midway	1,394	1,620	1,602	1,590	1,591

Source: U.S. Department of Commerce, Bureau of the Census

**Population Projections**

	2005	2010	2015	2020
Labor Market Area	479,026	513,083	547,791	583,239
Woodford County	24,896	26,427	27,897	29,288

Source: Kentucky State Data Center, University of Louisville and Kentucky Cabinet for Economic Development

**Population by Selected Age Groups, 2000**

	Woodford County		Labor Market Area	
	Number	Percent	Number	Percent
Under 18	5,891	25.4	101,342	22.9
18-24	1,835	7.9	55,919	12.6
25-34	3,028	13.0	71,164	16.0
35-44	4,210	18.1	72,129	16.3
45-54	3,623	15.6	60,583	13.7
55-64	2,207	9.5	36,065	8.1
65-74	1,350	5.8	24,766	5.6
75 and older	1,064	4.6	21,469	4.8
Median Age	37.1		34.0	

Source: U.S. Department of Commerce, Bureau of the Census



**Personal Income**

	1997	2002	Pct. Change
Woodford County	\$29,309	\$34,135	16.5%
Kentucky	\$20,855	\$25,494	22.2%
U.S.	\$25,334	\$30,906	22.0%
Labor Market Area Range	\$19,578 - \$29,309	\$22,911 - \$34,135	

Source: U.S. Department of Commerce, Bureau of Economic Analysis

**Households**

	2000		1999
	Number of Households	Persons Per Household	Median Household Income
Woodford County	8,893	2.6	\$49,491

U.S. Department of Commerce, Bureau of the Census

**Civilian Labor Force**

	Woodford County		Labor Market Area	
	2003	Mar. 2004	2003	Mar. 2004
Civilian Labor Force	12,495	12,591	237,881	239,202
Employed	12,121	12,246	228,449	230,567
Unemployed	374	345	9,432	8,635
Unemployment Rate (%)	3.0	2.7	4.0	3.6

Source: U.S. Department of Labor, Bureau of Labor Statistics

**Unemployment Rate (%)**

Year	Woodford County	Labor Market Area	Kentucky	U.S.
1999	1.6	2.0	4.5	4.2
2000	1.6	2.0	4.1	4.0
2001	3.5	3.1	5.4	4.7
2002	3.2	3.6	5.6	5.8
2003	3.0	4.0	6.2	6.0

Source: U.S. Department of Labor, Bureau of Labor Statistics

**Commuting Patterns**

<b>Residents of Woodford County</b>	<b>2000</b>	<b>Percent</b>
Working and Residing In County	5,591	45.2
Commuting Out of County	6,786	54.8
Total Residents	12,377	100.0
<b>Employees in Woodford County</b>		
Working and Residing In County	5,591	51.3
Commuting Into County	5,300	48.7
Total Employees	10,891	100.0

Source: U S Department of Commerce, Bureau of the Census, Journey-To-Work & Migration Statistics Branch

**Average Weekly Wage, 2002**

	<b>Woodford County</b>	<b>Kentucky (Statewide)</b>	<b>U.S.</b>	<b>Ohio</b>
All Industries	\$597	\$577	\$697	\$640
Agriculture, Forestry, Fishing and Hunting	0	N/A	N/A	N/A
Mining	0	872	1,148	910
Construction	509	630	737	717
Manufacturing	792	732	827	822
Trade, Transportation, and Utilities	555	548	621	576
Information	461	658	1,078	839
Financial Activities	553	691	1,065	796
Services	467	495	610	550
Public Administration	594	617	773	763
Other	515	N/A	N/A	N/A

**Summary of Recent Locations and Expansions, 2001-Present**

	Reported		
	Companies	Jobs	Investment
Manufacturing Location	2	131	\$16,544,000
Manufacturing Expansion	4	5	\$5,055,000
Supportive/Service Location	0	0	\$0
Supportive/Service Expansion	1	3	\$0

Click [here](#) for detailed location and expansion information

Note: Totals include announced locations and expansions

Source: Kentucky Cabinet for Economic Development (07/02/2004)

**Employment by Major Industry by Place of Work, 2002**

	Woodford County		Labor Market Area	
	Employment	Percent	Employment	Percent
All Industries	9,225	100.0	252,612	100.0
Agriculture, Forestry, Fishing and Hunting	0	0.0	1,941	0.8
Mining	0	0.0	133	0.1
Construction	398	4.3	11,837	4.7
Manufacturing	2,996	32.5	37,589	14.9
Trade, Transportation, and Utilities	1,111	12.0	44,745	17.7
Information	65	0.7	5,149	2.0
Financial Activities	268	2.9	10,558	4.2
Services	2,072	22.5	84,083	33.3
Public Administration	278	3.0	22,132	8.8
Other	3	0.0	87	0.0

Source: U.S. Department of Labor, Bureau of Labor Statistics

### **Major Manufacturers**

<b>Firm</b>	<b>Product(s)</b>	<b>Emp.</b>	<b>Year Established</b>
<i>Midway</i>			
Weisenberger Mills Inc	Flour, corn meal & baking mixes	5	1862
<i>Versailles</i>			
Cabinet Supplier Inc	Distribute formica	25	1990
Kuhlman Electric Corp	Headquarters & manufacture instrument, distribution & medium transformers	200	1969
McCauley Brothers Inc	Horse feed & supplements	25	1938
OSRAM Sylvania	Glass tubing, components are used in automotive lighting industry	250	1972
Osram Sylvania	Fluorescent lamps	600	1964
Quebecor World	Book publishing & printing; staple, saddle stitch & perfect binding	883	1962
Ruggles Sign Co	Electric, fluorescent, metal, neon, plastic & wooden signs	54	1946
Suran Systems Inc	Spiral plastic, side wire, saddle stitch, ring, staple, glue & perfect binding, computer software development	20	1991
United L-N Glass Inc	Automobile windshield & side and back window glass	450	1987
Woodford Feed Co	Feed & fertilizer grinding, mixing & blending	36	1940
Woodford Reserve Distillery, Labrot & Graham Proprietors	Distilled liquors	18	1812
Y H America Inc/Div 1	Automobile air conditioning & power steering hoses, fittings & assemblies; fluid converging products.	315	1989
Y H America Inc/Div 2	Sealants & primers	27	1998

Source: Kentucky Cabinet for Economic Development (07/02/2004).

**APPENDIX B**

*Debt Service Requirements  
on  
Series 2004 Revenue Bonds*

**CITY OF VERSAILLES, KENTUCKY  
WATER AND SEWER REVENUE BONDS  
SERIES OF 2004**

**DEBT SERVICE REQUIREMENTS**

<b>Maturity Date</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Fiscal Year Total</b>
12/01/2004		\$124,438.33	\$124,438.33	
06/01/2005		186,657.50	186,657.50	\$311,095.83
12/01/2005	\$30,000	186,657.50	216,657.50	
06/01/2006		186,282.50	186,282.50	402,940.00
12/01/2006	30,000	186,282.50	216,282.50	
06/01/2007		185,907.50	185,907.50	402,190.00
12/01/2007	30,000	185,907.50	215,907.50	
06/01/2008		185,532.50	185,532.50	401,440.00
12/01/2008	30,000	185,532.50	215,532.50	
06/01/2009		185,037.50	185,037.50	400,570.00
12/01/2009	35,000	185,037.50	220,037.50	
06/01/2010		184,460.00	184,460.00	404,497.50
12/01/2010	30,000	184,460.00	214,460.00	
06/01/2011		183,965.00	183,965.00	398,425.00
12/01/2011	395,000	183,965.00	578,965.00	
06/01/2012		177,052.50	177,052.50	756,017.50
12/01/2012	405,000	177,052.50	582,052.50	
06/01/2013		169,661.25	169,661.25	751,713.75
12/01/2013	425,000	169,661.25	594,661.25	
06/01/2014		161,586.25	161,586.25	756,247.50
12/01/2014	435,000	161,586.25	596,586.25	
06/01/2015		153,103.75	153,103.75	749,690.00
12/01/2015	455,000	153,103.75	608,103.75	
06/01/2016		144,003.75	144,003.75	752,107.50
12/01/2016	475,000	144,003.75	619,003.75	
06/01/2017		134,266.25	134,266.25	753,270.00
12/01/2017	495,000	134,266.25	629,266.25	
06/01/2018		123,871.25	123,871.25	753,137.50
12/01/2018	515,000	123,871.25	638,871.25	
06/01/2019		112,798.75	112,798.75	751,670.00
12/01/2019	540,000	112,798.75	652,798.75	
06/01/2020		100,918.75	100,918.75	753,717.50
12/01/2020	565,000	100,918.75	665,918.75	
06/01/2021		88,206.25	88,206.25	754,125.00
12/01/2021	590,000	88,206.25	678,206.25	
06/01/2022		74,931.25	74,931.25	753,137.50
12/01/2022	1,000,000	74,931.25	1,074,931.25	
06/01/2023		51,181.25	51,181.25	1,126,112.50
12/01/2023	1,050,000	51,181.25	1,101,181.25	
06/01/2024		26,243.75	26,243.75	1,127,425.00
12/01/2024	1,105,000	26,243.75	1,131,243.75	1,131,243.75
<b>Totals</b>	<b>\$8,635,000</b>	<b>\$5,755,773.33</b>	<b>\$14,390,773.33</b>	

Source: Financial Advisor

**APPENDIX C**

*Audited Financial Statement as of June 30, 2003*

CITY OF VERSAILLES, KENTUCKY  
VERSAILLES, KENTUCKY  
\*\*\*\*\*  
INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2003



CITY OF VERSAILLES, KENTUCKY

TABLE OF CONTENTS

Independent Auditors' Report	1
Combined Balance Sheet-All Fund Types and Account Groups	2 - 5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Fund Types and Expendable Trust Funds	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances-Budget to Actual - General and Special Revenue Fund Types	7 - 8
Combined Statement of Revenues, Expenses and Changes in Retained Earnings-Enterprise Fund	9
Combined Statement of Cash Flows-Enterprise Fund	10 - 11
Notes to Financial Statements	12 - 21
Supplemental Information:	
Combining Balance Sheet-Special Revenue Components	22
Combining Statement of Revenues, Expenditures and Changes in Fund Balance-Special Revenue Components	23
Combining Balance Sheet-Enterprise Fund Components	24
Combining Statement of Revenues, Expenditures and Changes in Retained Earnings-Enterprise Fund Components	25
Combining Statement of Cash Flows- Enterprise Fund Components	26 - 27
Combining Balance Sheet- Fiduciary Fund Components	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balance-Fiduciary Fund Components	29
Statement of Changes in General Fixed Assets	30
Statement of Changes in General Long-Term Debt	31
Detail of Departmental Operating Expenses- Water, Sewer and Sanitation Activities	32
Bond Amortization Schedule-Series of 1996	33
Bond Amortization Schedule-Series of 1999	34
Bond Amortization Schedule-Series of 2000	35
Bond Amortization Schedule-Series of 2001	36
Bond Amortization Schedule-Kentucky League of Cities Series 2000	37
Bond Amortization Schedule-KCTCS Series 2003	38
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	39

# LONG & FISHER, P.S.C.

*Certified Public Accountants  
Consultants & Information Professionals*  
109 Fifth Street  
Richmond, Kentucky 40475-1337

*G. Alan Long, CPA  
Myron D. Fisher, CPA  
                      
Anne M. Kegley, CPA*

## INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and City Council  
City of Versailles, Kentucky

We have audited the accompanying general purpose financial statements of the City of Versailles, Kentucky, as of and for the year ended June 30, 2003. These general purpose financial statements are the responsibility of the City of Versailles, Kentucky's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred above present fairly, in all material respects, the financial position of the City of Versailles, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Versailles, Kentucky. Such information has been subject to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account groups taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 9, 2004 on our consideration of the City of Versailles, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with this *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Long & Fisher, P.S.C.*

Long & Fisher, P.S.C.  
April 9, 2004

CITY OF VERSAILLES, KENTUCKY  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2003

	Governmental Fund Types	
	General	Special Revenue
<b>ASSETS</b>		
Cash and cash equivalents	\$ 192,865	\$ 74,219
Investments	1,683,254	-
Receivables (net of allowance, \$3,198)		
Accounts receivable	28,526	-
Accrued interest	-	-
Due from other funds	1,751,580	41,772
Inventory	-	-
Restricted assets:		
Cash and cash equivalents	39,733	-
Investments at cost	-	-
Construction in progress	-	-
Property and equipment	-	-
Accumulated depreciation	-	-
Bond issue costs, net	-	-
Amount to be provided for retirement of general long-term obligations	-	-
<b>TOTAL ASSETS</b>	<b>\$ 3,695,958</b>	<b>\$ 115,991</b>

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

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals Memo Only Reporting Entity
		General Fixed Assets	General Long-term Debt	
Enterprise Fund	Expendable Trust Funds			
\$ 468,575	\$ 110,795	\$ -	\$ -	\$ 846,454
6,855,031	81,685	-	-	8,619,970
454,861	-	-	-	483,387
221,312	-	-	-	221,312
331,483	92,522	-	-	2,217,357
35,229	-	-	-	35,229
10,809,065	-	-	-	10,848,798
4,471,424	-	-	-	4,471,424
1,832,557	-	-	-	1,832,557
22,414,276	-	3,306,990	-	25,721,266
(7,105,386)	-	-	-	(7,105,386)
340,245	-	-	-	340,245
-	-	-	246,434	246,434
<u>\$ 41,128,672</u>	<u>\$ 285,002</u>	<u>\$ 3,306,990</u>	<u>\$ 246,434</u>	<u>\$ 48,779,047</u>

CITY OF VERSAILLES, KENTUCKY  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)  
 JUNE 30, 2003

	Governmental Fund Types	
	General	Special Revenue
<b>LIABILITIES</b>		
Cash overdraft	\$ -	\$ -
Accounts payable	58,630	-
Accrued liabilities	254,174	-
Accrued interest	-	-
Deferred revenue	-	-
Compensated absences	57,324	-
Payable from restricted assets:		
Fiscal agent	-	-
Bonds payable	-	-
Deposits	-	-
Due to other funds	370,294	-
Capital lease obligations	-	-
Revenue bonds payable	-	-
General long-term debt	-	-
<b>Total Liabilities</b>	<b>740,422</b>	<b>-</b>
<b>FUND EQUITY</b>		
Retained Earnings:		
Reserved for revenue bond retirement	-	-
Unreserved	-	-
Fund Balances:		
Reserved	39,733	
Unreserved	2,915,803	115,991
Investment in fixed assets	-	-
<b>Total Fund Equity</b>	<b>2,955,536</b>	<b>115,991</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 3,695,958</b>	<b>\$ 115,991</b>

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

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals Memo Only Reporting Entity
		General Fixed Assets	General Long-term Debt	
Enterprise	Expendable Trust Funds			
\$ 171,278	\$ -	\$ -	\$ -	\$ 171,278
134,941	-	-	-	193,571
-	110,268	-	-	364,442
93,482	-	-	-	93,482
667,821	-	-	-	667,821
49,035	-	-	63,641	170,000
3,731	-	-	-	3,731
5,268,029	-	-	-	5,268,029
138,944	-	-	-	138,944
1,751,580	95,483	-	-	2,217,357
30,500	-	-	-	30,500
17,686,684	-	-	-	17,686,684
-	-	-	182,793	182,793
<u>25,996,025</u>	<u>205,751</u>	<u>-</u>	<u>246,434</u>	<u>27,188,632</u>
785,060	-	-	-	785,060
14,347,587	-	-	-	14,347,587
-	-	-	-	39,733
-	79,251	-	-	3,111,044
-	-	3,306,990	-	3,306,990
<u>15,132,647</u>	<u>79,251</u>	<u>3,306,990</u>	<u>-</u>	<u>21,590,415</u>
<u>\$ 41,128,672</u>	<u>\$ 285,002</u>	<u>\$ 3,306,990</u>	<u>\$ 246,434</u>	<u>\$ 48,779,047</u>

CITY OF VERSAILLES, KENTUCKY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES  
 AND EXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 2003

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memo Only)
	General	Special Revenue	Expendable Trust Fund	Reporting Entity
<b>REVENUES</b>				
Taxes	\$ 499,414	\$ -	\$ -	\$ 499,414
Licenses and permits	3,303,912	-	-	3,303,912
Intergovernmental revenues	428,457	131,129	-	559,586
Charges for services	80,014	-	-	80,014
Interest income	59,070	1,363	683	61,116
Miscellaneous revenue	208,917	-	3,100	212,017
Sale of assets	13,574	-	-	13,574
<b>Total Revenues</b>	<b>4,593,358</b>	<b>132,492</b>	<b>3,783</b>	<b>4,729,633</b>
<b>EXPENDITURES</b>				
General government	1,266,222	-	-	1,266,222
Police department	2,118,025	-	-	2,118,025
Fire department	617,689	-	-	617,689
Street department	749,286	-	-	749,286
Cemetery department	208,925	-	-	208,925
Program expenses	-	131,752	1,023	132,775
Debt service	53,275	-	-	53,275
Capital outlay	212,310	-	-	212,310
<b>Total Expenditures</b>	<b>5,225,732</b>	<b>131,752</b>	<b>1,023</b>	<b>5,358,507</b>
Excess of Revenues Over (Under) Expenditures	(632,374)	740	2,760	(628,874)
Other Financing Sources (Uses):				
Operating transfers in	110,950	-	-	110,950
Operating transfers out	-	-	(3,562)	(3,562)
Gain on disposal of assets	-	-	2,412	2,412
<b>Total Other Financing Sources (Uses)</b>	<b>110,950</b>	<b>-</b>	<b>(1,150)</b>	<b>109,800</b>
Excess of Revenues and Other Sources Over (Under) Expenditures	(521,424)	740	1,610	(519,074)
Fund Balance-July 1, 2002	3,476,960	115,251	77,641	3,669,852
Fund Balance--June 30, 2003	\$ 2,955,536	\$ 115,991	\$ 79,251	\$ 3,150,777

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

CITY OF VERSAILLES, KENTUCKY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL  
 GENERAL AND SPECIAL REVENUE FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 2003

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<b>REVENUES</b>			
Taxes	\$ 380,360	\$ 499,414	\$ 119,054
Licenses and permits	3,223,000	3,303,912	80,912
Intergovernmental revenues	449,031	428,457	(20,574)
Charges for services	44,000	80,014	36,014
Interest income	229,100	59,070	(170,030)
Miscellaneous revenue	-	208,917	208,917
Sale of assets	-	13,574	13,574
<b>Total Revenues</b>	<u>4,325,491</u>	<u>4,593,358</u>	<u>267,867</u>
<b>EXPENDITURES</b>			
General government	1,338,970	1,266,222	72,748
Police department	2,164,461	2,118,025	46,436
Fire department	600,250	617,689	(17,439)
Street department	600,500	749,286	(148,786)
Cemetery department	235,400	208,925	26,475
Program expenses	-	-	-
Debt service	-	53,275	53,275
Capital outlay	329,900	212,310	117,590
<b>Total Expenditures</b>	<u>5,269,481</u>	<u>5,225,732</u>	<u>150,299</u>
Excess of Revenues Over (Under) Expenditures	<u>(943,990)</u>	<u>(632,374)</u>	<u>418,166</u>
Other Financing Sources (Uses):			
Operating transfers in	-	110,950	110,950
Operating transfers out	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>110,950</u>	<u>110,950</u>
Excess of Revenues and Other Sources Over (Under) Expenditures	<u>(943,990)</u>	<u>(521,424)</u>	<u>\$ 529,116</u>
Fund Balance--July 1, 2002	<u>3,476,960</u>	<u>3,476,960</u>	
Fund Balance--June 30, 2003	<u>\$ 2,532,970</u>	<u>\$ 2,955,536</u>	

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



Special Revenue Funds			Totals (Memo Only) Reporting Entity		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 380,360	\$ 499,414	\$ 119,054
-	-	131,129	3,223,000	3,435,041	212,041
97,600	131,129	(97,600)	546,631	428,457	(118,174)
-	-	1,363	44,000	81,377	37,377
3,000	1,363	(3,000)	232,100	59,070	(173,030)
-	-	-	-	208,917	208,917
-	-	-	-	13,574	13,574
<u>100,600</u>	<u>132,492</u>	<u>31,892</u>	<u>4,426,091</u>	<u>4,725,850</u>	<u>299,759</u>
-	-	-	1,338,970	1,266,222	72,748
-	-	-	2,164,461	2,118,025	46,436
-	-	-	600,250	617,689	(17,439)
-	-	-	600,500	749,286	(148,786)
-	-	-	235,400	208,925	26,475
129,451	131,752	2,301	129,451	131,752	(2,301)
-	-	-	-	53,275	(53,275)
-	-	-	329,900	212,310	117,590
<u>129,451</u>	<u>131,752</u>	<u>2,301</u>	<u>5,398,932</u>	<u>5,357,484</u>	<u>41,448</u>
<u>(28,851)</u>	<u>740</u>	<u>34,192</u>	<u>(972,841)</u>	<u>(631,634)</u>	<u>341,207</u>
-	-	-	-	110,950	110,950
-	-	-	-	-	-
-	-	-	-	110,950	110,950
<u>(28,851)</u>	<u>740</u>	<u>\$ 34,192</u>	<u>(972,841)</u>	<u>(520,684)</u>	<u>\$ 452,157</u>
-	115,251		3,476,960	3,592,211	
<u>\$ (28,851)</u>	<u>\$ 115,991</u>		<u>\$ 2,504,119</u>	<u>\$ 3,071,527</u>	

CITY OF VERSAILLES, KENTUCKY  
 COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES  
 IN RETAINED EARNINGS-ENTERPRISE FUND  
 FOR THE YEAR ENDED JUNE 30, 2003

OPERATING REVENUES	
Charges for services	\$ 3,365,423
OPERATING EXPENSES	
Salaries	778,292
Payroll taxes	54,691
Employee benefits	111,093
Advertising and printing	6,481
Professional and technical	37,058
Repairs and maintenance	194,186
Utilities	265,369
Telephone and postage	29,614
Insurance	79,610
Chemicals	77,473
Technical supplies	1,573
Uniforms	4,257
Motor fuel	35,832
Office supplies	2,125
Other materials	16,110
Other expenses	51,583
Purchase of water	57,220
Collection expense	9,864
Landfill expense	130,222
Sludge removal	39,085
Depreciation and amortization	516,173
Training/Travel	4,035
Lab analysis	39,633
Purchase of water meters	93,885
Dumpster collection	2,280
Total Operating Expenses	<u>2,637,745</u>
Operating Income	<u>727,678</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest revenue	589,721
Grant revenue	374,350
Miscellaneous revenue	2,630,544
Net unrealized gain on investments	6,237
Interest expense	(349,194)
Bond issue costs	(35,212)
Gain on disposal of assets	686
Transfer to general fund	<u>(107,386)</u>
Excess of Nonoperating Revenues Over Expenses	<u>3,109,746</u>
Net Income	<u>\$ 3,837,424</u>
Retained Earnings, July 1, 2002	11,295,223
Retained Earnings, June 30, 2003	<u>\$ 15,132,647</u>

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

CITY OF VERSAILLES, KENTUCKY  
 COMBINED STATEMENT OF CASH FLOWS  
 ENTERPRISE FUND  
 FOR THE YEAR ENDED JUNE 30, 2003

Cash Flows from Operating Activities:	
Operating income	\$ 727,678
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation and amortization expense	551,385
(Increase) Decrease in:	
Accounts receivable	(290,360)
Accrued interest	(173,493)
Inventory	(28,332)
Restricted investments	(80,382)
Increase (Decrease) in:	
Accounts payable	(40,934)
Accrued liabilities	(5,205)
Accrued interest	(2,521)
Deferred Revenue	667,821
Compensated absences	(3,885)
Deposits	<u>27,638</u>
Net cash provided by operating activities	<u>1,349,410</u>
Cash Flows from Noncapital Financing Activities:	
Interest income	589,721
Miscellaneous revenue	40,544
Grant revenue	374,350
Interest expense	(349,194)
Transfer to general fund	<u>(107,386)</u>
Net cash used by noncapital financing activities	<u>548,035</u>
Cash Flows from Capital and Related Financing Activities:	
Payment of bond principle	(590,352)
Payment on capital lease obligations	(374,243)
Proceeds from bond issue	6,330,000
Loan from general fund	71,163
Receipt on loan to payroll fund	<u>21,026</u>
Net cash provided by capital and related financing activities	<u>5,457,594</u>
Cash Flows from Investing Activities:	
Proceeds from sale of investments	66,924
Purchase of investments	(6,239,593)
Purchase of property and equipment	<u>(1,134,319)</u>
Net cash used in investing activities	<u>(7,306,988)</u>
Net Net Increase (Decrease) in Cash and Cash Equivalents	<u>48,051</u>
Cash and Cash Equivalents at Beginning of Year	<u>11,058,311</u>
Cash and Cash Equivalents at End of Year	<u><u>11,106,361</u></u>

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

CITY OF VERSAILLES, KENTUCKY  
COMBINED STATEMENT OF CASH FLOWS, CONTINUED  
ENTERPRISE FUND  
FOR THE YEAR ENDED JUNE 30, 2003

Supplemental Disclosure	
Interest Paid(including capitalized interest of \$295,735)	\$ 1,179,883
Non-cash investing, capital and financing activities:	
Rental property contributed by private company	<u>\$ 2,590,000</u>
Reconciliation of cash-end of year:	
Cash and cash equivalents	\$ 468,575
Restricted cash and cash equivalents	10,809,064
Cash overdraft	<u>(171,278)</u>
Total	<u>\$ 11,106,361</u>

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

CITY OF VERSAILLES, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City operates under a 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.

A review of other agencies was performed in order to determine if they met the criteria as discussed above for inclusion in the City's financial statements. City management determines that no other agencies should be in the City's financial statements.

Fund Accounting

The City maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

1. Governmental Fund Types

- A. The General Fund is the primary operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

2. Proprietary Fund Types

The Enterprise Fund is used to account for water, sewer, sanitation and rental activities. The Enterprise Funds also present the non-expendable trust funds related to the permanent cemetery trust funds. The Proprietary Funds apply all statements of the Financial Accounting Standards Board issued after November 30, 1989 as they relate to business enterprises unless they contradict existing Governmental Accounting Standards Board pronouncements.

3. Fiduciary Fund Type

- A. The Expendable Trust Fund is used to account for payroll fund and expendable cemetery trust fund.

4. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

- A. General Fixed Assets Account Group
- B. General Long-Term Obligations Account Group

CITY OF VERSAILLES, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Basis of Accounting

The records of the City are maintained on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Governmental Accounting Standards Board.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings.

The governmental fund types are presented on the modified accrual basis of accounting. Using this basis of accounting, revenues are recognized when they become measurable and available as assets. Revenues collected after year end are not considered available and are recognized in the subsequent year, with the exception of prior year property taxes and cemetery charges. Expenditures are generally recognized under the modified basis of accounting when the related fund liability is incurred and is normally expected to be liquidated with expendable available financial resources. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. Also, all payments made on behalf of the City by other entities are not recognized as revenues and expenditures of the City. The Proprietary Fund is accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

Budget Basis of Accounting

The budget basis of accounting is consistent with generally accepted accounting principles. The type of budget is an appropriated budget and said budget is adopted by ordinance by the City Council. The budget is adopted on an annual basis. The budget presented for the General Fund was amended during the year and adopted by ordinance by the City Council.

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.

Inventory

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

Fixed Assets

Fixed assets utilized in the Enterprise Fund activities are recorded at cost and depreciated over their estimated useful lives using the straight-line method.

General fixed assets are recorded as expenditures in the General Fund at the time of purchase. In the past, the City did not maintain a General Fixed Assets group of accounts. Beginning with the fiscal year, July 1, 1985 - June 30, 1986, a General Fixed Assets Group was established in order to comply with generally accepted accounting principles.

CITY OF VERSAILLES, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Investments in fixed assets, prior to June 30, 1986, are shown as one lump sum. Valuations of fixed assets required before July 1, 1985 are based on estimated cost. General fixed assets acquired on or after July 1, 1985 are recorded at actual cost.

Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized along with other general fixed assets.

Accounts Receivable - Enterprise Fund

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 terminated and their deposit is applied to the unpaid bill. Any unpaid balance after applying the deposit is fully reserved and carried on the books for a period of five years.

Total Columns

Total columns on the financial statements are indicated as "Memorandum Only", as data in these columns do not present financial positions, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 – 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.

NOTE 3 – 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.

NOTE 4 – CASH AND INVESTMENTS

The City maintains their cash and investments with various local banks and Kentucky Trust Company. Investments at Kentucky Trust Company are related to cemetery trust funds and are not subject to the City's investment policy.

Cash and cash equivalents consist of direct deposit accounts and money market mutual funds. At June 30, 2003 the carrying amount of cash and cash equivalents was \$11,695,252 and the bank balance was \$11,779,386.

Investments consist of certificate of deposits, mutual funds comprising of government obligations, debt securities and equity securities. The carrying amount of the investments at June 30, 2003 was \$13,091,394 and the market value of the investments at June 30, 2003 was \$13,091,394.

CITY OF VERSAILLES, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2003

NOTE 5 – KENTUCKY REVISED STATUTE

As of June 30, 2003, \$7,630,979 of the cash, cash equivalents and investments of City of Versailles were covered by federal depository, depository bond insurance and securities pledged as collateral on behalf of the City. The remaining unsecured balance of the cash, cash equivalents, and investments primarily consisted of securities of United States Obligations. The nature of these securities appropriately compensates for not pledging securities to insure the deposits. In accordance with Kentucky Revised Statute (KRS) 66.480, the deposits are to be insured by the federal depository insurance or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current fair value or current quoted market value at least equal to the deposits. According to KRS.66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

NOTE 6 – GASB 3 RISK CLASSIFICATION

The Department's cash and cash equivalents are categorized as either (1) insured or collateralized with securities held by the entity or by its agent in the entity's name (2) collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name (3) uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)

Categories			Carrying Amount	Market Value
1	2	3		
\$100,000	-	\$11,595,252	\$11,695,252	\$11,695,252

The Department's investments are categorized as either (1) insured or registered or for which the securities are held by the government or its agent in the Department's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the Department's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Department's name.

Categories			Carrying Amount	Market Value
1	2	3		
\$400,000	-	\$12,691,394	\$13,091,394	\$13,091,394



CITY OF VERSAILLES, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2003

NOTE 7 - BONDS PAYABLE

At June 30, 2003, the Enterprise Fund had the following bonds payable outstanding:

<u>Description</u>	<u>Series</u>	<u>Amount</u>
Revenue Bonds	1996	\$ 465,000
Revenue Bonds	1999	1,920,000
Revenue Bonds	2003	6,330,000
Kentucky League of Cities	2000	745,321
Revenue Bonds	2000	4,310,000
Revenue Bonds	2001	<u>9,470,000</u>
Total payable at par		23,240,321
Less: unamortized defeasance costs		<u>(285,608)</u>
		22,954,713
Less: current portion payable from restricted assets		<u>(5,268,029)</u>
Total long-term portion		<u>\$ 17,686,684</u>

A schedule of the required principal payments on the aforementioned bonds payable follows:

Year Ended <u>June 30</u>	
2004	5,268,029
2005	1,232,292
2006	880,000
2007	910,000
2008	940,000
Thereafter	<u>13,724,392</u>
Total	<u>\$ 22,954,713</u>

Principal payments on the outstanding Water and Sewer Revenue Bonds, 1996, 1999, and 2001 are payable on December 1 of each year and interest is payable on December 1 and June 1. The League of Cities principal payments are due on June and December 15 with interest also payable on June and December 15. Interest payments are due on May and November 20 for the KCTCS bond and principal is payable on November 20. Interest only payments are due each October 1 and April 1 on the 2000 Bond Anticipation Notes. The entire principal payment is due on October 1, 2003.

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-fifth of the next interest payment and one-tenth of the next principal payment.

CITY OF VERSAILLES, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2003

NOTE 7 – BONDS PAYABLE (CONTINUED)

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

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 nonrestricted. 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.

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

CITY OF VERSAILLES, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2003

NOTE 8 -- CAPITAL LEASE OBLIGATIONS

The City entered into a lease purchase agreement with Farmers Bank & Capital Trust Co. on December 19, 2001. The purpose of the lease was to purchase a vehicle for the fire department. Accordingly the purchase has been recorded in the general fixed assets account group. The following is a schedule of the future minimum payments required under the lease as of June 30, 2003:

June 30, 2003		\$ 22,794
Less: Amount representing interest		1,869
Present value of minimum lease payments		\$ 20,925
Scheduled maturities for above lease:		
June 30, 2004		\$ 6,634
June 30, 2005		6,969
June 30, 2006		7,322
Total		\$ 20,925

The City entered into a variable rate lease purchase agreement with the Kentucky League of Cities Funding Trust on August 15, 2001. The purpose of the lease was to purchase laptop computer systems to install into police vehicles. Accordingly the purchases have been recorded in the general fixed assets account group. The following is a schedule of the future minimum payments required under the lease as of June 30, 2003:

June 30, 2003		\$ 138,364
Less: Amount representing interest		8,364
Present value of minimum lease payments		\$ 130,000
Scheduled maturities for above lease:		
June 30, 2004		\$ 55,000
June 30, 2005		60,000
June 30, 2006		15,000
Total		\$ 130,000

CITY OF VERSAILLES, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2003

NOTE 8 – CAPITAL LEASE OBLIGATIONS (CONTINUED)

The City entered into a variable rate lease purchase agreement with the Kentucky Municipal Finance Corporation on December 21, 2000. The purpose of the lease was to make improvements to the City's water and sewer operations and purchase new water meters for all customers. Accordingly, the improvements have been capitalized as fixed assets. The interest component of the lease payments is based upon a Money Market Municipal Rate. The following is a schedule of the future minimum payments required under the lease as of June 30, 2003:

June 30, 2003	\$ 795,299
Less: Amount representing interest	<u>49,978</u>
Present value of minimum lease payments	<u><u>\$ 745,321</u></u>
Scheduled maturities for above lease:	
June 30, 2004	363,029
June 30, 2005	<u>382,292</u>
Total	<u><u>\$ 745,321</u></u>

The City entered into a fixed rate lease purchase agreement with Citizens Commerce National Bank on March 7, 2000. The purpose of the lease was to purchase a garbage truck for sanitation department. Accordingly, the garbage has been capitalized as a fixed asset. The interest component of the lease payments is based upon a fixed interest rate of 3.50 percent. The following is a schedule of the future minimum payments required under the lease as of June 30, 2003:

June 30, 2003	\$ 31,305
Less: Amount representing interest	<u>805</u>
Present value of minimum lease payments	<u><u>\$ 30,500</u></u>
Scheduled maturities for above lease:	
June 30, 2004	<u><u>\$ 30,500</u></u>

The City entered into a contract with Rose Crest Corporation on April 10, 2000. The purpose of the contract was to purchase the cemetery property. Accordingly the purchase has been recorded in the general fixed assets account group. The interest component of the payments is based upon a fixed interest rate of 7.00 percent. The following is a schedule of the future minimum payments required under the terms of the contract as of June 30, 2002:

June 30, 2003	\$ 32,100
Less: Amount representing interest	<u>2,100</u>
Present value of minimum lease payments	<u><u>\$ 30,000</u></u>
Scheduled maturities for above lease:	
June 30, 2003	<u><u>\$ 30,000</u></u>
Total	<u><u>\$ 30,000</u></u>

CITY OF VERSAILLES, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2003

NOTE 9 - DEFINED BENEFIT PENSION PLAN

Employee who work on average of 80 hours per month over their contract participate in the County Employees Retirement System (CERS), which is a cost sharing, multiple-employer public employees retirement system created by and operating under Kentucky law.

The CERS covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the CERS, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601-6124.

Participating employees in non-hazardous positions contribute 5.00% of creditable compensation. The City contributed 6.34% of creditable compensation during the fiscal year ended June 30, 2003. Participating employees in hazardous positions contribute 8.00% of creditable compensation. The City contributed 16.28% of creditable compensation during the fiscal year ended June 30, 2003. The City's required contributions (both withholding and match) for pension obligation to the system for fiscal years ended June 30, 2003, 2002 and 2001 were \$509,803, \$482,972, and \$471,070 respectively.

NOTE 10 - 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.

NOTE 11 - PROPERTY TAX CALENDAR

Property taxes are a significant portion of the General Fund revenues. The property tax calendar is as follows:

Levy Date	- January 1
Collection Date	- October 1
Due Date	- October 31
Lien Date	- January 1 of year following Levy Date

NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES

Interfund Receivables and Payables as of June 30, 2003 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Special Revenue Fund	\$ 41,772	\$ -
Payroll Fund	92,522	260,765
General Fund	1,751,580	370,294
Enterprise Fund	<u>116,509</u>	<u>1,751,580</u>
	<u>\$ 2,217,357</u>	<u>\$ 2,217,357</u>

CITY OF VERSAILLES, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2003

NOTE 13 - SUMMARY OF FIXED ASSETS

General Fixed Assets

Land	\$ 1,402,736
Buildings	1,950,091
Vehicles	1,707,698
Equipment	1,606,967
Less - Accumulated Depreciation	<u>(3,360,502)</u>
Net General Fixed Assets	<u>\$ 3,306,990</u>

Proprietary Fund Fixed Assets

Land and improvements	\$ 624,142
Water and sewer system	17,658,754
Buildings	2,868,342
Equipment	1,263,037
Less - Accumulated Depreciation	<u>(7,105,386)</u>
Net Property, Plant and Equipment	<u>\$ 15,308,890</u>

NOTE 14 -- 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.

NOTE 15 -- CONCENTRATIONS

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Two industrial companies generated approximately 39% of the City's occupational tax revenue. Four users generated approximately 21% of the utility operation's service revenue. Also, at June 30, 2003, approximately 28% of the utility operation's accounts receivable was due from three users.

CITY OF VERSAILLES, KENTUCKY  
 COMBINING BALANCE SHEET  
 SPECIAL REVENUE COMPONENTS  
 JUNE 30, 2003

	<u>Road Account</u>	<u>Federal Grant</u>	<u>Totals</u>
ASSETS			
Cash	\$ 59,482	\$ 14,737	\$ 74,219
Due from other funds	41,772	-	41,772
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 101,254</u>	<u>\$ 14,737</u>	<u>\$ 115,991</u>
FUND EQUITY			
Fund balances:			
Unreserved	\$ 101,254	\$ 14,737	\$ 115,991
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND EQUITY	<u>\$ 101,254</u>	<u>\$ 14,737</u>	<u>\$ 115,991</u>

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

CITY OF VERSAILLES, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 SPECIAL REVENUE COMPONENTS  
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>Road Account</u>	<u>Federal Grant</u>	<u>Totals</u>
<b>REVENUES</b>			
Intergovernmental revenues	\$ 125,452	\$ 5,677	\$ 131,129
Interest income	<u>1,114</u>	<u>249</u>	<u>1,363</u>
Total Revenues	<u>126,566</u>	<u>5,926</u>	<u>132,492</u>
<b>EXPENDITURES</b>			
Street maintenance	112,066	-	112,066
Program expenses	<u>17,384</u>	<u>2,302</u>	<u>19,686</u>
Total Expenditures	<u>129,450</u>	<u>2,302</u>	<u>131,752</u>
Excess of revenues over (under) expenditures	<u>(2,884)</u>	<u>3,624</u>	<u>740</u>
Fund Balance--July 1, 2002	<u>104,138</u>	<u>11,113</u>	<u>115,251</u>
Fund Balance--June 30, 2003	<u>\$ 101,254</u>	<u>\$ 14,737</u>	<u>\$ 115,991</u>



CITY OF VERSAILLES, KENTUCKY  
COMBINING BALANCE SHEET  
ENTERPRISE FUND COMPONENTS  
JUNE 30, 2003

	Water, Sewer and Sanitation	Rental	Nonexpendable Cemetery Trust Fund	KCTCS Fund	Total Enterprise Fund Components
<b>ASSETS</b>					
Cash and cash equivalents	\$ 21,681	\$ -	\$ 3,980	\$ 442,914	\$ 468,575
Investments	500,000	-	402,378	5,952,653	6,855,031
Accounts receivable	454,861	-	-	-	454,861
Accrued interest	221,312	-	-	-	221,312
Due from other funds	95,483	-	-	236,000	331,483
Inventory	35,229	-	-	-	35,229
Restricted assets:					
Cash and cash equivalents	10,809,065	-	-	-	10,809,065
Investments	4,471,424	-	-	-	4,471,424
Construction in Progress	1,662,109	-	-	170,448	1,832,557
Property and equipment	19,824,276	-	-	2,590,000	22,414,276
Accumulated depreciation	(7,105,386)	-	-	-	(7,105,386)
Bond issue costs, net	237,785	-	-	102,460	340,245
<b>Total Assets</b>	<b>\$ 31,227,839</b>	<b>\$ -</b>	<b>\$ 406,358</b>	<b>\$ 9,494,475</b>	<b>\$ 41,128,672</b>
<b>LIABILITIES AND RETAINED EARNINGS</b>					
<b>LIABILITIES</b>					
Cash overdraft	\$ 171,278	\$ -	\$ -	\$ -	\$ 171,278
Accounts payable	134,941	-	-	-	134,941
Accrued Liabilities	-	-	-	-	-
Accrued interest	93,482	-	-	-	93,482
Deferred Revenue	-	-	-	667,821	667,821
Compensated absences	49,035	-	-	-	49,035
Payable from restricted assets:					
Fiscal agent	3,731	-	-	-	3,731
Bonds payable	5,268,029	-	-	-	5,268,029
Deposits	138,944	-	-	-	138,944
Due to other funds	1,751,580	-	-	-	1,751,580
Capital lease obligations	30,500	-	-	-	30,500
Revenue bonds payable	11,356,684	-	-	6,330,000	17,686,684
<b>Total Liabilities</b>	<b>18,998,204</b>	<b>-</b>	<b>-</b>	<b>6,997,821</b>	<b>25,996,025</b>
<b>RETAINED EARNINGS</b>					
Retained earnings:					
Reserved for revenue bond retirement	785,060	-	-	-	785,060
Unreserved	11,444,575	-	406,358	2,496,654	14,347,587
<b>Total Retained Earnings</b>	<b>12,229,635</b>	<b>-</b>	<b>406,358</b>	<b>2,496,654</b>	<b>15,132,647</b>
<b>Total Liabilities and Retained Earnings</b>	<b>\$ 31,227,839</b>	<b>\$ -</b>	<b>\$ 406,358</b>	<b>\$ 9,494,475</b>	<b>\$ 41,128,672</b>

CITY OF VERSAILLES, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES  
 IN RETAINED EARNINGS-ENTERPRISE FUND COMPONENTS  
 FOR THE YEAR ENDED JUNE 30, 2003

	Water, Sewer and Sanitation	Rental	Nonexpendable Cemetery Trust Fund	KCTCS Fund	Total Enterprise Fund Components
<b>OPERATING REVENUES</b>					
Charges for services	\$ 3,360,408	\$ -	\$ 5,015	\$ -	\$ 3,365,423
<b>OPERATING EXPENSES</b>					
Salaries	778,292	-	-	-	778,292
Payroll taxes	54,691	-	-	-	54,691
Employee benefits	111,093	-	-	-	111,093
Advertising and printing	5,649	-	-	832	6,481
Professional and technical	28,438	-	2,167	6,453	37,058
Repairs and maintenance	187,958	-	-	6,228	194,186
Utilities	247,139	-	-	18,230	265,369
Telephone and postage	29,614	-	-	-	29,614
Insurance	79,610	-	-	-	79,610
Chemicals	77,473	-	-	-	77,473
Technical supplies	1,573	-	-	-	1,573
Uniforms	4,257	-	-	-	4,257
Motor fuel	35,832	-	-	-	35,832
Office supplies	2,125	-	-	-	2,125
Other materials	15,857	-	-	253	16,110
Other expenses	50,529	-	-	1,054	51,583
Purchase of water	57,220	-	-	-	57,220
Collection expense	9,864	-	-	-	9,864
Landfill expense	130,222	-	-	-	130,222
Sludge removal	39,085	-	-	-	39,085
Depreciation and amortization	516,173	-	-	-	516,173
Training/Travel	4,035	-	-	-	4,035
Lab analysis	39,633	-	-	-	39,633
Purchase of water meters	93,885	-	-	-	93,885
Dumpster collection	2,280	-	-	-	2,280
<b>Total Operating Expenses</b>	<b>2,602,528</b>	<b>-</b>	<b>2,167</b>	<b>33,050</b>	<b>2,637,745</b>
<b>Operating Income (Loss)</b>	<b>757,880</b>	<b>-</b>	<b>2,848</b>	<b>(33,050)</b>	<b>727,678</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>					
Interest income	574,632	229	10,016	4,844	589,721
Grant revenue	374,350	-	-	-	374,350
Miscellaneous revenue	29,550	-	10,994	2,590,000	2,630,544
Net unrealized gain on investments	-	-	6,237	-	6,237
Interest expense	(349,194)	-	-	-	(349,194)
Bond issue costs	(35,212)	-	-	-	(35,212)
Gain on disposal of assets	-	-	686	-	686
Transfer to general fund	-	(21,154)	(21,092)	(65,140)	(107,386)
<b>Excess of Nonoperating Revenues Over (Under) Expenses</b>	<b>594,126</b>	<b>(20,925)</b>	<b>6,841</b>	<b>2,529,704</b>	<b>3,109,746</b>
<b>Net Income</b>	<b>1,352,006</b>	<b>(20,925)</b>	<b>9,689</b>	<b>2,496,654</b>	<b>3,837,424</b>
Retained Earnings, July 1, 2002	10,877,629	20,925	396,669	-	11,295,223
<b>Retained Earnings, June 30, 2003</b>	<b>\$ 12,229,635</b>	<b>\$ -</b>	<b>\$ 406,358</b>	<b>\$ 2,496,654</b>	<b>\$ 15,132,647</b>

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

CITY OF VERSAILLES, KENTUCKY  
 COMBINING STATEMENT OF CASH FLOWS  
 ENTERPRISE FUND COMPONENTS  
 FOR THE YEAR ENDED JUNE 30, 2003

	Water, Sewer and Sanitation	Rental	Nonexpendable Cemetery Trust Fund	KCTCS Fund	Total Enterprise Fund Components
<b>Cash Flows from Operating Activities:</b>					
Operating income	\$ 757,880	\$ -	\$ 2,848	\$ (33,050)	\$ 727,678
Adjustments to reconcile net income to cash provided by operating activities:					
Depreciation and amortization expense	551,385	-	-	-	551,385
(Increase) Decrease in:					
Accounts receivable	(54,360)	-	-	(236,000)	(290,360)
Accrued interest	(173,493)	-	-	-	(173,493)
Inventory	(28,332)	-	-	-	(28,332)
Restricted investments	(80,382)	-	-	-	(80,382)
Increase (Decrease) in:					
Accounts payable	(40,934)	-	-	-	(40,934)
Accrued liabilities	(5,205)	-	-	-	(5,205)
Accrued interest	(2,521)	-	-	-	(2,521)
Deferred Revenue	-	-	-	667,821	667,821
Compensated absences	(3,885)	-	-	-	(3,885)
Deposits	27,638	-	-	-	27,638
<b>Net cash provided by operating activities</b>	<b>947,791</b>	<b>-</b>	<b>2,848</b>	<b>398,771</b>	<b>1,349,410</b>
<b>Cash Flows from Noncapital Financing Activities:</b>					
Interest income	574,632	229	10,016	4,844	589,721
Miscellaneous revenue	29,550	-	10,994	-	40,544
Grant Revenue	374,350	-	-	-	374,350
Interest expense	(349,194)	-	-	-	(349,194)
Transfer to general fund	-	(21,154)	(21,092)	(65,140)	(107,386)
<b>Net cash provided(used) by noncapital financing activities</b>	<b>629,338</b>	<b>(20,925)</b>	<b>(82)</b>	<b>(60,296)</b>	<b>548,035</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Payment of bond principle	(590,352)	-	-	-	(590,352)
Payment on capital lease obligations	(374,243)	-	-	-	(374,243)
Proceeds from bond issue	-	-	-	6,330,000	6,330,000
Loan from general fund	71,163	-	-	-	71,163
Receipt on loan to payroll fund	21,026	-	-	-	21,026
<b>Net cash provided(used) by capital and related financing activities</b>	<b>(872,406)</b>	<b>-</b>	<b>-</b>	<b>6,330,000</b>	<b>5,457,594</b>
<b>Cash Flows from Investing Activities:</b>					
Proceeds from sale of investments	60,000	-	6,924	-	66,924
Purchase of investments	-	-	(14,032)	(6,225,561)	(6,239,593)
Purchase of property and equipment	(1,134,319)	-	-	-	(1,134,319)
<b>Net cash used in investing activities</b>	<b>(1,074,319)</b>	<b>-</b>	<b>(7,108)</b>	<b>(6,225,561)</b>	<b>(7,306,988)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(369,596)</b>	<b>(20,925)</b>	<b>(4,342)</b>	<b>442,914</b>	<b>48,050</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>11,029,064</b>	<b>20,925</b>	<b>8,322</b>	<b>-</b>	<b>11,058,311</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 10,659,468</b>	<b>\$ -</b>	<b>\$ 3,980</b>	<b>\$ 442,914</b>	<b>\$ 11,106,361</b>

The accompanying notes are an integral part of these financial statements

CITY OF VERSAILLES, KENTUCKY  
 COMBINING STATEMENT OF CASH FLOWS, CONTINUED  
 ENTERPRISE FUND COMPONENTS  
 FOR THE YEAR ENDED JUNE 30, 2003

	Water, Sewer and Sanitation	Rental	Nonexpendable Cemetery Trust Fund	KGTCS Fund	Total Enterprise Fund Components
<b>Supplemental Disclosures</b>					
Interest paid (including capitalized interest of \$410,103)	\$ 1,179,803	\$ -	\$ -	\$ -	\$ 1,179,803
<b>Non-cash investing, capital and financing activities</b>					
Rental property contributed by private company	\$ -	\$ -	\$ -	\$ 2,500,000	\$ 2,500,000
<b>Reconciliation of cash-end of year:</b>					
Cash and cash equivalents	\$ 21,680	\$ -	\$ 3,980	\$ 442,914	\$ 468,575
Restricted cash and cash equivalents	10,809,064	-	-	-	10,809,064
Cash over/craft	(171,278)	-	-	-	(171,278)
<b>Total</b>	<u>\$ 10,650,466</u>	<u>\$ -</u>	<u>\$ 3,980</u>	<u>\$ 442,914</u>	<u>\$ 11,106,361</u>

CITY OF VERSAILLES, KENTUCKY  
 COMBINING BALANCE SHEET  
 FIDUCIARY FUND COMPONENTS  
 JUNE 30, 2003

	Payroll Account	Expendable Cemetery Trust	Totals
<b>ASSETS</b>			
Cash and cash equivalents	\$ 110,380	\$ 415	\$ 110,795
Investments	-	81,685	81,685
Due from other funds	92,522	-	92,522
<b>TOTAL ASSETS</b>	<b>\$ 202,902</b>	<b>\$ 82,100</b>	<b>\$ 285,002</b>
 <b>LIABILITIES</b>			
Payroll liabilities	\$ 110,268	\$ -	\$ 110,268
Due to other funds	95,483	-	95,483
Total Liabilities	205,751	-	205,751
 <b>FUND EQUITY</b>			
Fund balances:			
Unreserved	(2,849)	\$ 82,100	\$ 79,251
Total Fund Equity	(2,849)	82,100	\$ 79,251
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 202,902</b>	<b>\$ 82,100</b>	<b>\$ 285,002</b>

CITY OF VERSAILLES, KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 FIDUCIARY FUND COMPONENTS  
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>Payroll Account</u>	<u>Expendable Cemetery Trust</u>	<u>Totals</u>
<b>REVENUES</b>			
Interest income	\$ -	\$ 683	\$ 683
Miscellaneous revenue	-	3,100	3,100
<b>Total Revenues</b>	<b>-</b>	<b>3,783</b>	<b>3,783</b>
<b>EXPENDITURES</b>			
Professional fees	-	650	650
Other expenses	-	373	373
<b>Total Expenditures</b>	<b>-</b>	<b>1,023</b>	<b>1,023</b>
Excess of revenues over (under) expenditures	-	2,760	2,760
<b>OTHER SOURCES(USES):</b>			
Operating transfers out	-	(3,562)	(3,562)
Loss on disposal of assets	-	-	-
Unrealized increase in investments	-	2,148	2,148
Gain on disposal of assets	-	264	264
<b>Total Other Sources(Uses)</b>	<b>-</b>	<b>(1,150)</b>	<b>(1,150)</b>
Excess of Revenues and Other Sources(Uses) Over (Under) Expenditures	-	1,610	1,610
Fund Balance-July 1, 2002	(2,849)	80,490	77,641
Fund Balance--June 30, 2003	<u>\$ (2,849)</u>	<u>\$ 82,100</u>	<u>\$ 79,251</u>

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

CITY OF VERSAILLES, KENTUCKY  
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Balance - July 1, 2002	\$ 3,517,364
Current year additions	188,103
Current year deletions (net of depreciation)	-
Current year depreciation	<u>(398,477)</u>
Balance - June 30, 2003	<u><u>\$ 3,306,990</u></u>

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

	<u>Balance July 1, 2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2003</u>
Compensated absences	\$ 72,099	\$ -	\$ 8,458	\$ 63,641
Kentucky League of Cities	170,000	-	40,000	130,000
Farmers Bank & Capital Trust	30,221	-	7,428	22,793
Note payable-Rosecrest Cemetery	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Total general long-term debt	<u>\$ 302,320</u>	<u>\$ -</u>	<u>\$ 55,886</u>	<u>\$ 246,434</u>

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



CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND - WATER, SEWER AND SANITATION  
DETAIL OF DEPARTMENTAL OPERATING EXPENSES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Water	Sewer	Sanitation	Total
Salaries	\$ 456,529	\$ 213,094	\$ 108,669	\$ 778,292
Payroll taxes	32,147	14,875	7,669	54,691
Employee benefits	61,384	32,037	17,672	111,093
Advertising and printing	5,649	-	-	5,649
Professional and technical fees	22,250	6,188	-	28,438
Repairs and maintenance	99,552	71,047	17,359	187,958
Utilities	166,588	78,487	2,064	247,139
Telephone and postage	14,673	10,862	4,080	29,614
Insurance	46,019	18,889	14,702	79,610
Chemicals	73,971	3,502	-	77,473
Technical supplies	-	1,573	-	1,573
Uniforms	2,435	952	870	4,257
Motor fuel	8,271	8,109	19,452	35,832
Office supplies	2,125	-	-	2,125
Other materials	9,952	4,971	934	15,857
Other expenses	50,529	-	-	50,529
Purchase of water	57,220	-	-	57,220
Collection expense	-	9,864	-	9,864
Landfill expense	-	-	130,222	130,222
Sludge removal	-	39,085	-	39,085
Depreciation and amortization	224,624	239,084	52,465	516,173
Training/Travel	2,921	1,114	-	4,035
Lab analysis	16,545	23,088	-	39,633
Purchase of water meters	93,885	-	-	93,885
Dumpster collection	-	2,280	-	2,280
<b>Total Operating Expenses</b>	<b>\$ 1,447,269</b>	<b>\$ 779,101</b>	<b>\$ 376,158</b>	<b>\$ 2,602,528</b>

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

CITY OF VERSAILLES, KENTUCKY  
 ENTERPRISE FUND  
 WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE  
 SERIES OF 1996

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Payable June 1</u>	<u>Payable December 1</u>	<u>Total Principal and Interest</u>
12/1/2003	4.60%	150,000.00	9,207.50	9,207.50	168,415.00
12/1/2004	4.70%	155,000.00	5,661.25	5,661.25	166,322.50
12/1/2005	4.80%	160,000.00	1,920.00	1,920.00	163,840.00
		<u>\$ 465,000.00</u>	<u>\$ 16,788.75</u>	<u>\$ 16,788.75</u>	<u>\$ 498,577.50</u>

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

CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND  
WATER AND SEWER REVENUE BOND AMORTIZATION SCHEDULE  
SERIES OF 1999

<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>
2003-2004	3.800%	105,000.00	38,916.25	36,921.25	180,837.50
2004-2005	3.900%	115,000.00	36,921.25	34,678.75	186,600.00
2005-2006	3.950%	120,000.00	34,678.75	32,308.75	186,987.50
2006-2007	4.000%	290,000.00	32,308.75	26,508.75	348,817.50
2007-2008	4.000%	300,000.00	26,508.75	20,508.75	347,017.50
2008-2009	4.100%	315,000.00	20,508.75	14,051.25	349,560.00
2009-2010	4.125%	330,000.00	14,051.25	7,245.00	351,296.25
2010-2011	4.200%	345,000.00	7,245.00	-	352,245.00
		<u>\$ 1,920,000.00</u>	<u>\$ 211,138.75</u>	<u>\$ 172,222.50</u>	<u>\$ 2,303,361.25</u>

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

CITY OF VERSAILLES, KENTUCKY  
 ENTERPRISE FUND  
 BOND ANTICIPATION AMORTIZATION SCHEDULE  
 SERIES OF 2000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Payable by October 1</u>	<u>Interest Payable by April 1</u>	<u>Total Principal and Interest</u>
2003-04	4.625%	4,310,000.00	99,668.75	-	4,409,668.75
		<u>\$ 4,310,000.00</u>	<u>\$ 99,668.75</u>	<u>\$ -</u>	<u>\$ 4,409,668.75</u>

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

CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND  
REVENUE BONDS -  
SERIES OF 2001

Fiscal Year	Interest Rate	Principal	Interest Payable by December 1	Interest Payable by June 1	Total Principal and Interest
2003-04	3.500%	340,000.00	202,163.75	196,213.75	738,377.50
2004-05	3.500%	350,000.00	196,213.75	190,088.75	736,302.50
2005-06	3.500%	365,000.00	190,088.75	183,701.25	738,790.00
2006-07	4.000%	380,000.00	183,701.25	176,101.25	739,802.50
2007-08	4.000%	395,000.00	176,101.25	168,201.25	739,302.50
2008-09	4.000%	410,000.00	168,201.25	160,001.25	738,202.50
2009-10	4.000%	425,000.00	160,001.25	151,501.25	736,502.50
2010-11	4.000%	445,000.00	151,501.25	142,601.25	739,102.50
2011-12	4.050%	460,000.00	142,601.25	133,286.25	735,887.50
2012-13	4.150%	480,000.00	133,286.25	123,326.25	736,612.50
2013-14	4.250%	500,000.00	123,326.25	112,701.25	736,027.50
2014-15	4.250%	525,000.00	112,701.25	101,545.00	739,246.25
2015-16	4.350%	545,000.00	101,545.00	89,691.25	736,236.25
2016-17	4.450%	570,000.00	89,691.25	77,008.75	736,700.00
2017-18	4.550%	595,000.00	77,008.75	63,472.50	735,481.25
2018-19	4.650%	625,000.00	48,941.25	63,472.50	737,413.75
2019-20	4.700%	655,000.00	33,548.75	48,941.25	737,490.00
2020-21	4.750%	685,000.00	33,548.75	17,280.00	735,828.75
2021-22	4.800%	720,000.00	17,280.00	-	737,280.00
		<u>\$ 9,470,000.00</u>	<u>\$ 2,341,451.25</u>	<u>\$ 2,199,135.00</u>	<u>\$ 14,010,586.25</u>

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

CITY OF VERSAILLES, KENTUCKY  
 ENTERPRISE FUND  
 REVENUE BONDS -  
 KENTUCKY LEAGUE OF CITIES  
 SERIES OF 2000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Payable by December 1</u>	<u>Total Principal and Interest</u>
2003-04	3.500%	363,029.00	34,728.21	397,757.21
2004-05	3.500%	382,292.00	15,250.23	397,542.23
		<u>\$ 745,321.00</u>	<u>\$ 49,978.44</u>	<u>\$ 795,299.44</u>

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

CITY OF VERSAILLES, KENTUCKY  
ENTERPRISE FUND  
REVENUE BONDS -  
KCTCS  
SERIES OF 2003

Fiscal Year	Interest Rate	Principal Payable by November 20	Interest Payable by November 20	Interest Payable by May 20	Total Principal and Interest
2003-04		\$ -	\$ 162,337.79	\$ 118,783.75	\$ 281,121.54
2004-05		230,000.00	118,783.75	117,346.25	466,130.00
2005-06		235,000.00	117,346.25	115,583.75	467,930.00
2006-07		240,000.00	115,583.75	113,303.75	468,887.50
2007-08		245,000.00	113,303.75	110,547.50	468,851.25
2008-09		250,000.00	110,547.50	107,172.50	467,720.00
2009-10		255,000.00	107,172.50	103,347.50	465,520.00
2010-11		265,000.00	103,347.50	99,041.25	467,388.75
2011-12		275,000.00	99,041.25	94,435.00	468,476.25
2012-13		285,000.00	94,435.00	89,376.25	468,811.25
2013-14		295,000.00	89,376.25	83,918.75	468,295.00
2014-15		305,000.00	83,918.75	78,047.50	466,966.25
2015-16		320,000.00	78,047.50	71,487.50	469,535.00
2016-17		335,000.00	71,487.50	64,452.50	470,940.00
2017-18		345,000.00	64,452.50	57,035.00	466,487.50
2018-19		360,000.00	57,035.00	49,115.00	466,150.00
2019-20		380,000.00	49,115.00	40,185.00	469,300.00
2020-21		400,000.00	40,185.00	30,785.00	470,970.00
2021-22		415,000.00	30,785.00	21,032.50	466,817.50
2022-23		435,000.00	21,032.50	10,810.00	466,842.50
2023-24		460,000.00	10,810.00	-	470,810.00
	Totals	<u>\$ 6,330,000.00</u>	<u>\$ 1,738,144.04</u>	<u>\$ 1,575,806.25</u>	<u>\$ 9,643,950.29</u>

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

**LONG & FISHER, P.S.C.**

*Certified Public Accountants*

*Consultants & Information Professionals*

109 Fifth Street

Richmond, Kentucky 40475-1337

*G. Alan Long, CPA  
Myron D. Fisher, CPA*

*Anne M. Kegley, CPA*

REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council  
City of Versailles, Kentucky

We have audited the general purpose financial statements of the City of Versailles, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 4, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Versailles, Kentucky's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Versailles, Kentucky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Versailles, Kentucky, in a separate letter dated, April 4, 2004.

This report is intended solely for the information and use of the City Council, management and other governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Long & Fisher, P.S.C.*

Long & Fisher, P.S.C.  
April 4, 2004



**APPENDIX D**

*Continuing Disclosure Agreement*

## **CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement ("Agreement") made and entered into as of the 1st day of August, 2004 by and between the City of Versailles, Kentucky ("City"), Central Bank & Trust Co., Lexington, Kentucky ("Bank") and the Registered and Beneficial Owners hereinafter identified as third party beneficiaries to this Agreement. For the purposes of this Agreement "Beneficial Owner" means the person or entity treated as the owner of the Bonds for federal income tax purposes and "Registered Owner" means the person or entity named on the registration books of the bond registrar.

The City has never failed under previous written agreements to comply in all material respects with any previous undertaking with regard to the Rule to provide required financial reports or notices of material events.

### **WITNESSETH:**

WHEREAS, the City pursuant to the provisions of Sections 58.010 through 58.150 of the Kentucky Revised Statutes ("KRS") and the City's Bond Ordinance has authorized the issuance, sale and delivery of \$8,675,000 of the City's Water and Sewer Revenue Bonds, Series of 2004, dated August 1, 2004 ("Bonds"), which Bonds were offered for sale under the terms and conditions of a Final Official Statement ("FOS") prepared by First Kentucky Securities Corporation, Frankfort, Kentucky ("Financial Advisor") and approved by the authorized representatives of the City, and

WHEREAS, the Securities and Exchange Commission ("SEC"), pursuant to the Securities and Exchange Act of 1934, has amended the provisions of SEC Rule 15c2-12 relating to financial disclosures by the issuers of municipal securities under certain circumstances ("Rule"), and

WHEREAS, it is intended by the parties to this Agreement that all terms utilized herein shall have the same meanings as defined by the Rule, and

WHEREAS, the City is an "obligated person" as defined by the Rule and subject to the provisions of said Rule, and

WHEREAS, failure by the City to observe the requirements of the Rule will inhibit the subsequent negotiation, transfer and exchange of the Bonds with a resulting diminution in the market value thereof to the detriment of the Registered and Beneficial Owners of said Bonds and the City;

NOW, THEREFORE, in order to comply with the provisions of the Rule and in consideration of the purchase of the Bonds by the Registered and Beneficial Owners, the parties hereto agree as follows:

### **1. ANNUAL FINANCIAL INFORMATION.**

The City agrees to provide the annual financial information contemplated by Rule 15c2-12(b)(5)(i) relating to the City for its fiscal years ending June 30 of each year to the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRS") as specified by SEC Regulations and the State Information Depository ("SID"), if any (the Commonwealth of Kentucky has not established a SID as of the date of this Agreement) within nine (9) months of the close of each fiscal year.

For the purposes of the Rule "annual financial information" means financial information or operating data provided annually, of the type included in the FOS with respect to the Assessments and the Bonds, and shall include annual audited financial statements for the City in order that the recipients will be provided with ongoing information regarding revenues and operating expenses of the City.

The annual financial information shall be prepared in accordance with Generally Accepted Accounting Principles, Generally Accepted Auditing Standards or in accordance with the appropriate sections of KRS or Kentucky Administrative Regulations.

The parties hereto agree that this Agreement is entered into among them for the benefit of those who become Registered and Beneficial Owners of the Bonds as third party beneficiaries to said Agreement.

## **2. MATERIAL EVENTS NOTICES.**

Under the Rule, Section 15c2-12(b)(5)(i)(C), the following eleven (11) events must be disclosed to the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRS") or to the Municipal Securities Rule Making Board ("MSRB") and to the SID, if any:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bondholders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing the repayment of the Bonds; and
- (11) Rating changes.

Notice of said material events shall be given to the entities identified in this Section by the City on a timely basis in light of the date of occurrence of the material events. Notwithstanding the foregoing, the provisions of the documents under which the Bonds are authorized and issued do not provide for a debt service reserve, credit enhancements or credit or liquidity providers.

In accordance with Rule Section 15c2-12(b)(5)(i)(D), the City agrees that in the event of a failure to provide the financial information required under Section 1 of this Agreement, it will notify each NRMSIR or MSRB and SID of such failure in a timely manner.

## **3. SPECIAL REQUESTS FOR INFORMATION.**

Upon the request of any Registered or Beneficial Owner of the Bonds or the original purchaser of the Bonds or any subsequent broker-dealer buying or selling said Bonds on the secondary market ("Underwriters"), the City shall cause financial information or operating data regarding the City to be made available on a timely basis following such request as set forth in Section 1.

## **4. DISCLAIMER OF LIABILITY.**

The City hereby disclaims any liability for monetary damages for any breach of the commitments set forth in this Agreement and remedies for any breach of the continuing disclosure undertaking shall be limited to an action for specific performance or mandamus in a court of competent jurisdiction in Kentucky following notice and an opportunity to cure such a breach.

## 5. FINAL OFFICIAL STATEMENT.

That the Final Official Statement prepared by the Financial Advisor and approved by the authorized representatives of the City is hereby incorporated in this Agreement as fully as if copied herein and the "financial information" required under Section 1 hereof shall in summary form update the specific information set forth in said FOS.

## 6. DURATION OF THE AGREEMENT.

This Agreement shall be in effect so long as any of the Bonds remain outstanding and unpaid; provided, however, that the right is reserved in the City to delegate its responsibilities under the Agreement to a competent agent or trustee, or to adjust the format of the presentation of annual financial information so long as the intent and purpose of the Rule to present adequate and accurate financial information regarding the City is served.

## 7. AMENDMENT; WAIVER

Notwithstanding any other provision of this Agreement, the City may amend this Agreement, and any provision of this Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 1, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders of the Bonds in the same manner as provided in the Bond Ordinance for amendments to the Bond Ordinance with the consent of the holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Registered Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Agreement, the City shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 15c2-12(b)(5)(i)(C) of the Rule, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

## 8. DEFAULT

In the event of a failure of the City to comply with any provision of this Agreement, the Bank may and, at the request of any Underwriter or any Registered or Beneficial Owner of Bonds, shall, or any Registered or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Bond Ordinance, and the sole remedy under this Agreement in the event of any failure of the City to comply with this Agreement shall be an action to compel performance.

In witness whereof the parties hereto have executed this Agreement as of the date first above written.

**CITY OF VERSAILLES, KENTUCKY**

\_\_\_\_\_  
Mayor

Attest:

\_\_\_\_\_  
City Clerk

**CENTRAL BANK & TRUST CO.  
LEXINGTON, KENTUCKY**

\_\_\_\_\_  
\_\_\_\_\_  
Vice President

**APPENDIX E**

*Form of Municipal Bond Insurance Policy*

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**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]  
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

SPECIMEN

**LETTER TO CITY OF VERSAILLES DATED  
AUGUST 9, 2004  
MOODY'S INVESTOR SERVICES  
RATING INFORMATION REGARDING CITY'S BONDS**





**Moody's Investors Service**

99 Church Street  
New York, New York 10007

Bill Leech  
Vice President/Senior Credit Officer  
Public Finance Group  
Tel: 212.553.4132

August 9, 2004

Ms. Allison White  
City Clerk/Treasurer  
Versailles (City of) KY  
Municipal Building  
Versailles, KY 40383

Dear Ms. White:

We wish to inform you that on July 21, 2004, Moody's Rating Committee reviewed and assigned a rating of A3 to Versailles (City of) KY's Water and Sewer Revenue Bonds, Series 2004.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Gregory Lipitz, at 212-553-7782.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bill Leech', written over a printed name and title.

Mr. Bill Leech  
Vice President/Senior Credit Officer

cc: Stan Kramer  
First Kentucky Securities Corporation  
305 Ann Street, Suite 400  
Frankfort, KY 40601



Moody's Investors Service

Global Credit Research

New Issue

22 JUL 2004

New Issue: Versailles (City of) KY

**MOODY'S DOWNGRADES TO A3 FROM A2 THE CITY OF VERSAILLES' (KY) \$19.9 MILLION OF SENIOR LIEN PARITY DEBT**

**MOODY'S ASSIGNS A3 RATING TO CITY OF VERSAILLES' (KY) \$8.7 MILLION WATER AND SEWER REVENUE BONDS, SERIES 2004**

Water/Sewer  
KY

**Moody's Rating**

ISSUE	RATING
Water and Sewer Revenue Bonds, Series 2004	A3
Sale Amount	\$8,700,000
Expected Sale Date	08/01/04
Rating Description	Revenue

**Opinion**

NEW YORK, Jul 22, 2004 -- Moody's Investors Service has downgraded to A3 from A2 the rating on the City of Versailles' (KY) \$19.9 million of outstanding senior lien parity debt. Concurrently, Moody's has assigned an A3 rating to the city's \$8.7 million of Water and Sewer Revenue Bonds, Series 2004. The bonds are secured by a lien on the gross revenues of the city's water and sewer systems. Proceeds of the bonds will be used for new money purposes, and are part of an overall capital plan to rehabilitate the city's water and sewer system, including the enlargement of its water treatment plant to 10MGD from 4MGD. The A3 rating is based on a slowly growing service area, satisfactory financial performance, competitive rates, adequate debt service coverage and substantial future borrowing. The downgrade reflects the system's high and growing debt ratio, high annual debt service payments relative to operating expenses, and narrowing coverage levels, despite several recent significant rate increases.

**SLOWLY GROWING SERVICE AREA CUSTOMER BASE**

Moody's expects continued modest growth from the system, which supplies, treats, and distributes water, as well as collects, treats, and disposes of sewage for the City of Versailles (G.O. rating A3) and some adjacent areas in Woodford County (G.O. rating A1). Versailles is located between Lexington Fayette Urban County Government (rated Aa2) and Frankfort, the state capital. The area is primarily suburban, given employment opportunities in both cities. Wealth levels in Woodford County are reportedly among the highest in the state, and the unemployment rate has been extremely low, most recently reaching 2.5% versus 5.2% statewide. Despite its favorable location, the city's population increased only by 3.3% from 1990 to 2000 and the system's water and sewer customer base has been slowly increasing by 0.8% and 1.5% annually over the last few years as well. As of fiscal 2003, the system was serving 5,574 water customers and 4,878 sewer customers. Per Capita Income and Median Family Income, as of 1999, were each 102% of the state average.

**ADEQUATE CAPACITY; SYSTEM HAS SOME CONCENTRATION IN LARGEST CUSTOMERS**

Water supply is the Kentucky River, and the system reports a permitted draw of 10.1MGD. The one water treatment plant currently has a 4 MGD capacity, with the recent peak being 3.7 MGD, or 93%. The system is increasing its capacity to 10MGD with proceeds of the recent borrowings, which will significantly alleviate capacity issues. The system also includes one sewer treatment plant with a maximum (wet weather) capacity of approximately 9 MGD. Average daily pumping is 1.9 MGD, or 21% of capacity, although management reports that peak flow can exceed 10MGD during very rainy periods. The system reportedly has no combined sewer/stormwater infrastructure and is not operating under any consent decrees.

The system's top ten customers comprise a significant 30% of revenues, with the top two customers, at 10% of revenues each, making up the largest portion of the revenue base. Both are water districts that purchase

water from the city pursuant to long-term contracts, providing stability to the customer base. Otherwise, concentration in the customer base is reasonable with remaining largest customers contributing only 8% of revenues.

#### INCREASED DEBT LEVELS WEAKEN FINANCIAL POSITION

Moody's believes that the system's financial position has weakened as a result of an increased debt ratio, very high debt service payments as a percentage of expenses and significantly narrowed coverage margins. Since 2001, the system has added approximately \$17.8 million in debt, including the current issue, to finance \$20 million of various capital improvements in its combined system, including the expansion of its water treatment facility, an upgrading of its sludge handling system and the replacement of old sewer and water lines. As a result, the system's debt ratio climbed from an already above average 45% in 2001 to a very high 77% in fiscal 2003. While this figure should abate somewhat, given the pay-off of a \$4.3 million BAN in fiscal 2004, Moody's projects a pro forma debt ratio of 61.4% in fiscal 2005, which is almost double the national median for combined water and sewer systems.

During the same period, debt service as a percentage of expenses more than doubled to 104%, and the system's debt service safety margin dropped to a narrow 9%, versus the median of 21%-comparable to what the system reported in fiscal 2001. Debt service coverage levels have also declined. In fiscal 2001, the system reported coverage of senior and subordinate lien debt service payments by net revenues of a satisfactory 1.96 times and coverage of senior lien debt service payments by an ample 4.2 times. The system has aggressively raised rates since 2001, totaling approximately 50%. Despite increasing revenue, coverage levels had declined to 1.2 times (audit) and 2 times (senior lien). While audited figures for fiscal 2004 are unavailable, the system is still projecting satisfactory coverage levels.

#### ADDITIONAL DEBT EXPECTED; ADEQUATE BONDHOLDER PROVISIONS

Moody's expects debt levels to climb during the next three years, although at a more modest pace, given management's goal to issue approximately \$4 million, by the end of 2005. Given a below average rate of principal payments equal to 41% in 10 years, Moody's expects debt levels to remain elevated for the foreseeable future.

Moody's views the covenants protecting bondholders as satisfactory. While the system is an "open-loop," in which transfers can be made for any lawful purpose, the system is precluded from doing so until all funds established under the bond ordinance have accumulated a balance of at least three-months of required payments. The rate covenant requires 1.3 times coverage for as long as the system's Series 1996 and 1999 Bonds remain outstanding, at which point the coverage requirement will decline to 1.2 times. The additional bonds test requires a coverage level, taking into account net revenue of 12 consecutive months of the last 18 months, of 1.3 times parity senior lien debt service until the Series 1996 and 1999 Bonds are paid off, and, afterwards, the coverage requirement declines to 1.2 times. The prior senior lien debt includes the Series 1996, 1999 and 2001 bonds. Finally, the bond ordinance requires a debt service reserve fund equal to maximum annual debt service on all parity debt.

#### KEY FACTS:

Security: Pledge of gross revenues of the system

Type of System: Water Supply, Treatment and Distribution; Sewage Collection, Treatment, and Disposal

Service Area: City of Versailles and Woodford County

Population: City of Versailles - 7,511; Woodford County - 23,208

1999 City of Versailles Median Family Income as % of State: 102%

1999 City of Versailles Per Capita Income as % of State: 102%

Number of water and sewer accounts, FY 2003: Water - 5,574; Sewer - 2,075

Annual Debt Service Coverage (Senior Lien), FY 2003: 2.0x

Maximum Annual Debt Service Coverage (Senior Lien), FY 2003: 1.19x

Pro Forma Debt Ratio: 61.4%

Moody's Debt Ratio Median, Water and Sewer Systems: 31.6%

Post Sale Parity Debt Outstanding: \$19.9 Million

**Analysts**

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Analyst  
Public Finance Group  
Moody's Investors Service

Tiwanda Brown  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

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MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,300,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody.com](http://www.moody.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."