

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 10, 2005

(Bonds to be sold August 17, 2005, 11:00 a.m. E.D.S.T.)

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

BANK INTEREST DEDUCTION ELIGIBLE

ELECTRONIC BIDDING VIA PARITY

BOOK-ENTRY-ONLY SYSTEM

\$8,500,000*

**CITY OF VERSAILLES, KENTUCKY
WATER AND SEWER REVENUE BONDS
SERIES OF 2005**

Dated: August 1, 2005

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, 2006 and thereafter semiannually on each December 1 and June 1.

The Bonds maturing on and after December 1, 2016, shall be subject to prior redemption at the option of the City on and after December 1, 2015, as discussed herein.

SCHEDULE OF MATURITIES

<u>Date</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Cusip # 925224</u>	<u>Date</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Cusip # 925224</u>
12/1/2006	\$ 200,000			12/1/2016	\$ 280,000		
12/1/2007	205,000			12/1/2017	295,000		
12/1/2008	215,000			12/1/2018	305,000		
12/1/2009	215,000			12/1/2019	320,000		
12/1/2010	225,000			12/1/2020	335,000		
12/1/2011	230,000			12/1/2021	350,000		
12/1/2012	245,000			12/1/2022	735,000		
12/1/2013	250,000			12/1/2023	770,000		
12/1/2014	260,000			12/1/2024	800,000		
12/1/2015	270,000			12/1/2025	1,995,000		

(Plus accrued interest-when issued)

Purchaser's Option - The Purchaser of the Bonds may specify to the Financial Advisor that any Bonds may be combined with immediately succeeding sequential maturities into a Term Bond or Term Bonds, bearing a single rate of interest, with the maturities set forth above (or as may be adjusted as provided herein being subject to mandatory redemption in such maturities for such Term Bond(s)).

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, Reed & Johnson, Louisville, Kentucky, Bond Counsel to the City. Delivery of the Bonds is expected on or about August 25, 2005

*Preliminary, Subject to Permitted Adjustment.

FIRST KENTUCKY SECURITIES CORPORATION
Financial Advisor

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the applicable securities laws of such jurisdiction.

CITY OF VERSAILLES

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

Council Members

Roy Benson
Luther Bland, Jr.
Mary E. Bradley
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BOND COUNSEL

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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.

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Official Terms and Conditions of Bond Sale
Official Bid Form

PRELIMINARY OFFICIAL STATEMENT

\$8,500,000*

CITY OF VERSAILLES, KENTUCKY WATER AND SEWER REVENUE BONDS SERIES OF 2005

Dated August 1, 2005

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 2005, dated August 1, 2005 (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 \$8,500,000* 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, 2005, will bear interest payable June 1, 2006, 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.

*Preliminary, Subject to Permitted Adjustment

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, 2016, 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, 2015, 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.

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 2005 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; Water and Sewer Revenue Bonds, Series of 2001, dated September 15, 2001, and Water and Sewer Revenue Bonds, Series of 2004, dated August 1, 2004 ("Outstanding Bonds"). Prior to the delivery of the Series 2005 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 2005 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 2005 Bonds after adjustment to reflect increased rates and charges for service which became effective in June of 2004.

Project Description

The proceeds of the Bonds are being issued to meet the costs associated with the third phase of the expansion of the water plant, which includes the following:

Versailles Wastewater Treatment Plant Improvements consists of, but is not limited to the installation of all materials, construction, testing, start-up, initial operation and placing in service the following: full surface skimming equipment for two (2) existing clarifiers, renovation to the existing screening facility including a new screening press unit, a new blower/pump building including three (3) rotary positive displacement blowers and two (2) positive displacement digested sludge pumps, two (2) 75' x 75' x 16' SWD aerated sludge holding basins, a sludge truck loading station, a 460 GPM duplex submersible pump station, a belt filter press/gravity belt thickener facility with two (2) polymer feed systems, modifications to the existing plant operations building, one (1) positive displacement thickened sludge pump; along with all other piping, valves, controls, demolition and related appurtenances.

Construction for the Huntertown Road Elevated Water Storage Tank – consisting of constructing, testing, and placing in service one (1) 1,000,000 gallon elevated water storage tank

High Service Water Mains and New Booster Pump Station - consisting of a new Booster Pumping Station; ±440 L.F. of 8" D.I. water main;±6,650 L.F. of 12" D.I. water main; ± 1,015 L.F. of 16" D.I. water main; ± 12,900 L.F. of 24" D.I. water main, ± 230 L.F. of 24" water main bored and jacked under State Roads; (5) cut and caps of various size; (6) wet taps of various size, (3) dry taps of various size, valves and hydrants.

The work includes, but is not limited to the following: Installation of the procurement and installation of all materials, construction, testing, start-up; initial operation, and placing in service of approximately 30,823 linear feet of 30", 21", 18", 15", 12", 10", and 8" diameter PVC and DIP gravity sewer, 9,939 linear feet of 14" and 10" PVC force main; 3,850 linear feet of 14" restrained PVC force main; boring and jacking approximately 1,242 linear feet of variously sized diameter gravity sewer and force main in steel casing beneath U.S. highways, state routes, and railroad tracks; installation of 116 manholes; demolition of 9 existing submersible sewage lift stations, and construction of 4 new submersible sewage lift stations.

ESTIMATED USES AND SOURCES OF FUNDS

Estimated Uses of Funds:

- Project Costs
- Underwriting Discount
- Debt Service Reserve
- Costs of Bond Issuance
- Contingency

Total Estimated Project Costs

Sources of Funds

- Par Amount of Bonds

Total Sources of Funds

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 2005 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 20th 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 20th 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 \$8,500,000. 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, 2006, 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, 2006 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 2005 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 2005 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, August 1, 2004, these Series 2005 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 2005 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 2005 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, 2005, 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.

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, Reed and Johnson, 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" and "Tax Exemption" 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 will be sold on a publicly advertised, competitive basis. First Kentucky Securities Corporation, Frankfort, Kentucky, Financial Advisor to the City, has requested and received permission and approval of the City to bid, either alone or in conjunction with others, on the Bonds. The Financial Advisor has expressed its intent to so bid.

First Kentucky Securities Corporation will receive a fee, subject to sale and delivery of the Bonds, for its advisory services. Said fee is separate from and in addition to compensation received, if any, for underwriting of the Bonds.

RATING

Moody's Investors Service has given the Bonds the rating set forth on the cover page of this Official Statement. 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 5,716 water customers and 5,021 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>
2005	2,806,000	4,014,000 (6 mos)	5,716
2004	2,679,000	3,762,000	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

** "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>
2005	1,845,000 (6 mos)	5,021
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 July 1, 2005)

Water Service

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$3.60	Monthly Meter Charge	\$4.38
Per 1,000 gallons:		Per 1,000 gallons:	
First 150,000 gallons	\$2.73	First 150,000 gallons	\$3.21
Next 850,000 gallons	\$2.64	Next 850,000 gallons	\$3.06
All Over 1,000,000 gallons	\$2.62	All Over 1,000,000 gallons	\$2.99

Sewer Service

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$3.88	Monthly Meter Charge	\$4.74
Based on Water Usage, Per 1,000 Gallons:		Based on Water Usage, Per 1,000 Gallons:	
First 150,000 gallons	\$2.66	First 150,000 gallons	\$3.59
Next 850,000 gallons	\$2.34	Next 850,000 gallons	\$3.21
All Over 1,000,000 Gallons	\$2.29	All Over 1,000,000 Gallons	\$3.20

Ten Largest Users of Water System

<u>Customer's Name</u>	<u>Read in Hundreds Usage (Gallons)</u>	<u>Charge</u>
Northeast Woodford Water District	146,447,600	\$294,905.02
South Woodford Water District	108,387,500	227,451.18
United L-N Glass, Inc.	80,922,500	327,159.78
Osram Sylvania Products	37,230,700	155,582.94
World Color (Quebecor)	30,275,200	91,083.39
Y H America, Inc.	10,123,900	43,697.32
Versailles Housing Authority	7,996,700	26,576.61
Kuhlman, Inc.	5,352,800	15,890.31
Willow Oaks	2,965,400	13,081.79
Bluegrass Community Hospital	3,838,300	14,887.98

Assessment of Taxable Property

<u>Fiscal Year Ended June 30</u>	<u>Real Property</u>	<u>Bank Franchise & Deposit Tax</u>
2005	\$469,789,867	Not yet available
2004	443,448,367	328,678,603
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>
2005	.053 proposed rate	Not yet available
2004	.051	.224
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>
2005	\$498,812.81	\$482,730.05
2004	397,875.36	450,852.24
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, 2005</u>
October 1, 1996	12/1/05	\$ 710,000	\$ 160,000
January 1, 1999	12/1/10	2,715,000	1,700,000
September 15, 2001	12/1/21	9,800,000	8,780,000
August 1, 2004	12/1/24	<u>8,635,000</u>	<u>8,635,000</u>
Total		<u>\$21,860,000</u>	<u>\$19,275,000</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 2005 Bonds, using amounts for the fiscal year ended December 30, 2004:

Gross Revenues	\$4,581,889
Less: Operating Expenses	<u>1,773,104</u>
Net Operating Revenues	<u>2,808,785</u>
Debt Service - Estimated Maximum Principal and Interest in 2022	2,041,408
Debt Service Covered	1.38 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 2004 population of 23,961.

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 2004 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.

Total Population

	2000	2001	2002	2003	2004
Labor Market Area	709,341	717,410	725,640	735,593	742,664
Woodford County	23,208	23,331	23,403	23,659	23,961
Versailles	7,511	7,486	7,472	7,459	7,498
Midway	1,620	1,613	1,609	1,606	1,614

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

Population Projections

	2005	2010	2015	2020
Labor Market Area	748,299	796,227	844,010	887,104
Woodford County	23,711	24,607	25,665	26,529

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	166,025	23.4
18-24	1,835	7.9	86,503	12.2
25-34	3,028	13.0	108,711	15.3
35-44	4,210	18.1	113,738	16.0
45-54	3,623	15.6	96,939	13.7
55-64	2,207	9.5	60,022	8.5
65-74	1,350	5.8	41,664	5.9
75 and older	1,064	4.6	35,739	5.0
Median Age	37.1		34.3	

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

Population by Race and Hispanic Origin, 2003

	Woodford County		Labor Market Area	
	Number	Percent	Number	Percent
White	22,076	93.3	651,261	88.5
Black	1,279	5.4	63,367	8.6
Asian, Pacific Islander	97	0.4	11,375	1.5
American Indian	27	0.1	1,591	0.2
Hispanic Origin	886	3.7	20,465	2.8

Note: Hispanic is not a race category. A person can be white, black, etc. and be of hispanic origin.
Source: U.S. Department of Commerce, Bureau of the Census.

Personal Income

	1998	2003	Pct. Change
Woodford County	\$31,197	\$33,830	8.4%
Kentucky	\$22,043	\$26,575	20.6%
U.S.	\$26,883	\$31,472	17.1%
Labor Market Area Range	\$17,399 - \$31,197	\$18,804 - \$34,242	

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

Households

	2000		2002
	Number of Households	Persons Per Household	Median Household Income
Woodford County	8,893	2.6	\$49,325

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

Total Available Labor

	Available Labor, 2003			Future Labor: Becoming 18 Years of Age (2005-2009)
	Total	Unemployed	Potential Labor Supply	
Labor Market Area	25,481	17,401	8,080	46,283
Woodford County	374	374	NA	1,752

Source: U.S. Department of Labor, Bureau of Labor Statistics; Kentucky Cabinet for Economic Development (KCED); U.S. Department of Commerce, Bureau of the Census.

Note: Total Available Labor = Unemployed + Potential Labor Supply.

Unemployed - people currently not employed, but actively seeking work.

Potential Labor Supply: Determined by the national labor force participation rate minus each county's labor force participation rate. Labor force participation rates are calculated by dividing the population by the labor force. NA (Not Applicable) applies to counties with a labor force participation rate greater than the national average.

Future Labor - people becoming 18 years of age (not part of the total available labor statistics).

Civilian Labor Force

	Woodford County		Labor Market Area	
	2004	May. 2005	2004	May. 2005
Civilian Labor Force	12,796	13,230	381,834	390,335
Employed	12,455	12,689	366,910	371,988
Unemployed	341	541	14,924	18,347
Unemployment Rate (%)	2.7	4.1	3.9	4.7

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

Unemployment Rate (%)

Year	Woodford County	Labor Market Area	Kentucky	U.S.
2000	2.8	3.3	4.2	4.0
2001	3.4	3.8	5.3	4.7
2002	3.3	4.3	5.7	5.8
2003	3.0	4.7	6.2	6.0
2004	2.7	3.9	5.3	5.5

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

Commuting Patterns

Residents of Woodford County	2000	Percent
Working and Residing In County	5,591	45.2
Commuting Out of County	6,786	54.8
Total Residents	12,377	100.0
Employees in Woodford County		
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

	Woodford County	Kentucky (Statewide)	U.S.	Ohio
All Industries	\$597	\$577	\$697	\$640
Agriculture, Forestry, Fishing and Hunting	0	NA	NA	NA
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	NA	NA	NA

	Indiana	Illinois	Tennessee	Virginia
All Industries	\$611	\$752	\$606	\$706
Agriculture, Forestry, Fishing and Hunting	NA	NA	NA	NA
Mining	885	967	870	862
Construction	706	911	654	672
Manufacturing	810	842	710	736
Trade, Transportation, and Utilities	535	678	592	587
Information	681	982	759	1,436
Financial Activities	757	1,155	819	925
Services	515	661	530	651
Public Administration	590	807	612	905
Other	NA	NA	NA	NA

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

Summary of Recent Locations and Expansions, 2002-Present

	Companies	Reported	
		Jobs	Investment
Manufacturing Location	2	131	\$16,544,000
Manufacturing Expansion	4	20	\$2,100,000
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 (08/05/2005).

Major Business & Industry

Firm	Product(s)/Service(s)	Emp.	Year Established
<i>Midway</i>			
Weisenberger Mills Inc	Flour, corn meal & baking mixes	5	1862
<i>Versailles</i>			
Cabinet Supplier of Kentucky, Inc	Counter top cabinet distribution	30	1990
Clark Distributing Co	Beer & ale distribution	97	1986
customKYnetics Inc	Designs and develops systems that use electrical stimulation to activate muscles paralyzed as a result of spinal cord injury.	3	2003
Kuhlman Electric Corp	Headquarters & manufacture instrument and distribution transformers	200	1969
McCauley Brothers Inc	Horse feed & supplements	25	1938
Nisshin Automotive Tubing LLC	Stainless steel automotive tubing	7	2005
Osram Sylvania	Fluorescent lamps	540	1964
Osram Sylvania	Glass tubing, components are used in automotive lighting industry	249	1972
Osram Sylvania Inc	Warehousing and distribution facility	123	2004
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	400	1987
Woodford Feed Co	Feed & fertilizer grinding, mixing & blending	36	1940
Woodford Reserve Distillery, Labrot & Graham Proprietors	Distilled liquors	18	1812
Woodford Sun Co Inc	Newspaper publishing	12	1869
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 (08/05/2005).

APPENDIX B

*Estimated Debt Service Requirements
on
Series 2005 Revenue Bonds*

**CITY OF VERSAILLES, KENTUCKY
WATER AND SEWER REVENUE BONDS
SERIES OF 2005**

ESTIMATED DEBT SERVICE REQUIREMENTS

Maturity Date	Principal	Interest	Total	Fiscal Year Total
06/01/2006		\$293,810.42	\$293,810.42	\$293,810.42
12/01/2006	\$200,000	176,286.25	376,286.25	
06/01/2007		173,536.25	173,536.25	549,822.50
12/01/2007	205,000	173,536.25	378,536.25	
06/01/2008		170,563.75	170,563.75	549,100.00
12/01/2008	215,000	170,563.75	385,563.75	
06/01/2009		167,285.00	167,285.00	552,848.75
12/01/2009	215,000	167,285.00	382,285.00	
06/01/2010		163,845.00	163,845.00	546,130.00
12/01/2010	225,000	163,845.00	388,845.00	
06/01/2011		160,076.25	160,076.25	548,921.25
12/01/2011	230,000	160,076.25	390,076.25	
06/01/2012		156,051.25	156,051.25	546,127.50
12/01/2012	245,000	156,051.25	401,051.25	
06/01/2013		151,580.00	151,580.00	552,631.25
12/01/2013	250,000	151,580.00	401,580.00	
06/01/2014		146,830.00	146,830.00	548,410.00
12/01/2014	260,000	146,830.00	406,830.00	
06/01/2015		141,760.00	141,760.00	548,590.00
12/01/2015	270,000	141,760.00	411,760.00	
06/01/2016		136,360.00	136,360.00	548,120.00
12/01/2016	280,000	136,360.00	416,360.00	
06/01/2017		130,830.00	130,830.00	547,190.00
12/01/2017	295,000	130,830.00	425,830.00	
06/01/2018		124,708.75	124,708.75	550,538.75
12/01/2018	305,000	124,708.75	429,708.75	
06/01/2019		118,303.75	118,303.75	548,012.50
12/01/2019	320,000	118,303.75	438,303.75	
06/01/2020		111,503.75	111,503.75	549,807.50
12/01/2020	335,000	111,503.75	446,503.75	
06/01/2021		104,301.25	104,301.25	550,805.00
12/01/2021	350,000	104,301.25	454,301.25	
06/01/2022		96,688.75	96,688.75	550,990.00
12/01/2022	735,000	96,688.75	831,688.75	
06/01/2023		80,518.75	80,518.75	912,207.50
12/01/2023	770,000	80,518.75	850,518.75	
06/01/2024		63,386.25	63,386.25	913,905.00
12/01/2024	800,000	63,386.25	863,386.25	
06/01/2025		45,386.25	45,386.25	908,772.50
12/01/2025	1,995,000	45,386.25	2,040,386.25	2,040,386.25
Totals	\$8,500,000	\$5,357,126.67	\$13,857,126.67	

Source: Financial Advisor

APPENDIX C

Audited Financial Statement as of June 30, 2004

CITY OF VERSAILLES, KENTUCKY

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**

for the year ended June 30, 2004

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City of Versailles, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Versailles's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read the following in conjunction with the auditors' report on page 9 and the City's financial statements, which begin to appear on page 10.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditor's report, the basic financial statements of the City, and the independent auditor's report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis. This approach has been modified; the City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities—Most of the City's basic services are reported here, including general government administration, police, fire, cemetery and streets. Property taxes, licenses and permits, and grants finance most of these activities.

Business-type activities—The City collects fees from customers to cover the costs of the services, which includes water, sewer and sanitation services.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

Governmental Fund—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom the governmental funds statement that explains the relationship (or differences) between them.

Proprietary Fund—Services for which the City charges customers a fee are generally reported in proprietary funds.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

In accordance with GASB Statement No. 34, the City is not required to restate prior periods for the purpose of providing comparative information. In other words, since this is the first year to report all activities on the accrual basis of accounting, a comparison to the prior year is not possible. In future years, when prior year's information is available, a comparative analysis of government-wide information will be presented.

NET ASSETS

Our analysis begins with a summary of the City's Statement of Net Assets, which is presented on Table A-1 followed by an explanation of the results. Changes in net assets are presented in Table A-2, which is also followed by an explanation of the results.

Table A-1

	Governmental Activities	Business-type Activities	Total Primary Government
Current and Other Assets	\$ 4,405,883	\$ 7,497,945	\$ 11,903,828
Capital Assets	3,083,668	27,958,912	31,042,580
Total Assets	<u>7,489,551</u>	<u>35,456,857</u>	<u>42,946,408</u>
Long-Term Debt Outstanding	22,322	16,546,244	16,568,566
Current Liabilities	650,560	2,587,954	3,238,514
Total Liabilities	<u>672,882</u>	<u>19,134,198</u>	<u>19,807,080</u>
Net assets:			
Invested in Capital Assets, net of debt	2,964,377	10,017,521	12,981,898
Restricted	527,907	3,276,862	3,804,769
Unrestricted	3,324,385	3,028,276	6,352,661
Total Net Assets	<u>\$ 6,816,669</u>	<u>\$ 16,322,659</u>	<u>\$ 23,139,328</u>

-

The capital assets of both the City's governmental activities and business-type activities decreased in 2004 due to the implementation of a new capitalization policy. The new policy required several assets to be removed from the asset listing. The capital assets in the governmental activities decreased from \$6,667,495 in 2003 to \$6,482,935 in 2004. The capital assets in business-type activities decreased from \$19,824,275 in 2003 to \$19,757,444. The City elected to record infrastructure assets going forward from July 1, 2003 as allowed by GASB 34. Net assets from one activity generally cannot be used to make up for any deficits in the other activities.

Condensed Statement of Activities

	Governmental Activities	Business - type Activities	Total Primary Government
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 97,399	\$ 3,730,293	\$ 3,827,692
General Revenue			
Taxes	450,852		450,852
Licenses	3,824,763		3,824,763
Intergovernmental	774,668		774,668
Other Revenues	479,718	1,119,780	1,599,498
Total Revenue	<u>5,627,400</u>	<u>4,850,073</u>	<u>10,477,473</u>
Program Expenses			
General Government	1,689,492		1,689,492
Public safety - Police	2,635,883		2,635,883
Public safety - Fire	754,736		754,736
Public works - Streets	770,572		770,572
Cemetery	249,194		249,194
Interest	2,576		2,576
Other	13,415		13,415
Water	-	1,472,856	1,472,856
Sewer	-	1,074,045	1,074,045
Sanitation	-	406,495	406,495
KCTCS	-	121,425	121,425
Total program expenses	<u>6,115,868</u>	<u>3,074,821</u>	<u>9,190,689</u>
Transfers	21,025		
Net Change in Net Assets	\$ (467,443)	\$ 1,775,252	\$ 1,307,809

The City's change in Net Assets above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities for the first time in this year's audit, these numbers include "paper" depreciation expenses that are not cash expenditures of the City. Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the principal portions of debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities. The business-type activities have always been on the full accrual basis.

GOVERNMENTAL ACTIVITIES

Table A-3 details a condensed statement of the fiscal year's governmental activities.

Table A-3

Condensed Governmental Activities - Revenues and Expenditures

Taxes	\$ 450,852
Licenses and permits	3,824,763
Intergovernmental	933,217
Charges for services	97,151
Other income	<u>165,290</u>
Total Revenues	<u>5,471,273</u>
General government	1,569,946
Police department	2,480,898
Fire department	712,310
Street department	616,826
Cemetary department	222,462
Capiral outlay	244,970
Debt service	<u>48,174</u>
Total expenditures	<u>5,895,586</u>
Excess Expenditures over Revenues before other financing sources	<u>\$ (424,313)</u>

The bottom number of Table A-3 above, should not be confused with the end-of-year "Fund Balance" figure shown in the City's General Fund Budget, because the above does not reflect the General Fund's beginning-of-year balance and any debt proceeds received during the fiscal year.

BUDGET HIGHLIGHTS

Over the course of the fiscal year, the City amended the General Fund Budget. This amendment was made due to the merger of the city and county police departments. The budget contains proposed expenditures and expected revenues. A comparison of the final amended budget to actual amounts for governmental activities is presented in the table below (Tables A-4 & 5).

Table A-4

Condensed Governmental Activities - Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Property taxes	\$ 399,600	\$ 450,852	\$ 51,252
License and permits	3,430,000	3,824,763	394,763
Intergovernmental revenues & 911	732,595	933,217	200,622
Charges for services	53,000	97,151	44,151
Other income	186,704	165,290	(21,414)
Total revenues	<u>\$ 4,801,899</u>	<u>\$ 5,471,273</u>	<u>\$ 669,374</u>

Table A-5

Condensed Governmental Activities - Expenditures

General government	\$ 1,384,199	\$ 1,521,484	\$ (137,285)
Police department	2,251,562	2,570,236	(318,674)
Fire department	624,367	719,901	(95,534)
Street department	612,900	618,241	(5,341)
Cemetery department	235,200	222,462	12,738
Capital outlay	387,373	243,262	144,111
Total expenditures	<u>\$ 5,495,601</u>	<u>\$ 5,895,586</u>	<u>\$ (399,985)</u>

The City budgeted for a total of \$4,801,900 in revenues for 2004, but ended up having revenues of more than \$5.4 million. In other words, the City received 12.23 percent more revenue than budgeted. A total of about \$5,495,600 was budgeted for expenses. At the year-end, the governmental expenditures totaled approximately \$5,895,600. The City was over budget on the expenses by about 6.8 percent.

CAPITAL ASSETS

Table A-1 showed summary totals for a broad range of capital assets, including police and fire equipment and vehicles, buildings, land, roads, bridges, storm sewers, and all of the equipment and materials involved in the operation of water, sewer and sanitary utility. Table A-6 shows the breakdown of non-depreciated capital assets for both governmental and business-type activities.

Table A-6

Capital Assets at Year-end Without Depreciation

	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 1,402,735	\$ 170,642	\$ 1,573,377
Buildings and Improvements	2,292,940	759,467	3,052,407
Vehicles	1,727,061	99,760	1,826,821
Equipment	1,060,199	1,136,378	2,196,577
Water system	-	8,365,544	8,365,544
Sewer system	-	9,225,653	9,225,653
Total Capital Assets	<u>\$ 6,482,935</u>	<u>\$ 19,757,444</u>	<u>\$ 26,240,379</u>

DEBT

Table A-7 provides a summary of all of the City's outstanding indebtedness. The City did not take on or refinance additional debt for the year 2004. However, the City repaid approximately \$4.9 million in bond payments, reducing the City's overall debt.

Table A-7

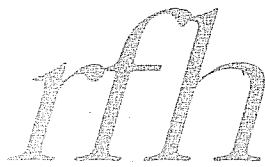
<u>Debt Outstanding at Year End</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Leases	\$ 89,291	\$ -	\$ -
Notes Payable	30,000		
Bonds payable	<u>-</u>	<u>17,917,265</u>	<u>17,917,265</u>
Total Debt Outstanding	<u>\$ 119,291</u>	<u>\$ 17,917,265</u>	<u>\$ 17,917,265</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials consider many factors when setting the fiscal year 2004 budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

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Jerry W. Hensley, CPA
J. Carroll Luby, CPA
Marc T. Ray, CPA-ABV

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Versailles, Kentucky, as of June 30, 2004, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Versailles, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Versailles, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City of Versailles has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, **Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments**, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages 1 through 8 and page 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 23, 2005, on our consideration of the City of Versailles' internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Versailles, Kentucky, basic financial statements. The supplemental schedules on pages 31 through 39 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 23, 2005

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CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 289,046	\$ 304,452	\$ 593,498
Investments	2,085,210	500,000	2,585,210
Receivables (net)	976,467	1,396,176	2,372,643
Inventories	-	67,332	67,332
Internal balances	<u>1,055,160</u>	<u>(1,120,097)</u>	<u>(64,937)</u>
Total current assets	<u>4,405,883</u>	<u>1,147,863</u>	<u>5,553,746</u>
Noncurrent assets:			
Restricted cash and cash equivalents		6,028,042	6,028,042
Restricted investments		14,500	14,500
Capital assets (Note 3):			
Construction in progress		12,995,300	12,995,300
Land and improvements	1,402,735		1,402,735
Depreciable infrastructure			
Plant and utility systems, net		14,963,612	14,963,612
Depreciable buildings, property, and equipment, net	1,680,933		1,680,933
Other assets	-	307,540	307,540
Total noncurrent assets	<u>3,083,668</u>	<u>34,308,994</u>	<u>37,392,662</u>
Total assets	<u>\$ 7,489,551</u>	<u>\$ 35,456,857</u>	<u>\$ 42,946,408</u>
LIABILITIES			
Current liabilities:			
Cash overdrafts	\$ -	\$ 746,261	\$ 746,261
Accounts payable	162,688	213,933	376,621
Accrued leave payable	72,216		72,216
Accrued liabilities	232,854	10,241	243,095
Accrued interest payable		40,103	40,103
Other liabilities		150,244	150,244
Deferred revenue	85,833		85,833
Current portion of long-term obligations (Notes 4 and 5)	<u>96,969</u>	<u>1,427,172</u>	<u>1,524,141</u>
Total current liabilities	<u>650,560</u>	<u>2,587,954</u>	<u>3,238,514</u>
Noncurrent liabilities:			
Noncurrent portion of long-term obligations (Notes 4 and 5)			
Compensated absences		56,151	56,151
Bonds payable	<u>22,322</u>	<u>16,490,093</u>	<u>16,512,415</u>
Total Liabilities	<u>672,882</u>	<u>19,134,198</u>	<u>19,807,080</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,964,377	10,017,521	12,981,898
Restricted for:			
Debt service		785,060	785,060
Other purposes	527,907	2,491,802	3,019,709
Unrestricted	<u>3,324,385</u>	<u>3,028,276</u>	<u>6,352,661</u>
Total net assets	<u>6,816,669</u>	<u>16,322,659</u>	<u>23,139,328</u>
Total liabilities and net assets	<u>\$ 7,489,551</u>	<u>\$ 35,456,857</u>	<u>\$ 42,946,408</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 1,689,492				\$ (1,689,492)		\$ (1,689,492)
Police department	2,635,883	6,955	183,898		(2,445,030)		(2,445,030)
Fire department	754,736		115,851		(638,885)		(638,885)
Street department	770,572				(770,572)		(770,572)
Cemetery	249,194	90,444			(158,750)		(158,750)
Program expenses	13,415				(13,415)		(13,415)
Interest on long-term debt	2,576	-	-	-	(2,576)	-	(2,576)
Total governmental activities	<u>6,115,868</u>	<u>97,399</u>	<u>299,749</u>	<u>-</u>	<u>(5,718,720)</u>	<u>-</u>	<u>(5,718,720)</u>
Business type activities:							
Utilities-Water,sewer & sanitation	2,953,296	3,730,293	-	903,552	-	1,680,549	1,680,549
KCTCS	121,525	-	-	116,469	-	(5,056)	(5,056)
Total business-type activities	<u>3,074,821</u>	<u>3,730,293</u>	<u>-</u>	<u>1,020,021</u>	<u>-</u>	<u>1,675,493</u>	<u>1,675,493</u>
Total primary government	<u>\$ 9,190,689</u>	<u>\$ 3,827,692</u>	<u>\$ 299,749</u>	<u>\$ 1,020,021</u>	<u>(5,718,720)</u>	<u>1,675,493</u>	<u>(4,043,227)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					450,852		450,852
License fees:							
Franchise					143,021		143,021
Payroll					2,036,604		2,036,604
Insurance premiums					1,439,465		1,439,465
Net profits					142,073		142,073
Occupational					63,600		63,600
E911 wireless funding fees					538,673		538,673
Grants and contributions not restricted to specific programs					231,709		231,709
Surplus equipment					4,286		4,286
Investment earnings					60,161	99,759	159,920
Miscellaneous					119,808	-	119,808
Total general revenues					<u>5,230,252</u>	<u>99,759</u>	<u>5,330,011</u>
Transfers					<u>21,025</u>	<u>-</u>	<u>21,025</u>
Total general revenues and transfers					<u>5,251,277</u>	<u>99,759</u>	<u>5,351,036</u>
Change in Net Assets					(467,443)	1,775,252	1,307,809
Net assets-beginning					<u>7,284,112</u>	<u>14,547,407</u>	<u>21,831,519</u>
NET ASSETS-ENDING					<u>\$ 6,816,669</u>	<u>\$ 16,322,659</u>	<u>\$ 23,139,328</u>

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

**CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 204,867	\$ 84,179	\$ 289,046
Investments	1,683,254	401,956	2,085,210
Accounts receivable	976,467	-	976,467
Due from other funds	<u>1,601,580</u>	<u>41,772</u>	<u>1,643,352</u>
 TOTAL ASSETS	 <u>\$ 4,466,168</u>	 <u>\$ 527,907</u>	 <u>\$ 4,994,075</u>
LIABILITIES			
Accounts payable	\$ 162,688	\$ -	\$ 162,688
Accrued liabilities	232,854	-	232,854
Compensated absences	72,216	-	72,216
Deferred revenue	85,833	-	85,833
Due to other funds	<u>588,192</u>	<u>-</u>	<u>588,192</u>
 Total Liabilities	 <u>1,141,783</u>	 <u>-</u>	 <u>1,141,783</u>
FUND BALANCE			
Fund Balance:			
Reserved	-	-	-
Unreserved	<u>3,324,385</u>	<u>527,907</u>	<u>3,852,292</u>
 Total Fund Equity	 <u>3,324,385</u>	 <u>527,907</u>	 <u>3,852,292</u>
 Total Liabilities and Fund Equity	 <u>\$ 4,466,168</u>	 <u>\$ 527,907</u>	 <u>\$ 4,994,075</u>

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$ 3,083,668
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>119,291</u>
	<u>\$ 6,816,669</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 450,852	\$ -	\$ 450,852
Licenses and permits	3,824,763	-	3,824,763
Intergovernmental revenues	933,217	128,082	1,061,299
Charges for services	97,151	9,070	106,221
Other income	<u>165,290</u>	<u>18,972</u>	<u>184,262</u>
 Total Revenues	 <u>5,471,273</u>	 <u>156,124</u>	 <u>5,627,397</u>
EXPENDITURES			
Current			
General government	1,569,946	-	1,569,946
Police department	2,480,898	-	2,480,898
Fire department	712,310	-	712,310
Street department	616,826	105,249	722,075
Cemetery department	222,462	20,523	242,985
Program expenses	-	13,415	13,415
Capital outlay	244,970		244,970
Debt service	<u>48,174</u>	<u>-</u>	<u>48,174</u>
 Total Expenditures	 <u>5,895,586</u>	 <u>139,187</u>	 <u>6,034,773</u>
Excess of Revenues Over (Under) Expenditures	(424,313)	16,937	(407,376)
Other Sources:			
Transfers in (out)	<u>21,025</u>	<u>-</u>	<u>21,025</u>
 Net change in fund balances	 (403,288)	 16,937	 (386,351)
Beginning fund balance, as restated	<u>3,727,673</u>	<u>510,970</u>	<u>4,238,643</u>
Fund Balance--June 30, 2004	<u>\$ 3,324,385</u>	<u>\$ 527,907</u>	<u>\$ 3,852,292</u>
 Net change in fund balances			\$ (386,351)
Add Capital outlay			244,970
Add Debt service			48,174
Less Depreciation on governmental activities			(371,660)
Less Interest on long term debt			<u>(2,576)</u>
 Change in net assets			 <u>\$ (467,443)</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business-type Activities		
	Water, Sewer & Sanitation	KCTCS Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 303,838	\$ 614	\$ 304,452
Investments	500,000	-	500,000
Receivables (net of allowance)			
Accounts receivable	494,194	901,982	1,396,176
Due from other funds	95,483	386,000	481,483
Inventory	<u>67,332</u>	<u>-</u>	<u>67,332</u>
Total current assets	<u>1,460,847</u>	<u>1,288,596</u>	<u>2,749,443</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	4,302,555	1,725,487	6,028,042
Investments at cost	14,500	-	14,500
Construction in progress	9,231,174	3,764,126	12,995,300
Property and equipment	19,757,444	2,590,000	22,347,444
Less accumulated depreciation	(7,383,832)	-	(7,383,832)
Bond issue costs, net	<u>201,680</u>	<u>105,860</u>	<u>307,540</u>
Total noncurrent assets	<u>26,123,521</u>	<u>8,185,473</u>	<u>34,308,994</u>
Total assets	<u>\$ 27,584,368</u>	<u>\$ 9,474,069</u>	<u>\$ 37,058,437</u>
LIABILITIES			
Current liabilities			
Cash overdraft	\$ 180,166	\$ 566,095	\$ 746,261
Accounts payable	127,761	86,172	213,933
Accrued liabilities	10,241	-	10,241
Accrued interest	40,103	-	40,103
Deposits	150,244	-	150,244
Due to other funds	1,601,580	-	1,601,580
Current portion-long term debt	<u>1,197,172</u>	<u>230,000</u>	<u>1,427,172</u>
Total current liabilities	<u>3,307,267</u>	<u>882,267</u>	<u>4,189,534</u>
Noncurrent liabilities			
Compensated absences	56,151	-	56,151
Long term debt	<u>10,390,093</u>	<u>6,100,000</u>	<u>16,490,093</u>
Total noncurrent liabilities	<u>10,446,244</u>	<u>6,100,000</u>	<u>16,546,244</u>
Total liabilities	<u>13,753,511</u>	<u>6,982,267</u>	<u>20,735,778</u>
NET ASSETS			
Invested in capital assets, net of debt	10,017,521	-	10,017,521
Restricted for debt service	785,060	-	785,060
Unrestricted	<u>3,028,276</u>	<u>2,491,802</u>	<u>5,520,078</u>
Total net assets	<u>13,830,857</u>	<u>2,491,802</u>	<u>16,322,659</u>
Total liabilities and net assets	<u>\$ 27,584,368</u>	<u>\$ 9,474,069</u>	<u>\$ 37,058,437</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
for the year ended JUNE 30, 2004

	Business-type Activities		
	Water, Sewer & Sanitation	KCTCS Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 3,635,644		\$ 3,635,644
Other revenues	94,649	-	94,649
	<u>3,730,293</u>	<u>-</u>	<u>3,730,293</u>
OPERATING EXPENSES			
Salaries	826,748	-	826,748
Payroll taxes	57,560	-	57,560
Employee benefits	126,172	-	126,172
Advertising and printing	7,164	4,913	12,077
Professional and technical	38,515	-	38,515
Repairs and maintenance	169,002	32,134	201,136
Utilities	229,174	57,946	287,120
Telephone and postage	35,959	-	35,959
Insurance	186,919	-	186,919
Chemicals	90,734	-	90,734
Technical supplies	5,209	-	5,209
Uniforms	4,787	-	4,787
Motor fuel	43,061	-	43,061
Office supplies	4,387	-	4,387
Other materials	5,279	23,054	28,333
Other expenses	50,403	78	50,481
Purchase of water	26,221	-	26,221
Landfill expense	126,400	-	126,400
Sludge removal	82,377	-	82,377
Depreciation and amortization	542,406	3,400	545,806
Training/travel	9,586	-	9,586
Lab analysis	41,889	-	41,889
Purchase of water meters	28,764	-	28,764
Dumpster collection	2,280	-	2,280
	<u>2,740,996</u>	<u>121,525</u>	<u>2,862,521</u>
Total operating expenses			
	<u>2,740,996</u>	<u>121,525</u>	<u>2,862,521</u>
Operating income (loss)	<u>989,297</u>	<u>(121,525)</u>	<u>867,772</u>
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	99,555	204	99,759
Interest expense	<u>(212,300)</u>	<u>-</u>	<u>(212,300)</u>
Excess of nonoperating revenues over expenses	<u>(112,745)</u>	<u>204</u>	<u>(112,541)</u>
CAPITAL CONTRIBUTIONS	903,552	116,469	1,020,021
Net income (loss)	1,780,104	(4,852)	1,775,252
Beginning net assets	<u>12,050,753</u>	<u>2,496,654</u>	<u>14,547,407</u>
NET ASSETS ENDING	<u>\$ 13,830,857</u>	<u>\$ 2,491,802</u>	<u>\$ 16,322,659</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2004

	Business-type activities		
	Water, Sewer & Sanitation	KCTCS Fund	Total
Cash Flows from Operating Activities:			
Receipts from customers	\$ 3,799,881	\$ (901,982)	\$ 2,897,899
Cash payments to employees	(1,003,364)	-	(1,003,364)
Internal activity - payments to other funds	(150,000)	(150,000)	(300,000)
Cash payments to others for services	-	86,172	86,172
Other activities	(1,236,524)	(118,125)	(1,354,649)
	1,504,794	(1,083,935)	420,859
Net cash provided (used) by operating activities			
Cash flows from capital and related financing activities:			
Construction in progress	(7,569,065)	(4,261,499)	(11,830,564)
Purchase of property and equipment	(209,284)	-	(209,284)
Grant revenue	903,552	116,469	1,020,021
Payment of bond principle	(5,037,448)	-	(5,037,448)
Interest expense	(265,679)	-	(265,679)
Payment of capital lease obligations	(34,231)	-	(34,231)
	(12,212,155)	(4,145,030)	(16,357,185)
Net cash used by capital and related financing activities			
Cash flows from investing activities:			
Investments	4,374,565	5,945,853	10,320,418
Interest income	99,555	204	99,759
	4,474,120	5,946,057	10,420,177
Net cash used in investing activities			
Net decrease in cash and cash equivalents	(6,233,241)	717,092	(5,516,149)
Cash and cash equivalents July 1, 2003	10,659,468	442,914	11,102,382
Cash and cash equivalents June 30, 2004	\$ 4,426,227	\$ 1,160,006	\$ 5,586,233
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 989,297	\$ (121,525)	\$ 867,772
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	542,406	3,400	545,806
Loss on disposal	(48,262)	-	(48,262)
Changes in assets and liabilities:			
Receivables, net	(39,333)	(901,982)	(941,315)
Accrued interest	221,312	-	221,312
Due from other funds	-	(150,000)	(150,000)
Inventory	(32,103)	-	(32,103)
Accounts payable	(7,180)	86,172	78,992
Other liabilities	28,657	-	28,657
Due to other funds	(150,000)	-	(150,000)
	-	-	-
Net provided by operating activities	\$ 1,504,794	\$ (1,083,935)	\$ 420,859
Reconciliation of total cash and cash equivalents			
Current assets - cash and cash equivalents	\$ 303,838	\$ 614	\$ 304,452
Restricted assets - cash and cash equivalents	4,302,555	1,725,487	6,028,042
Cash overdraft	(180,166)	(566,095)	(746,261)
Total cash and cash equivalents	\$ 4,426,227	\$ 1,160,006	\$ 5,586,233

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

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

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.

Basis of Presentation

For the fiscal year end June 30, 2004, the City implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

The government-wide financial statements split the City's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2004, caused by the conversion to the accrual basis of accounting.

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on the fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements, all non-major funds are aggregated and presented in a single column. The City has the following funds:

Governmental Fund Types

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.

The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. The city has two special revenue funds – Road Fund that accounts for the municipal road aid program and the OJA Fund that accounts for federal grant monies.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Governmental Fund Types

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

Proprietary Fund Types

The Enterprise Fund is used to account for water, sewer, sanitation and rental activities. 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.

Fiduciary Fund Type

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

Basis of Accounting

The basis of accounting refers to when revenues and expenditures are recognized in the accounts and recognized in the financial statements. Government-wide financial statements and proprietary fund financials are reported using the accrual basis of accounting. All assets and liabilities are included on the statement of net assets and the operating statements present revenues and expenses in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized at the time the liability occurs.

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 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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES, Continued

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the fund financial statements.

All capital assets are reported at cost. Donated assets are valued at their fair market value on the date donated. Improvements to capital assets are capitalized while normal repairs and maintenance are expensed. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset.

Interfund Balances

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

Accrued Liabilities and Long-term Obligations

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

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

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

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences

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

Fund Balance Reserves

The City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore, are not available for appropriation or expenditure. Unreserved fund balances indicate that portion of fund equity that is available for appropriation in future periods.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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.

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.

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.

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 2 – 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, 2004 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, 2004 was \$13,091,394 and the market value of the investments at June 30, 2004 was \$13,091,394.

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 buy 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

As of June 30, 2004, \$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 fact 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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
for the year ended JUNE 30, 2004

NOTE 3 – CAPITAL ASSETS

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
Land	\$ 1,402,735	\$ -0-	\$ -0-	\$ 1,402,735
Buildings and Improvements	2,261,549	85,521	54,126	2,292,940
Equipment	1,295,513	60,060	293,374	1,060,199
Vehicles	<u>1,707,698</u>	<u>19,363</u>	<u>21,864</u>	<u>1,727,061</u>
Total capital assets	<u>6,667,495</u>	<u>164,944</u>	<u>369,364</u>	<u>6,482,935</u>
Less: accumulated depreciation				
Buildings and improvements	1,231,192	127,090	21,723	1,336,559
Equipment	826,815	121,125	311,171	636,769
Vehicles	<u>1,302,494</u>	<u>123,445</u>	<u>0</u>	<u>1,425,939</u>
Total accumulated depreciation	<u>3,360,501</u>	<u>371,660</u>	<u>332,894</u>	<u>3,399,267</u>
Governmental Activities Capital Assets Net	<u>\$ 3,306,994</u>	<u>\$ (206,716)</u>	<u>\$ 34,470</u>	<u>\$ 3,083,668</u>
 <u>Business-Type Activities</u>				
Land	\$ 138,142	\$ 32,500	\$ 0	\$ 170,642
Buildings	764,342	2,675	7,550	759,467
Equipment	1,163,277	88,674	115,573	1,136,378
Vehicles	99,760	0	0	99,760
Improvements	<u>17,658,754</u>	<u>85,435</u>	<u>152,992</u>	<u>17,591,197</u>
Total capital assets	<u>19,824,275</u>	<u>209,284</u>	<u>276,115</u>	<u>19,757,444</u>
Less: accumulated depreciation				
Buildings	549,359	14,365	7,550	556,174
Equipment	703,534	106,675	93,833	716,376
Vehicles	69,114	11,879	0	80,993
Improvements	<u>5,783,330</u>	<u>373,382</u>	<u>126,423</u>	<u>6,030,289</u>
Total accumulated depreciation	<u>7,105,337</u>	<u>506,301</u>	<u>227,806</u>	<u>7,383,832</u>
Capital Assets – Net	<u>\$ 12,718,938</u>	<u>\$ (297,017)</u>	<u>\$ 48,309</u>	<u>\$ 12,373,612</u>

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

Governmental activities:		Business-type activities:	
General government	\$ 119,546	Water	\$ 221,586
Police department	154,985	Sewer	240,255
Fire department	42,426	Sanitation	<u>44,460</u>
Street department	48,497	Total	<u>\$ 506,301</u>
Cemetery	<u>6,206</u>		
Total	<u>\$371,660</u>		

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 4 – GOVERNMENTAL ACTIVITIES LONG TERM DEBT

Governmental activities long term debt consist of equipment leases and a note that are described below

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, 2004:

June 30, 2004	\$ 79,825
Less: Amount representing interest	4,825
Present value of minimum lease payments	<u>\$ 75,000</u>

Scheduled maturities for above lease:

June 30, 2005	60,000
June 30, 2006	15,000
Total	<u>\$ 75,000</u>

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, 2004:

June 30, 2004	\$ 15,506
Less: Amount representing interest	1,215
Present value of minimum lease payments	<u>\$ 14,291</u>

Scheduled maturities for above lease:

June 30, 2005	6,969
June 30, 2006	7,322
Total	<u>\$ 14,291</u>

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 4 – GOVERNMENTAL ACTIVITIES LONG TERM DEBT, Continued

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, 2004:

June 30, 2004	\$	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, 2005	\$	<u>30,000</u>
Total	\$	<u><u>30,000</u></u>

The maturities for the governmental activities are as follows:

Fiscal year June 30,	Total
2005	\$ 96,969
2006	<u>22,322</u>
	<u><u>\$ 119,291</u></u>

NOTE 5 – BUSINESS TYPE ACTIVITIES LONG TERM DEBT

Business type activities long term debt consist of revenue bonds and leases. The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1996	\$ 700,000	3.75% - 4.80%
1999	2,495,000	3.50% - 4.2%
2000	4,310,000	4.625%
2000 League of Cities	1,567,325	4.180%
2001	9,800,000	3.50% - 4.8%
2003	6,330,000	

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 5 – BUSINESS TYPE ACTIVITIES LONG TERM DEBT, Continued

At June 30, 2004, the business type activities had the following bonds and lease payable outstanding:

<u>Description</u>	<u>Series</u>	<u>Amount</u>	<u>Current Portion</u>
Revenue Bonds	1996	\$ 315,000	\$ 155,000
Revenue Bonds	1999	1,815,000	115,000
Revenue Bonds (KCTCS)	2003	6,330,000	230,000
Kentucky League of Cities	2000	382,292	382,292
Revenue Bonds	2001	<u>9,130,000</u>	<u>350,000</u>
Total payable at par		17,972,292	1,232,292
Less: unamortized defeasance costs		<u>(285,608)</u>	<u>(35,701)</u>
		17,686,684	<u>\$1,196,591</u>
Less: current portion payable from restricted assets		<u>(1,196,591)</u>	
Total long-term portion		<u>\$16,490,093</u>	

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

<u>Year Ended June 30</u>	
2005	\$ 1,232,292
2006	880,000
2007	910,000
2008	940,000
2009	975,000
Thereafter	<u>12,749,392</u>
Total	<u>\$ 17,686,684</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.

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 5 – BUSINESS TYPE ACTIVITIES LONG TERM DEBT, Continued

The business-type activities long term debt includes the following lease:

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, 2004	\$	397,542
Less: Amount representing interest		15,250
Present value of minimum lease payments	\$	<u>382,292</u>
Scheduled maturities for above lease:		
June 30, 2005		<u>382,292</u>
Total	\$	<u>382,292</u>

Compliance with bond ordinances

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

Water and Sewer Revenue Bond and Interest Redemption Account

Amounts sufficient to pay the current principal and interest requirements of the outstanding revenue bonds are to be set aside monthly in this account. The monthly payment is to be equal to one-fifth of the next interest payment and one-tenth of the next principal payment.

Water and Sewer Revenue Debt Reserve Account

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

Water and Sewer Maintenance and Operation Account

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

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 5 – BUSINESS TYPE ACTIVITIES LONG TERM DEBT, Continued

Compliance with bond ordinances

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.

NOTE 6 - 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 7.34% of creditable compensation during the fiscal year ended June 30, 2004. Participating employees in hazardous positions contribute 8.00% of creditable compensation. The City contributed 18.51% of creditable compensation during the fiscal year ended June 30, 2004. The City's required contributions (both withholding and match) for pension obligation to the system for fiscal years ended June 30, 2004, 2003 and 2002 were \$628,470, \$509,803, and \$482,972, respectively.

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 7 - 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 8 - 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 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund Receivables and Payables as of June 30, 2004 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Fiduciary Funds	\$ 160,420	\$ 95,483
General Fund	1,643,352	588,192
Enterprise Fund	<u>481,483</u>	<u>1,601,580</u>
	<u>\$ 2,285,255</u>	<u>\$ 2,285,255</u>

NOTE 10 – 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 11 – CONCENTRATIONS

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Three industrial companies generated approximately 38% of the City's occupational tax revenue. Four users generated approximately 20% of the utility operation's service revenue. Also, at June 30, 2004, approximately 15% of the utility operation's accounts receivable was due from four users.

**CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended JUNE 30, 2004**

NOTE 12 – IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For Fiscal Year 2004, the City of Versailles has implemented Governmental Accounting Standards Board (GASB) Statement No. 33 (GASB 33), "Accounting and Financial Reporting for Non-exchange Transactions", GASB Statement No. 34, "Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments", GASB Statement No. 37 (GASB 37), "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus" and GASB Statement No. 38 (GASB 38) "Certain Financial Statement Disclosures". GASB 37 and 38 had no effect on fund balances at July 1, 2003.

Under GASB Statement 33, property taxes are imposed as non-exchange revenue. Assets (accounts receivable) from imposed non-exchange transactions are recorded when the City has an enforceable legal claim to the asset. The enforceable legal claim date for property taxes is the assessment date. Under Kentucky law property is assessed as of January 1 each year for the support of government for the fiscal year beginning the following July 1 and tax rates cannot be levied until the January 1 assessments have been certified by the Kentucky Revenue Cabinet. Accordingly, the taxes billed in the fall of each calendar year are for the support of government for the fiscal year that began on July of the same year. Therefore, GASB 33 has no effect on property tax revenue on Kentucky cities.

Under GASB 33, revenues are recognized when the underlying exchange transaction has occurred and the revenues are available. Also, capital contributions are reported as non-operating revenue in Statement of Revenues, Expenses and Changes in Fund Net Assets. In prior years, capital contributions were recorded as direct additions to contributed capital equity.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in one total column.

GASB 34 also includes reporting of infrastructure assets, i.e.; streets, roads, bridges, storm drainage systems. The City of Versailles has elected to record its infrastructure assets prospectively as of July 1, 2003 as permitted by GASB 34. The infrastructure assets and all other capital assets used in providing services in the governmental funds are required to be depreciated over the estimated useful lives of the assets and the depreciation expense is included in the program expense reported in the Statement of Activities for the government-wide financial statements.

General Fund balance as previously reported, July 1, 2003	\$2,955,537
Accrual of revenues	<u>772,136</u>
General Fund balance as restated, July 1, 2003	<u>\$3,727,673</u>

Other adjustments

The City adopted a new capitalization policy for fixed assets for fiscal year-end June 30, 2004. The change resulted in a decrease in fund balance for the Enterprise Fund in the amount of \$29,406.

At year-end June 2003, interest receivable was calculated to be \$212,312 for the Central Bank 2000 Construction Fund. The correct amount should have been \$71,837. Therefore, the fund balance was reduced by the difference of \$149,475 at year end June 30, 2004.

SUPPLEMENTAL INFORMATION

**CITY OF VERSAILLES, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
GENERAL FUND
for the year ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 399,600	\$ 399,600	\$ 450,852	\$ 51,252
License and permits	3,430,000	3,430,000	3,824,763	394,763
Intergovernmental revenues	539,780	732,595	933,217	200,622
Charges for services	53,000	53,000	97,151	44,151
Other income	186,704	186,704	165,290	(21,414)
Total revenues	4,609,084	4,801,899	5,471,273	669,374
Expenditures				
Current				
General government	1,462,917	1,384,199	1,569,946	(185,747)
Police department	2,080,229	2,251,562	2,480,898	(229,336)
Fire department	616,700	624,367	712,310	(87,943)
Street department	612,900	612,900	616,826	(3,926)
Cemetery department	235,200	235,200	222,462	12,738
Capital outlay	359,400	387,373	244,970	142,403
Debt service	-	-	48,174	(48,174)
Total expenditures	5,367,346	5,495,601	5,895,586	(399,985)
Excess of Revenues Over (Under) Expenditures	(758,262)	(693,702)	(424,313)	269,389
Other Financing Sources (uses)				
Operating transfers in	-	-	21,025	21,025
Operating transfers out	-	-	-	-
Total Other Financing Sources (uses)	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures	(758,262)	(693,702)	(403,288)	290,414
Fund Balance July 1, 2003	2,955,536	2,955,536	3,727,673	772,137
Fund Balance June 30, 2004	\$ 2,197,274	\$ 2,261,834	\$ 3,324,385	\$ 1,062,551

CITY OF VERSAILLES, KENTUCKY
COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Special Revenue Fund	OJA Fund	Permanent Fund	Total Non-Major Governmental
ASSETS				
Cash and cash equivalents	\$ 70,540	\$ 13,639	\$ -	\$ 84,179
Investments	-	-	401,956	401,956
Accounts receivable	-	-	-	-
Due from other funds	41,772	-	-	41,772
	<u>112,312</u>	<u>13,639</u>	<u>401,956</u>	<u>527,907</u>
TOTAL ASSETS	\$ 112,312	\$ 13,639	\$ 401,956	\$ 527,907
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Compensated absences	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	-	-	-	-
FUND EQUITY				
Fund Balances:				
Reserved	-	-	-	-
Unreserved	112,312	13,639	401,956	527,907
	<u>112,312</u>	<u>13,639</u>	<u>401,956</u>	<u>527,907</u>
Total Fund Equity	112,312	13,639	401,956	527,907
Total Liabilities and Fund Equity	\$ 112,312	\$ 13,639	\$ 401,956	\$ 527,907

CITY OF VERSAILLES, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2004

	Special Revenue Fund	OJA Fund	Permanent Fund	Total Non-Major Governmental
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Intergovernmental revenues	115,851	12,231	-	128,082
Charges for services	-	-	9,070	9,070
Interest income	456	86	18,430	18,972
Miscellaneous revenue	-	-	-	-
Sale of assets	-	-	-	-
Total Revenues	<u>116,307</u>	<u>12,317</u>	<u>27,500</u>	<u>156,124</u>
EXPENDITURES				
General government	-	-	-	-
Police department	-	-	-	-
Fire department	-	-	-	-
Street department	105,249	-	-	105,249
Cemetery department	-	-	20,523	20,523
Program expenses	-	13,415	-	13,415
Capital outlay	-	-	-	-
Total Expenditures	<u>105,249</u>	<u>13,415</u>	<u>20,523</u>	<u>139,187</u>
Excess of Revenues Over (Under) Expenditures	<u>11,058</u>	<u>(1,098)</u>	<u>6,977</u>	<u>16,937</u>
Other Sources:				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total Other Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures	<u>11,058</u>	<u>(1,098)</u>	<u>6,977</u>	<u>16,937</u>
Fund Balance-July 1, 2003	101,254	14,737	394,979	510,970
Fund Balance--June 30, 2004	<u>\$ 112,312</u>	<u>\$ 13,639</u>	<u>\$ 401,956</u>	<u>\$ 527,907</u>

**CITY OF VERSAILLES, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Agency Fund	Private Purpost Trust	Totals
ASSETS			
Cash and cash equivalents	\$ 69,517	\$ -	\$ 69,517
Investments	-	79,932	79,932
Due from other funds	160,420	-	160,420
Total assets	229,937	79,932	309,869
LIABILITIES			
Payroll liabilities	137,303	-	137,303
Due to other funds	95,483	-	95,483
Total liabilities	232,786	-	232,786
NET ASSETS			
Held in trust for payroll and other purposes	<u>\$ (2,849)</u>	<u>\$ 79,932</u>	<u>\$ 77,083</u>

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
for the year ended June 30, 2004

	Agency Fund	Private Purpose Trust	Totals
ADDITIONS			
Investment earnings:			
Interest income	\$ -	\$ 1,146	\$ 1,146
Dividend income	-	2,435	2,435
Unrealized gain on investments	-	221	221
Total investment earnings	-	3,802	3,802
Less investment expense:			
Trust fees	-	650	650
Transfers	-	2,703	2,703
Miscellaneous	-	380	380
Total investment expenses	-	3,733	3,733
Net investment earnings	-	69	69
Total additions	-	69	69
Beginning net assets	(2,849)	79,863	77,014
Ending net assets	<u>\$ (2,849)</u>	<u>\$ 79,932</u>	<u>\$ 77,083</u>

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>
12/1/2004	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>\$315,000.00</u>	<u>\$ 7,581.25</u>	<u>\$ 7,581.25</u>	<u>\$ 330,162.50</u>

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

Fiscal Year	Interest Rate	Principal	Interest Payable by December 1	Interest Payable by June 1	Total Principal and Interest
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>\$1,815,000.00</u>	<u>\$172,222.50</u>	<u>\$ 135,301.25</u>	<u>\$ 2,122,523.75</u>

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>
2004-05	3.500%	\$ 382,292.00	\$ 15,250.23	\$ 397,542.23
		<u>\$ 382,292.00</u>	<u>\$ 15,250.23</u>	<u>\$ 397,542.23</u>

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

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Payable by December 1</u>	<u>Interest Payable by June 1</u>	<u>Total Principal and Interest</u>
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>\$ 9,130,000.00</u>	<u>\$ 2,139,287.50</u>	<u>\$ 2,002,921.25</u>	<u>\$ 13,272,208.75</u>

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
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>\$ 1,575,806.25</u>	<u>\$ 1,457,022.50</u>	<u>\$ 9,362,828.75</u>

**CITY OF VERSAILLES, KENTUCKY
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the general purpose financial statements of City of Versailles, Kentucky as of and for the year ended June 30, 2004, and have issued our report thereon dated March 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement, we performed tests of the 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 internal control over financial reporting and its operations that we consider to be a material weakness.

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 23, 2005

APPENDIX D

Continuing Disclosure Agreement

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement ("Agreement") made and entered into as of the 1st day of August, 2005 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 \$8,500,000 of the City's Water and Sewer Revenue Bonds, Series of 2005, dated August 1, 2005 ("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

OFFICIAL TERMS AND CONDITIONS OF BOND SALE

**\$8,500,000 City of Versailles (Kentucky)
Water and Sewer Revenue Bonds, Series of 2005
Dated August 1, 2005**

DATE OF SALE: 11:00 A.M., E.D.S.T., AUGUST 17, 2005

As advertised in The Courier-Journal, published in Louisville, Kentucky, the City of Versailles, Kentucky, will until the 17th day of August, 2005, at the hour of 11:00 A.M., E.D.S.T., in the office of the City Clerk, City Hall, Versailles, Kentucky 40383, receive competitive bids for the Water and Sewer Revenue Bonds, Series of 2005, dated August 1, 2005 ("Bonds" or "Series 2005 Bonds") herein described. To be considered, a proposal for the purchase of such Bonds must be submitted on an Official Bid Form and must be delivered on the date of sale no later than the hour indicated submitted manually, by facsimile or electronically via PARITY. Bids will be considered by the Mayor and may be accepted without further action by the City Council.

STATUTORY AUTHORITY, PURPOSE OF ISSUE, AND SECURITY

These 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 of Versailles, Kentucky ("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 (the "System").

The Series 2005 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, Water and Sewer Revenue Bonds, Series of 2001, dated September 15, 2001 and Water and Sewer Revenue Bonds, Series of 2004, dated August 1, 2004 ("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 2005 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 2005 Bonds.

THE BONDS

The Bonds shall be in denominations in multiples of \$5,000 within the same maturity, bearing interest from August 1, 2005, payable June 1, 2006 and semiannually thereafter, maturing on December 1 in each of the years as follows:

<u>YEAR</u>	<u>PRINCIPAL MATURITIES</u>	<u>YEAR</u>	<u>PRINCIPAL MATURITIES</u>
2006	\$ 200,000	2016	\$ 280,000
2007	205,000	2017	295,000
2008	215,000	2018	305,000
2009	215,000	2019	320,000
2010	225,000	2020	335,000
2011	230,000	2021	350,000
2012	245,000	2022	735,000
2013	250,000	2023	770,000
2014	260,000	2024	800,000
2015	270,000	2025	1,995,000

The Bonds maturing on or after December 1, 2016 are subject to redemption at the option of the City prior to their stated maturities on any date falling on or after December 1, 2015, in any order of maturities (less than all of a single maturity to be selected by lot), in whole or in part, upon notice of such prior redemption being given by the Paying Agent by regular United States Mail to the Registered Owners of the Bonds so selected not less than thirty (30) days prior to the date of redemption, upon terms of the face amount, plus accrued interest but without redemption premium.

All of the Bonds, together with the interest thereon, and any additional bonds ranking on a parity therewith heretofore issued and outstanding or as may be hereafter issued and outstanding from time to time under the conditions and restrictions set forth in the Bond Ordinance, shall be payable only out of the Bond Fund established by the Ordinances authorizing the Outstanding Bonds and these Bonds, and shall be a valid claim of the Registered Owner thereof only against said Bond Fund and the portion or amount of the revenues of the combined and consolidated municipal water and sewer System of said City pledged to said Bond Fund.

The Bond Ordinance requires that there be established and maintained within the Bond Fund a Debt Service Reserve with a "required minimum balance" equal to the maximum annual principal and interest requirements of the Outstanding Bonds, these Bonds, and any parity bonds subsequently issued.

ADDITIONAL PARITY BONDS

The City has reserved the right and privilege of issuing additional bonds from time to time payable from the income and revenues of said combined and consolidated municipal water and sewer System when the net annual revenues of said System for twelve consecutive months out of the eighteen months preceding the issuance of additional bonds, including the amount of increased net annual revenues by reason of rate changes or additional revenues generated by the extensions, betterments or improvements constructed from the proceeds of said additional bonds, are equal to at least 1.20 times the maximum amount of principal and interest that will become due in any System fiscal year on all Bonds then outstanding and the bonds proposed to be issued; all as certified by an independent state licensed accountant not in the regular employ of the City; provided, however, until such time as the Outstanding Bonds, dated October 1, 1996 and January 1, 1999, have been retired or defeased said net annual revenues shall be not less than 1.30 times the maximum debt service requirements.

BOND REGISTRAR/BOOK-ENTRY-ONLY-SYSTEM

The Bonds are to be issued in fully registered form (both principal and interest) in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC") under DTC's Book-Entry-Only-System as hereinafter set forth. Central Bank & Trust Co., Lexington, Kentucky, the Bond Registrar and Paying Agent, shall remit interest and principal by wire transfer to DTC on each due date and DTC shall be responsible for the distribution thereof to the Beneficial Owners of the Bonds. DTC shall administer the transfer of ownership of the Bonds.

BIDDING CONDITIONS AND RESTRICTIONS

Bids must be on Official Bid Form, contained in Information for Bidders available from the undersigned or First Kentucky Securities Corporation, Suite 400, State National Bank Building, P.O. Box 554, Frankfort, Kentucky 40602-0554, or electronically at <http://www.firstky.com>, submitted manually, by facsimile or electronically via PARITY[®] *INFRA*.

Electronic bids for the Bonds must be submitted through PARITY[®] and no other provider of electronic bidding services will be accepted. Subscription to the PARITY[®] Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY[®] shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY[®] conflict with the terms of the Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY[®] shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY[®]. The use of PARITY[®] facilities are at the sole risk of the prospective bidders. For further information regarding PARITY[®], potential bidders may contact PARITY[®], telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

The minimum bid shall be not less than \$8,330,000 (98% of par), plus accrued interest. Interest rates shall be in multiples of 1/8 or 1/20 of 1% or both. Only one interest rate shall be permitted per Bond, and all Bonds of the same maturity shall bear the same rate. Interest rates must be on an ascending scale, in that the interest rate stipulated in any year may not be less than that stipulated for any preceding maturity. There is no limit on the number of different interest rates.

The successful bidder may elect to notify the Financial Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each term bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on December 1 in accordance with the maturity schedule setting the actual size of the issue.

The successful bidder shall be required to wire transfer an amount equal to 2% of the principal amount of Bonds awarded to the Paying Agent by close of business on the day following the sale. Wire transfer should be arranged through Central Bank & Trust Co., Bond Registrar/Paying Agent, Attn: Doug Fritz, Vice President (859-253-6247).

CUSIP identification numbers will be printed on the Bonds at the expense of the City. The purchaser shall pay the CUSIP Service Bureau Charge. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for said Bonds in accordance with the terms of any accepted proposal for the purchase of said Bonds.

The City shall provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12.

The City reserves the right to reject any or all bids or to waive any informality in any bid. The Bonds are offered for sale subject to the principal and interest not being subject to Federal or Kentucky ad valorem or income taxation on the date of their delivery to the successful bidder.

The City will furnish the Purchaser with the final approving Legal Opinion of Henry M. Reed III, Reed & Johnson, Bond Counsel, Louisville, Kentucky, subject to whose approving Legal Opinion said Bonds are sold.

CONTINUING DISCLOSURE

As a result of the City and agencies acting on behalf of the City at the time the Bonds referred to herein are offered for public sale having outstanding municipal securities in excess of \$10,000,000, the City and the Paying Agent will enter into a written agreement for the benefit of all parties who may become 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.

Financial information regarding the City may be obtained from Allison B. White, City Clerk, City Hall, Versailles, Kentucky 40383 (859-873-5436).

TAX EXEMPTION

Bond Counsel is of the opinion that the Bonds are "qualified tax-exempt obligations" within the meaning of the Internal Revenue Code of 1986, as amended, and therefore 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 recipient 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, 2005, 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 recipient 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.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds initially will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bonds Certificate will be issued, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, 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. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds ("Beneficial Ownership Interest") are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their Beneficial Ownership interests in Bonds, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Notes with DTC and their registration in the name of Cede & Co., effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices, if any, shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments of the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' account on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursements of such payment to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its Participant, to the Bond Registrar/Paying Agent, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant to transfer the Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Bond Registrar/Paying Agent, 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.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered by the Bond Registrar.

NEITHER THE ISSUER, THE BOARD NOR THE BOND REGISTRAR/PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR/PAYING AGENT AS BEING AN OWNER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

CITY OF VERSAILLES, KENTUCKY

By s/ Allison B. White
City Clerk

OFFICIAL BID FORM

As advertised in The Courier-Journal, published in Louisville, Kentucky, the City of Versailles, Kentucky, will until the 17th day of August, 2005, at the hour of 11:00 A.M., E.D.S.T., in the office of the City Clerk, City Hall, Versailles, Kentucky 40383 (Tel: 859-873-5436 and Fax: 859-873-5969), receive competitive bids for the Water and Sewer Revenue Bonds, Series of 2005, dated August 1, 2005 ("Bonds" or "Series 2005 Bonds") herein described. To be considered, a proposal for the purchase of such Bonds must be submitted on an Official Bid Form and must be delivered on the date of sale no later than the hour indicated submitted manually, by facsimile or electronically via PARITY. Bids will be considered by the Mayor and may be accepted without further action by the City Council.

We hereby bid for said \$8,500,000 principal amount of Bonds, the total sum of \$_____ (not less than \$8,330,000), plus accrued interest from August 1, 2005, at the following annual rate(s), payable semiannually beginning June 1, 2006 (rates on ascending scale in multiples of 1/8 or 1/20 of 1%; number of interest rates unlimited) and maturing on December 1 in each of the years as follows:

<u>Year</u>	<u>Amount*</u>	<u>Rate</u>	<u>Year</u>	<u>Amount*</u>	<u>Rate</u>
2006	\$ 200,000	_____ %	2016	\$ 280,000	_____ %
2007	205,000	_____ %	2017	295,000	_____ %
2008	215,000	_____ %	2018	305,000	_____ %
2009	215,000	_____ %	2019	320,000	_____ %
2010	225,000	_____ %	2020	335,000	_____ %
2011	230,000	_____ %	2021	350,000	_____ %
2012	245,000	_____ %	2022	735,000	_____ %
2013	250,000	_____ %	2023	770,000	_____ %
2014	260,000	_____ %	2024	800,000	_____ %
2015	270,000	_____ %	2025	1,995,000	_____ %

It is understood that the City will furnish the final, approving Legal Opinion of Henry M. Reed III, Reed & Johnson, Bond Counsel, Louisville, Kentucky.

The successful bidder may elect to notify the Financial Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each Term Bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on December 1 in accordance with the maturity schedule setting the actual size of the issue.

The Bonds will be delivered utilizing the Book-Entry-Only-System administered by The Depository Trust Company.

Electronic bids for the Bonds must be submitted through PARITY[®] and no other provider of electronic bidding services will be accepted. Subscription to the PARITY[®] Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY[®] shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY[®] conflict with the terms of the Official Terms and Conditions of Sale of Bonds, the Official Terms and Conditions of Bond Sale shall prevail. Electronic bids made through the facilities of PARITY[®] shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY[®]. The use of PARITY[®] facilities are at the sole risk of the prospective bidders. For further information regarding PARITY[®], potential bidders may contact PARITY[®], telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer an amount equal to 2% of the principal amount of Bonds awarded by the close of business on the date following the award. Said good faith amount will be applied (without interest) to the purchase price on delivery.

Wire transfer procedures should be arranged through Central Bank & Trust Co., Lexington, Kentucky, -(859) 253-6247. Attention: Douglas E. Fritz, Vice President.

Bids must be submitted only on this form and must be fully executed.

If we are the successful bidder, we agree to accept and make payment for the Bonds in Federal Funds within forty-five (45) days of sale.

Respectfully submitted,

Bidder

By _____
Authorized Officer (Signature)

Address

Total interest cost from August 1, 2005 to final maturity \$ _____

Plus discount \$ _____

Net interest cost (Total interest cost plus discount) \$ _____

Average interest rate or cost _____%

The above computation of net interest cost and of average interest rate or cost is submitted for information only and is not a part of this Bid.

Accepted by the City of Versailles, Kentucky for \$ _____ amount of Bonds at a price of \$ _____ and bearing interest at the rates herein before set forth:

CITY OF VERSAILLES, KENTUCKY

Dated: August 17, 2005.

Mayor