

PRELIMINARY OFFICIAL STATEMENT DATED MAY 10, 2012

(Bonds to be sold May 17, 2012, 1:00 p.m. E.D.S.T.)

BANK INTEREST DEDUCTION ELIGIBLE

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

ELECTRONIC BIDDING VIA PARITY

BOOK-ENTRY-ONLY SYSTEM

\$9,815,000*

**CITY OF VERSAILLES, KENTUCKY
WATER AND SEWER REFUNDING AND IMPROVEMENT REVENUE BONDS
SERIES OF 2012**

Dated: Date of Delivery (expected May 31, 2012)

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 The Huntington National Bank, Cincinnati, Ohio, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Bonds. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof, and will bear interest payable on December 1, 2012 and thereafter semiannually on each June 1 and December 1.

The Bonds maturing on and after December 1, 2022, shall be subject to prior redemption at the option of the City on and after June 1, 2022, as discussed herein.

SCHEDULE OF MATURITIES

<u>Date</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Cusip #</u> <u>925224</u>	<u>Date</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Cusip #</u> <u>925224</u>
12/01/2012	\$ 600,000			12/01/2019	\$ 670,000		
12/01/2013	610,000			12/01/2020	685,000		
12/01/2014	615,000			12/01/2021	700,000		
12/01/2015	620,000			12/01/2022	1,100,000		
12/01/2016	630,000			12/01/2023	1,130,000		
12/01/2017	640,000			12/01/2024	1,165,000		
12/01/2018	650,000						

(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 through 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 City has deemed this Preliminary Official Statement to be final within the meaning of Securities and Exchange Commission Rule 15c2-12 (the "Rule") except for certain information omitted in accordance with the Rule which will be provided in the Final Official Statement.

The Bonds are issued subject to approval of legality by Steptoe & Johnson PLLC, Louisville, Kentucky, Bond and Special Tax Counsel to the City. Delivery of the Bonds is expected on or about May 31, 2012.

*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

Mary Ellen Bradley
Ron Durbin
Carl Ellis
Ken Kerkhoff
Owen L. Roberts
Nickie H. Shryock

BOND COUNSEL

Steptoe & Johnson PLLC
Louisville, Kentucky

FINANCIAL ADVISOR

First Kentucky Securities Corporation
Frankfort, Kentucky

PAYING AGENT/ESCROW AGENT/REGISTRAR

The Huntington National Bank
Cincinnati, Ohio

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

\$9,815,000*

**CITY OF VERSAILLES, KENTUCKY
WATER AND SEWER REFUNDING AND IMPROVEMENT REVENUE BONDS
SERIES OF 2012**

Dated the Date of Delivery

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 Refunding and Improvement Revenue Bonds, Series of 2012, dated the date of delivery (the "Bonds") being offered hereby pursuant to the provisions of Sections 58.010 through 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 and the Bond Ordinance, as included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document.

DESCRIPTION OF THE BONDS

Authorization

Pursuant to Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, the City Council of the City adopted a Bond Ordinance (i) authorizing the issuance of \$9,815,000* Water and Sewer Refunding and Improvement 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 the date of delivery, expected to be May 31, 2012, will bear interest payable December 1, 2012, and thereafter semiannually on each June 1 and December 1 at the rates established upon acceptance of a bid for said Bonds and, will mature on the dates and in the amounts set forth on the cover page. The record dates for June 1 and December 1 interest payment dates shall be the preceding May 15 and November 15, respectively.

Book Entry

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 Bonds 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.

Optional Redemption Provision

The Bonds maturing on and after December 1, 2022, 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 June 1, 2022, 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

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 2012 Bonds will rank on the basis of parity as to security and source of payment with the City's outstanding Water and Sewer Revenue Bonds, Series of 2005, dated August 1, 2005 and Series of 2011, dated July 7, 2011 ("Outstanding Bonds"). Prior to the delivery of the Series 2012 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 2012 Bonds were 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 Outstanding Bonds and these Series 2012 Bonds.

THE PROJECT AND PLAN OF REFUNDING

NEW MONEY PROJECT

A portion of the proceeds of the Bonds are being issued to meet the costs associated with conducting a Sewer System Evaluation Survey (SSES), required by the Kentucky Division of Water, that encompasses a) an inventory and inspection of all manholes, b) flow monitoring to determine points of inflow and infiltration, c) smoke testing, which shows sewer line breaks and defective manholes, and d) extensive closed circuit television (CCTV) work which will show the condition and work needed to the collection system. A portion of the funds will be used for preliminary engineering work for the City of Versailles wastewater plant expansion.

PLAN OF REFUNDING

Upon their delivery sufficient proceeds of the Bonds will be deposited in a special Escrow Fund established under an Escrow Agreement in order that said proceeds, plus the investment earnings thereon, will be sufficient to provide for the complete payment and retirement at or prior to their maturity on December 1, 2014 of the City's outstanding Water and Sewer Revenue Bonds, Series of 2004, dated August 1, 2004 maturing December 1, 2012 and thereafter (the "Defeased Bonds"). Money on deposit in the Escrow Fund shall be invested only in direct obligations of or obligations fully guaranteed by the United States or in Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation. The June 1, 2012 interest payment will not be a part of the refunding and the City will make such payment as scheduled.

Estimated Uses and Sources of Funds

Uses of Funds:

- Deposit to Escrow Fund
- Deposit to Construction Fund
- Underwriting Discount
- Costs of Bond Issuance
- Contingency

Total Uses of Costs

Sources of Funds

- Par Amount of Bonds

Total Sources of Funds

DISPOSITION OF BOND PROCEEDS

Upon issuance and delivery of the Bonds, there shall first be paid all expenses incident to the authorization, sale and delivery of the Bonds.

Proceeds of the Bonds providing for the retirement of the Defeased Bonds shall be deposited into The City of Versailles Water and Sewer System Escrow Fund of 2012 (the "Escrow Fund").

The remaining Bond proceeds shall be deposited into The City of Versailles Water and Sewer System Construction Fund of 2012 (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.

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, 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 Maintenance and Operation 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. The current balance in the Depreciation Fund is \$309,321.98.

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 Refunding and Improvement Revenue Bonds, Series 2012 in an aggregate amount of \$9,815,000*. The Bonds are fully registered and in denominations in multiples of \$5,000. The Bonds bear interest payable on December 1 and June 1 in each year, beginning December 1, 2012, 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, 2012 and each December 1 thereafter of the respective years as provided in the Bond Ordinance and elsewhere herein.

Paying Agent and Bond Registrar

The Huntington National Bank, Cincinnati, Ohio, 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 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.

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 Outstanding Bonds and Series 2012 Bonds 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 2012 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 2012 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.

* For fiscal years 2009 and 2010 the City failed to maintain the ratio of Bond debt service to System earnings required by the Ordinances authorizing the Outstanding Bonds. The City has subsequently increased rates and charges for water and sewer services provided by the System and is now in compliance with its coverage covenant as shown in Exhibit A-3.

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 \$1,000,000, 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 will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Commission Rule 15c2-12 by filing annual financial statements and material events notices with the Electronic Municipal Market Access (EMMA) System maintained by the Municipal Securities Rule Making Board.

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) 873-5436).

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, 2012, the Bonds may be treated by financial institutions as if they were acquired before August 8, 1986.
- (D) The interest income from the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law for individuals; however, said income must be included in the calculation of "modified adjusted gross income" in the determination of whether and to what extent Social Security benefits are subject to Federal income taxation.

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 Steptoe & Johnson PLLC, 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 will receive a fee, subject to sale and delivery of the Bonds, for its advisory services.

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 Preliminary Official Statement and 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 6,075 water customers and 5,314 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>
2012 through March	2,658,567	3,713,000	6,075
2011	2,857,217	4,971,000	6,055
2010	2,974,622	4,549,000	6,025
2009	2,937,291	4,242,000	6,011
2008	3,089,560	4,911,000	5,954
2007	3,121,898	5,336,000	5,849

* 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>
2012 through March	2,190,000	5,319
2011	1,999,000	5,301
2010	1,830,000	5,256
2009	1,980,000	5,211
2008	1,940,000	5,186
2007	1,840,000	5,127

Water and Sewer Service Rates (effective July 1, 2011)

Water Service

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$7.16	Monthly Meter Charge	\$8.58
Per 1,000 gallons:		Per 1,000 gallons:	
First 150,000 gallons	\$3.93	First 150,000 gallons	\$4.59
Next 850,000 gallons	\$3.81	Next 850,000 gallons	\$4.34
All Over 1,000,000 gallons	\$3.78	All Over 1,000,000 gallons	\$4.34

Sewer Service

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$7.34	Monthly Meter Charge	\$9.35
Based on Water Usage, Per 1,000 Gallons:		Based on Water Usage, Per 1,000 Gallons:	
First 150,000 gallons	\$3.98	First 150,000 gallons	\$5.38
Next 850,000 gallons	\$3.55	Next 850,000 gallons	\$4.76
All Over 1,000,000 Gallons	\$3.49	All Over 1,000,000 Gallons	\$4.75

Ten Largest Users of Water System (for Calendar Year 2011)

<u>Customer's Name</u>	<u>Read in Hundreds Usage (Gallons)</u>	<u>Charge</u>
South Woodford Water District	168,994,600	\$364,570.99
Northeast Woodford Water District	145,022,100	332,660.47
Pilkington Glass	76,279,900	536,793.61
Osram Sylvania Products	30,190,400	202,098.93
World Color	14,638,000	62,774.81
Versailles Housing Authority	4,564,100	34,319.41
Bluegrass Community Hospital	3,906,800	29,333.99
Y H America, Inc.	3,657,100	24,340.69
Woodford Investments LLC	2,088,400	16,865.11
Willow Oaks	2,188,700	16,795.27

Assessment of Taxable Property

<u>Fiscal Year Ended June 30</u>	<u>Real Property</u>	<u>Bank Franchise & Deposit Tax</u>
2011	\$723,040,557	\$ 370,544,994
2010	619,197,678	405,604,682
2009	667,977,152	458,721,359
2008	672,026,544	404,006,661
2007	575,348,313	385,094,972

Information for 2012 not available at this time.

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

<u>Fiscal Year Ended June 30</u>	<u>Real Property</u>	<u>Bank Shares</u>
2011	.054	.224
2010	.054	.224
2009	.054	.224
2008	.054	.224
2007	.054	.224

Information for 2012 not available at this time.

Taxes Levied and Collected (Includes Bank Shares)

<u>Fiscal Year Ended June 30</u>	<u>Taxes Levied</u>	<u>Taxes Collected</u>
2011	\$480,768.00	\$492,112.26
2010	561,000.00	583,832.00
2009	567,000.00	592,907.00
2008	506,768.24	577,216.41
2007	478,877.71	515,020.54

Information for 2012 not available at this time.

Outstanding Water and Sewer Revenue Bonds

<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding May 31, 2012</u>
August 1, 2004 (1)	12/1/24	\$ 8,635,000	\$ 8,055,000
August 1, 2005	12/1/25	8,465,000	7,170,000
July 7, 2011	12/1/21	<u>6,460,000</u>	<u>5,920,000</u>
Total		<u>\$23,560,000</u>	<u>\$21,145,000</u>

(1) These bonds will be refunded by the Series of 2012 Bonds. See “The Plan of Refunding” for more detail.

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 1.20 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 2012 Bonds, using amounts for ended February 28, 2012:

Gross Revenues	\$5,481,674
Less: Operating Expenses	<u>(2,446,919)</u>
Net Operating Revenues	<u>\$3,034,755</u>
Debt Service - Estimated Maximum Principal and Interest in 2023	\$2,067,480
Debt Service Covered	1.47 x

General Information

The City of Versailles, county seat of Woodford County, was founded in 1792. Located just off the Martha Layne Collins Parkway (Bluegrass Parkway), it is nestled in central Kentucky within a short driving distance of Lexington, Frankfort and Louisville, Kentucky. Versailles is totally surrounded by beautiful, serene farmland and some of the most famous horse farms in the Bluegrass region. Most of these horse farms are home to famous Kentucky thoroughbreds and winners of the famed Kentucky Derby. Also, Woodford County is proud to be the home of numerous Kentucky bourbon products including Woodford Reserve . Versailles also boasts some of the finest local organizations such as the Chamber of Commerce, Rotary, Kiwanis, Woman's Clubs, Historical Society, Theatrical Arts Association and a most prized Renaissance on Main Program (Vision Versailles 2000+). Versailles offers all the amenities associated with a small community; family values, friendly people, low crime rate, strong work ethics and involved leadership. Versailles' reputation as a “quaint community” is the result of our the entire community's vision and thoughtful planning and participation. As a community, we value our small town atmosphere settled among the rich rural landscape around us and the local historical districts that take us back in time. To preserve our heritage, we seek to encourage diversified opportunities and at the same time, enhance community character and the quality of life for all our citizens. We continually strive to establish a strong, well-integrated city that fosters local businesses and industries, maintain a clean and safe environment, as well as an overall fiscally sound and pleasant community. This strong sense of community and vision will be achieved through the will and vested interest of our citizens. The community's motto of “moving forward to revitalize the downtown Versailles community to meet the challenge of the future, while celebrating and preserving our past” is a prime example of what we are all about in this wonderful community.

APPENDIX B

*Estimated Debt Service Requirements
on
Series 2012 Bonds*

**CITY OF VERSAILLES, KENTUCKY
WATER AND SEWER REFUNDING AND IMPROVEMENT REVENUE BONDS
SERIES OF 2012**

ESTIMATED DEBT SERVICE REQUIREMENTS

Maturity Date	Principal	Interest	Total	Fiscal Year Total
12/01/2012	\$600,000	104,568.98	704,568.98	
06/01/2013		101,291.25	101,291.25	805,860.23
12/01/2013	610,000	101,291.25	711,291.25	
06/01/2014		98,241.25	98,241.25	809,532.50
12/01/2014	615,000	98,241.25	713,241.25	
06/01/2015		94,397.50	94,397.50	807,638.75
12/01/2015	620,000	94,397.50	714,397.50	
06/01/2016		90,212.50	90,212.50	804,610.00
12/01/2016	630,000	90,212.50	720,212.50	
06/01/2017		85,645.00	85,645.00	805,857.50
12/01/2017	640,000	85,645.00	725,645.00	
06/01/2018		79,885.00	79,885.00	805,530.00
12/01/2018	650,000	79,885.00	729,885.00	
06/01/2019		73,385.00	73,385.00	803,270.00
12/01/2019	670,000	73,385.00	743,385.00	
06/01/2020		65,847.50	65,847.50	809,232.50
12/01/2020	685,000	65,847.50	750,847.50	
06/01/2021		57,627.50	57,627.50	808,475.00
12/01/2021	700,000	57,627.50	757,627.50	
06/01/2022		48,702.50	48,702.50	806,330.00
12/01/2022	1,100,000	48,702.50	1,148,702.50	
06/01/2023		33,577.50	33,577.50	1,182,280.00
12/01/2023	1,130,000	33,577.50	1,163,577.50	
06/01/2024		17,475.00	17,475.00	1,181,052.50
12/01/2024	1,165,000	17,475.00	1,182,475.00	
06/01/2025				1,182,475.00
Totals	\$9,815,000	\$1,797,143.98	\$11,612,143.98	\$11,612,143.98

Source: Financial Advisor

APPENDIX C

Audited Financial Statement as of June 30, 2011

CITY OF VERSAILLES
Versailles, Kentucky

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

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

Our discussion and analysis of the City of Versailles's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read the following in conjunction with the auditors' report on page 12 and the City's financial statements, which begin on page 14.

Using This Annual Report

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

Reporting the City as a Whole

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

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

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

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

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

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 7. The fund financial statements begin on page 16 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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

The City has two kinds of funds:

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

Proprietary Fund—When the City charges customers for the services it provides--whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's water, sewer and sanitation fund (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

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

Notes to the Financial Statements

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

Other Information

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

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

Financial Analysis of the City as a Whole

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

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

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

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

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

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

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

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

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

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

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

Governmental Activities

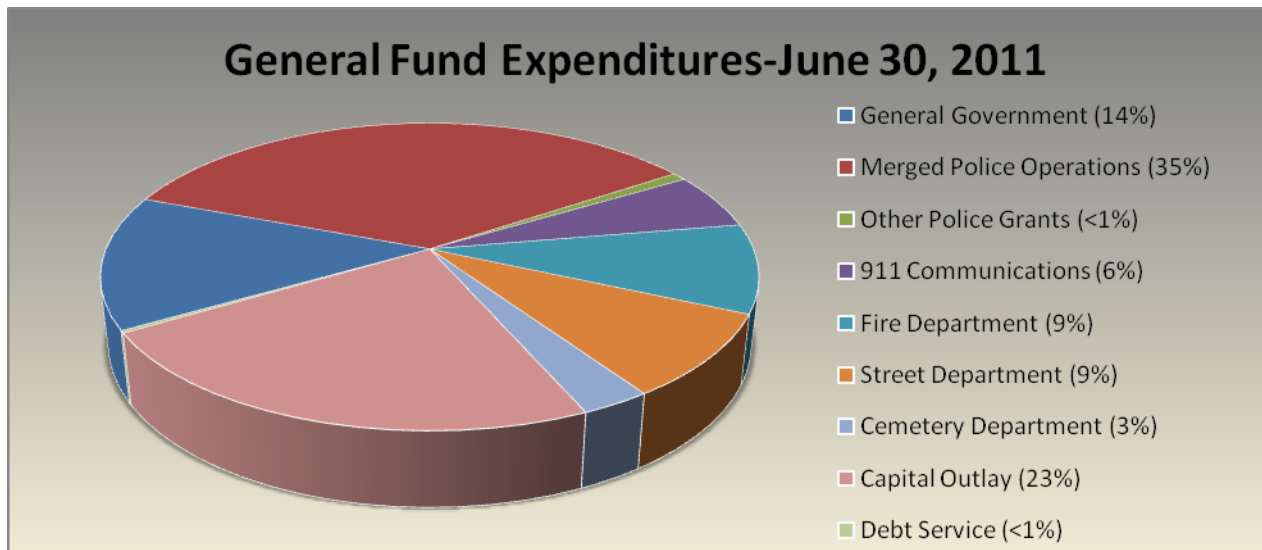
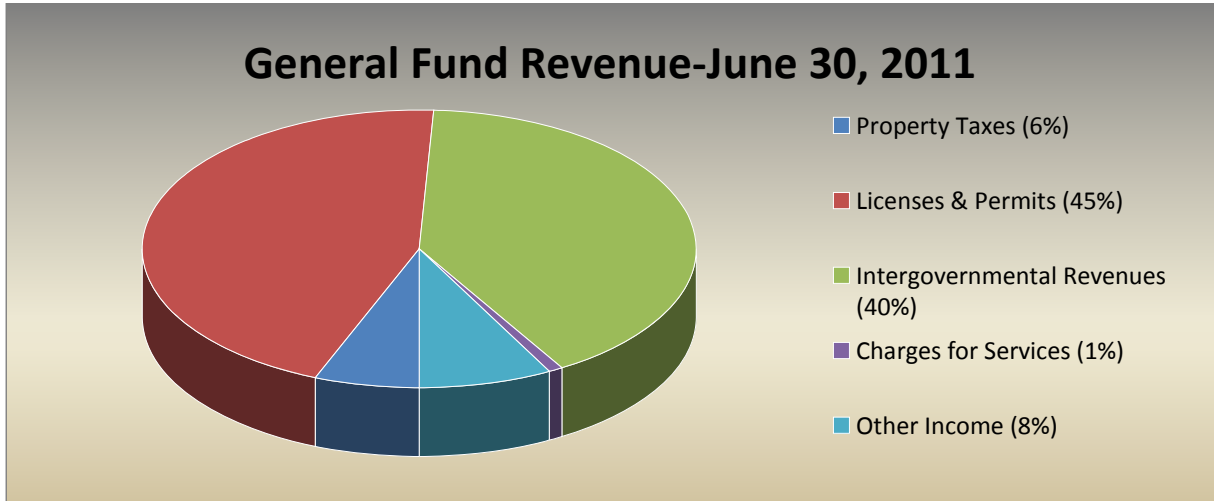
Table A-3 details a condensed statement of the fiscal year's governmental activities according to the governmental fund statements shown on pages 16 and 17 and in the supplementary information on page 42.

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

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

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

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



Budget Highlights

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

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

Table A-4
General Fund - Budget & Actual

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

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

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

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

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

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

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

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

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

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

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

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

Capital Assets

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

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

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

Debt

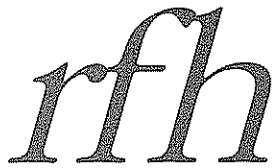
Table A-10						
Table A-6 provides a summary of all the City's outstanding indebtedness.						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Notes Payable	\$ 0.1	\$ -	\$ -	\$ -	\$ 0.1	\$ -
Bonds Payable	-	-	23.3	23.8	23.3	23.8
Total Debt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

Economic Factors and Next Year's Budget and Rates

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

Contacting the City's Financial Management

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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

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

J. Carroll Luby, CPA

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Versailles, Kentucky, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 11 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Ray, Foley, Hensley & Company

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

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

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

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2011

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

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

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

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

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

Fund balances reported above \$ 3,165,095

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

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

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

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

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

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

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

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

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

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

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

	<u>Business Type Activities</u>
	<u>Water, Sewer & Sanitation</u>
OPERATING REVENUES	
Charges for services	\$ 5,510,090
Other revenues	<u>87,639</u>
	<u>5,597,729</u>
OPERATING EXPENSES	
Salaries	1,200,844
Payroll taxes	85,183
Employee benefits	284,131
Advertising and printing	5,648
Professional and technical	22,833
Repairs and maintenance	261,706
Utilities	550,062
Telephone and postage	48,739
Insurance	102,018
Chemicals	180,816
Technical supplies	1,773
Uniforms	6,376
Motor fuel	71,318
Office supplies	3,731
Other materials	37,149
Other expenses	119,771
Purchase of water	16,067
Landfill expense	162,585
Sludge removal	101,257
Depreciation and amortization	960,220
Training/travel	8,088
Lab analysis	43,676
Purchase of water meters	27,714
Dumpster collection	<u>2,481</u>
Total operating expenses	<u>4,304,186</u>
Operating income (loss)	<u>1,293,543</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	110,224
Interest expense	(604,426)
Gain on sale of assets	<u>-</u>
Excess of nonoperating revenues over expenses	<u>(494,202)</u>
CAPITAL CONTRIBUTIONS	
Contributed capital	-
Capital grant proceeds	<u>1,121,901</u>
Net income (loss)	1,921,242
Beginning net assets, as restated - Note 15	<u>25,326,073</u>
NET ASSETS ENDING	<u>\$ 27,247,315</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, 2011**

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

The accompanying notes are an integral part of the financial statements

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

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

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

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

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

The accompanying notes are an integral
part of the financial statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, continued

Government-wide Financial Statements

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

Fund Financial Statements

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

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

The following funds are used by the City of Versailles:

Governmental Funds

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

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

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

Proprietary Funds

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, continued

Proprietary Funds, continued

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

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

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

C. Basis of Accounting

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

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting, continued

Fund Financial Statements, continued

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

D. Budgeting

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

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

E. Cash and Cash Equivalents

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

F. Investments

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

G. Inventory

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

H. Capital Assets

Capital assets are reported at cost. Donated assets are valued at their fair market value on the date of donation. Capital assets are depreciated using the straight-line method over the estimated useful life of the asset as follows:

Buildings and improvements	25-40 years
Land improvements	10-20 years
Machinery and equipment	5-10 years
Vehicles	5-20 years
Utility systems	25-40 years
Infrastructure	5-40 years

I. Interfund Balances

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Accrued Liabilities and Long-term Obligations

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

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

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

K. Compensated Absences

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

L. Fund Balances

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

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

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

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

Unassigned — all other spendable amounts.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fund Balances (continued)

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

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

M. Net Assets

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

N. Accounts Receivable

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

O. Estimates

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

P. Restricted Cash and Investments

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

Q. Proprietary Revenues

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 31, 2011, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2011, have not been evaluated by the City.

2. CASH AND INVESTMENTS

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

Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk

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

PRIMARY GOVERNMENT

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

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

2. CASH AND INVESTMENTS (continued)

COMPONENT UNIT

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

Concentration of Credit Risk

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

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

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

3. ACCOUNTS RECEIVABLE

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

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

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

4. CAPITAL ASSETS

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

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

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

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

4. CAPITAL ASSETS (continued)

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

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

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

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

5. LONG TERM DEBT

GOVERNMENTAL ACTIVITIES

NOTES PAYABLE

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

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

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

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

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

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

5. LONG TERM DEBT (continued)

BUSINESS-TYPE-ACTIVITIES

BONDS AND NOTES PAYABLE

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

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

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

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

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

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

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

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

5. LONG TERM DEBT (continued)

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

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

COMPLIANCE WITH BOND ORDINANCES

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

Water and Sewer Revenue Bond and Interest Redemption Account

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

Water and Sewer Revenue Debt Reserve Account

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

Water and Sewer Maintenance and Operation Account

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

Water and Sewer Depreciation Account

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

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

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

5. LONG TERM DEBT (continued)

COMPLIANCE WITH BOND ORDINANCES (continued)

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

COMPONENT UNITS

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

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

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

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

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

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

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

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

5. LONG TERM DEBT (continued)

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

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

6. PROJECT FINANCING

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

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

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

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

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

7. RETIREMENT PLAN

County Employees' Retirement System

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

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

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

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

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

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

Kentucky Deferred Compensation Plan

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

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

8. COMMITMENTS AND CONTINGENCIES

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

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

9. CONCENTRATIONS

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

10. PROPERTY TAX CALENDAR

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

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

11. INSURANCE AND RISK MANAGEMENT

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

12. INTERFUND RECEIVABLES AND PAYABLES

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

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

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

13. POLICE OPERATING EXPENDITURES

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

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

14. SUBSEQUENT EVENTS

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

15. RESTATEMENT OF NET ASSETS

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

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

SUPPLEMENTAL INFORMATION

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

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

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

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

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

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

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

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Payable by December 1</u>	<u>Interest Payable by June 1</u>	<u>Total Principal and Interest</u>
2011-12	4.050%	\$ 460,000	\$ 142,601	\$ 133,286	\$ 735,887
2012-13	4.150%	480,000	133,286	123,326	736,612
2013-14	4.250%	500,000	123,326	112,701	736,027
2014-15	4.250%	525,000	112,701	101,545	739,246
2015-16	4.350%	545,000	101,545	89,691	736,236
2016-17	4.450%	570,000	89,691	77,009	736,700
2017-18	4.550%	595,000	77,009	63,473	735,482
2018-19	4.650%	625,000	48,941	63,473	737,414
2019-20	4.700%	655,000	33,550	48,941	737,491
2020-21	4.750%	685,000	33,549	17,280	735,829
2021-22	4.800%	<u>720,001</u>	<u>17,280</u>	<u>-</u>	<u>737,281</u>
		<u>\$ 6,360,001</u>	<u>\$ 913,479</u>	<u>\$ 830,725</u>	<u>\$ 8,104,205</u>

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

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

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

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

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

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

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

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

**CITY OF VERSAILLES, KENTUCKY
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Versailles, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the City of Versailles, Kentucky's basic financial statements and have issued our report thereon dated December 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

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

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

Ray, Foley, Hensley & Company

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

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

FINDING:

2011-1

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

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

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

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

RESPONSE:

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

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

To the Mayor and City Council
City of Versailles, Kentucky

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Versailles, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Versailles, Kentucky's compliance with those requirements.

In our opinion, City of Versailles, Kentucky, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of City of Versailles, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Versailles, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Versailles, Kentucky's internal control over compliance.

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

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

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

Ray, Foley, Hensley & Company

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

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

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

***Denotes Major Program**

Notes:

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

Basis of Presentation

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

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

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified Yes No

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

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No

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

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

Unqualified for all major programs.

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

Major Programs:

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

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

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS
 2011-1

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
 NONE

IV. PRIOR AUDIT FINDINGS
 NONE

APPENDIX D

Continuing Disclosure Agreement

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement ("Agreement") made and entered into as of the 31st day of May, 2012 by and between the City of Versailles, Kentucky ("City"), The Huntington National Bank, Cincinnati, Ohio ("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.

Although the City has remained current in the required financial disclosure filings with Bloomberg Municipal Repository it failed to file the same information with EMMA in certain prior years; however, as of the date of this Agreement the City is in full compliance with the required information due EMMA.

WITNESSETH:

WHEREAS, the City pursuant to the provisions of Sections 58.010 through 58.150 of the Kentucky Revised Statutes ("KRS") and the City's Bond Ordinance has authorized the issuance, sale and delivery of \$9,815,000 of the City's Water and Sewer Refunding and Improvement Revenue Bonds, Series of 2012, dated May 31, 2012 ("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 (a) the Municipal Securities Rulemaking Board ("MSRB"), or any successor thereto for purposes of its Rule, through the continuing disclosure service portal provided by the MSRB's Electronic Municipal Market Access ("EMMA") system as described in 1934 Act Release No. 59062, or any similar system that is acceptable to the Securities and Exchange Commission and (b) 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 and operating data provided annually, of the type included in the FOS with respect to the City in accordance with guidelines established by the National Federation of Municipal Analysts, 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 sixteen (16) events must be disclosed within ten (10) business days following the occurrence of said event to MSRB via EMMA and the SID, if any:

- (1) Principal/interest payment delinquency;
- (2) Nonpayment related default, if material;
- (3) Unscheduled draw on debt service reserve reflecting financial difficulties;
- (4) Unscheduled draw on credit enhancement reflecting financial difficulties;
- (5) Substitution of credit or liquidity provider, or its failure to perform;
- (6) Adverse tax opinion or event affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond call, if material;
- (9) Defeasance;
- (10) Release, substitution or sale of property securing the repayment of the security, if material;
- (11) Rating change;
- (12) Failure to provide event filing information as required;
- (13) Tender offer/secondary market purchases;
- (14) Merger/consolidation/acquisition and sale of all or substantially all assets, if material;
- (15) Bankruptcy, insolvency, receivership or similar event, and
- (16) Successor, additional or change in trustee.

Notice of said material events shall be given to the entities identified in this Section by the City on a timely basis (within ten (10) business days of the occurrence). 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 Annual Financial Information required under Section 1 of this Agreement, it will notify MSRB via EMMA of such failure in a timely manner as required above.

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

**THE HUNTINGTON NATIONAL BANK
CINCINNATI, OHIO**

By: _____

Title

OFFICIAL TERMS AND CONDITIONS OF BOND SALE

**\$9,815,000* City of Versailles (Kentucky)
Water and Sewer Refunding and Improvement Revenue Bonds, Series of 2012
Dated May 31, 2012**

DATE OF SALE: 1:00 P.M., E.D.S.T., MAY 17, 2012

As advertised in The Courier-Journal, published in Louisville, Kentucky, the City of Versailles, Kentucky, will until the 17th day of May, 2012, at the hour of 1:00 P.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 Refunding and Improvement Revenue Bonds, Series of 2012, dated May 31, 2012 ("Bonds" or "Series 2012 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.

*The Bonds are offered subject to a Permitted Adjustment increasing or decreasing the principal amount of Bonds awarded by up to \$980,000.

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 2012 Bonds will rank on the basis of parity as to security and source of payment with the City's outstanding Water and Sewer Revenue Bonds Series of 2005, dated August 1, 2005 and , Series of 2011, dated July 14, 2011 ("Outstanding Bonds"). Prior to the delivery of the Series 2012 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 2012 Bonds were 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 Outstanding Bonds and these Series 2012 Bonds.

THE BONDS

The Bonds shall be in denominations in multiples of \$5,000 within the same maturity, bearing interest from May 31, 2012, payable December 1, 2012 and semiannually thereafter, maturing on December 1 in each of the years as follows:

<u>YEAR</u>	<u>PRINCIPAL MATURITIES</u>
2012	\$600,000
2013	610,000
2014	615,000
2015	620,000
2016	630,000
2017	640,000
2018	650,000
2019	670,000
2020	685,000
2021	700,000
2022	1,100,000
2023	1,130,000
2024	1,165,000

The Refunding and Improvement Bonds maturing on and after December 1, 2022 shall be subject to redemption at the option of the City prior to their stated maturities on or after June 1, 2022.

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.

PLAN OF REFUNDING

Upon their delivery sufficient proceeds of the Bonds will be deposited in a special Escrow Fund established under an Escrow Agreement with the Paying Agent in order that said proceeds, plus the investment earnings thereon, will be sufficient to provide for the complete payment and retirement at or prior to their maturity on December 1, 2014 of all of the City's outstanding Water and Sewer Revenue Bonds, Series of 2004, dated August 1, 2004 (the "Defeased Bonds"). Money on deposit in the Escrow Fund shall be invested only in direct obligations of or obligations fully guaranteed by the United States or in Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.

BOND PROCEEDS FOR SYSTEM IMPROVEMENTS

In addition to providing for the retirement of the Defeased Bonds approximately \$800,000 of the proceeds of these Series 2012 Bonds will be applied to the preliminary design of a new wastewater treatment plant and implementing State mandated inspection and testing of the sewer system portion of the System.

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.

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. The Huntington National Bank, Cincinnati, Ohio, 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, 305 Ann Street, 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 \$9,716,850 (99% of par), (there being no 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 The Huntington National Bank, Bond Registrar/Paying Agent, Attn: Ms. Cheri Scott-Geraci (513-366-3073).

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. A Final Official Statement will be provided in Electronic Form to the successful bidder, in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder will be required to pay for the printing of Final Official Statements.

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 Opinions of Steptoe & Johnson PLLC, Bond and Tax Counsel, Louisville, Kentucky, subject to whose approving Legal Opinions said Bonds are sold.

POTENTIAL LEGISLATION

Numerous Legislative proposals have been made in both Houses of Congress which if enacted into law, (or altered interpretations of the Code or court decisions) may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest as same now exist. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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 \$1,000,000, the City and the Paying Agent will enter into a written agreement for the benefit of all parties who may become Registered or Beneficial Owners of the Bonds whereunder said City will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Commission Rule 15c2-12 by filing annual financial statements and material events notices with the Electronic Municipal Market Access (EMMA) System maintained by the Municipal Securities Rule Making Board.

Financial information regarding the City may be obtained from Allison B. White, City Clerk, City Hall, 196 S. Main Street, 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, 2012, 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 May, 2012, at the hour of 1:00 P.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 \$9,815,000* Water and Sewer Refunding & Improvement Revenue Bonds, Series of 2012, dated May 31, 2012 ("Bonds" or "Series 2012 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 \$9,815,000* principal amount of Bonds, the total sum of \$_____ (not less than \$9,716,850 or 99% of par), plus accrued interest from May 31, 2012, at the following annual rate(s), payable semiannually beginning December 1, 2012 (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>
2012	\$600,000	_____ %
2013	610,000	_____ %
2014	615,000	_____ %
2015	620,000	_____ %
2016	630,000	_____ %
2017	640,000	_____ %
2018	650,000	_____ %
2019	670,000	_____ %
2020	685,000	_____ %
2021	700,000	_____ %
2022	1,100,000	_____ %
2023	1,130,000	_____ %
2024	1,165,000	_____ %

*The Bonds are offered subject to a Permitted Adjustment increasing or decreasing the principal amount of Bonds awarded by up to \$980,000.

It is understood that the City will furnish the final, approving Legal Opinions of Steptoe & Johnson PLLC, Bond and Tax 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 Huntington National Bank, Cincinnati, Ohio, Attention: Ms. Cheri Scott-Geraci (513) 366-3073.

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 on or about May 31, 2012.

Respectfully submitted,

Bidder

By _____
Authorized Officer (Signature)

Address

Total interest cost from May 31, 2012 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 First Kentucky Securities Corporation as Agent for the City of Versailles, Kentucky for \$ _____ amount of Bonds at a price of \$ _____ as follows:

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>
2012	_____,000	_____ %	2019	_____,000	_____ %
2013	_____,000	_____ %	2020	_____,000	_____ %
2014	_____,000	_____ %	2021	_____,000	_____ %
2015	_____,000	_____ %	2022	_____,000	_____ %
2016	_____,000	_____ %	2023	_____,000	_____ %
2017	_____,000	_____ %	2024	_____,000	_____ %
2018	_____,000	_____ %			

Dated: May 17, 2012.

First Kentucky Securities Corporation, Financial Advisor and Agent
for the City of Versailles, Kentucky