

PRELIMINARY OFFICIAL STATEMENT
(Bonds to be sold January 14, 2014, 11:00 a.m. E.S.T.)

Moody's Rating: "A2"
(See "Rating" Herein)

BANK INTEREST DEDUCTION ELIGIBLE

ELECTRONIC BIDDING VIA PARITY

BOOK-ENTRY-ONLY SYSTEM

\$5,710,000*

**CITY OF VERSAILLES, KENTUCKY
WATER AND SEWER REVENUE BONDS
SERIES OF 2014**

Dated: Date of Delivery (expected January 28, 2014)

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 June 1, 2014, and thereafter semiannually on each December 1 and June 1.

The Bonds shall be subject to prior redemption at the option of the City on and after December 1, 2023, as discussed herein.

SCHEDULE OF MATURITIES

<u>Date</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Cusip #</u>
			925224
12/01/2026	\$ 620,000		
12/01/2027	640,000		
12/01/2028	670,000		
12/01/2029	695,000		
12/01/2030	725,000		
12/01/2031	755,000		
12/01/2032	785,000		
12/01/2033	820,000		

(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 Counsel to the City. Delivery of the Bonds is expected on or about January 28, 2014.

*Preliminary, Subject to Permitted Adjustment.

FIRST KENTUCKY SECURITIES CORPORATION
Financial Advisor

CITY OF VERSAILLES

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

Council Members

Mary Ellen Bradley
Carl Ellis
Sonny Jones
Ken Kerkhoff
Ann Miller
Owen L. Roberts

BOND COUNSEL

Steptoe & Johnson PLLC
Louisville, Kentucky

FINANCIAL ADVISOR

First Kentucky Securities Corporation
Frankfort, Kentucky

PAYING 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

\$5,710,000*

CITY OF VERSAILLES, KENTUCKY WATER AND SEWER REVENUE BONDS SERIES OF 2014

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 Revenue Bonds, Series of 2014, 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 \$5,710,000* Water and Sewer Revenue Bonds; (ii) approving the publication of a Notice of Sale of Bonds; (iii) approving the terms and conditions of bond sale; and (iv) authorizing the Mayor of the City to execute the Official Statement related to the Bonds.

Terms

The Bonds will be dated the date of delivery, expected to be January 28, 2014, will bear interest payable June 1, 2014, and thereafter semiannually on each December 1 and June 1 at the rates established upon acceptance of a bid for said Bonds and, will mature on the dates and in the amounts set forth on the cover page. 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 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 shall be subject to redemption by the City prior to maturity, in whole or in part, in the inverse order of their maturities (less than all of a single maturity to be selected by lot), on any date, on or after December 1, 2023, 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 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 2011, dated July 14, 2011, Water and Sewer Revenue Bonds Series of 2012, dated May 31, 2012 and Water and Sewer Refunding Revenue Bonds Series of 2013, dated March 14, 2013 ("Outstanding Bonds"). Prior to the delivery of the 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 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 Bonds.

THE PROJECT

The Bonds are being issued for the purpose of repairs to and/or replacement of approximately 128,000 linear feet of 8-inch - 12-inch diameter sewer lines, as well as repairs or replacement of approximately 6000 manholes, four sewer lift stations, and other appurtenances such as service connections. Methods may include cured-in-place pipe, manhole coatings and installation of new pipe and manholes. This project is the culmination of an extensive two year long Sewer System Evaluation Survey (SSES) which, through manhole inspection, flow monitoring, smoke testing and video inspection, identified the subject areas in Versailles sanitary sewer system that needs rehabilitation.

Estimated Uses and Sources of Funds

Uses of Funds:

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.

The entire remaining proceeds of the Bonds shall be deposited into The City of Versailles Water and Sewer System Construction Fund of 2014 (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 \$100,037.15.

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

CERTAIN PROVISIONS OF THE BOND ORDINANCE

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

The City has authorized the issuance of its City of Versailles, Kentucky, Water and Sewer Revenue Bonds, Series 2014 in an aggregate amount of \$5,710,000*. The Bonds are fully registered and in denominations in multiples of \$5,000. The Bonds bear interest payable on June 1 and December 1 each year, beginning June 1, 2014, 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, 2026 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 2013 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 2013 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 2013 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.

POTENTIAL LEGISLATION

No assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax exemption of such interest. In addition, current and future legislative proposals, if enacted into law, may cause interest on state or local government bonds (whether issued before, on the date of, or after enactment of such legislation) to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the amount of interest on such bonds that may currently be treated as tax exempt by certain individuals. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the IRS, including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds or obligations which present similar tax issues, will not affect the market price for the Bonds.

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, 2014, 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/ Brian Traugott
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 6,200 water customers and 5,500 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>
2013 (thru 9/30/13)	3,079,935	3,557,222	6,180
2012	3,080,230	5,002,000	6,144
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>
2013 (thru 9/30/13)	2,560,000	5,484
2012	1,847,000	5,547
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, 2013)

Water Service

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$7.51	Monthly Meter Charge	\$8.99
Per 1,000 gallons:		Per 1,000 gallons:	
First 150,000 gallons	\$4.16	First 150,000 gallons	\$4.84
Next 850,000 gallons	\$4.03	Next 850,000 gallons	\$4.58
All Over 1,000,000 gallons	\$4.00	All Over 1,000,000 gallons	\$4.47

Sewer Service

	<u>Inside City</u>		<u>Outside City</u>
Monthly Meter Charge	\$7.64	Monthly Meter Charge	\$9.73
Based on Water Usage, Per 1,000 Gallons:		Based on Water Usage, Per 1,000 Gallons:	
First 150,000 gallons	\$4.14	First 150,000 gallons	\$5.60
Next 850,000 gallons	\$3.69	Next 850,000 gallons	\$4.96
All Over 1,000,000 Gallons	\$3.63	All Over 1,000,000 Gallons	\$4.95

The following tables reflect calculations for 2013 through October, 2013:

Ten Largest Users of Water System (for Calendar Year 2013)

	Read in Hundreds		
	<u>Gallons</u>	<u>Water Charge</u>	<u>Sewer Charge</u>
South Woodford WD	126,904,300	\$289,842.31	(N/A)
Northeast Woodford WD	118,292,100	269,707.39	(N/A)
Pilkington Glass	77,151,800	300,989.41	277,562.91
Osram Sylvania-1	15,733,100	\$59,821.01	57,569.54
World Color	13,538,000	51,721.66	42,595.94
Osram Sylvania -2	7,953,500	30,482.80	29,660.64
YH America	4,398,900	16,964.32	16,721.16
BG Community Hospital	2,811,400	11,287.94	10,950.85
Woodford Investments	2,272,400	9,156.01	8,980.72
Willow Oaks	2,045,900	8,263.64	8,154.48

Assessment of Taxable Property

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Real Property</u>	<u>Bank Franchise</u> <u>& Deposit Tax</u>
2013	\$601,597,793	\$346,790,275
2012	592,764,493	366,340,109
2011	723,040,557	330,544,994
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

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Real Property</u>	<u>Bank Shares</u>
2013	.056	.224
2012	.056	.224
2011	.054	.224
2010	.054	.224
2009	.054	.224
2008	.054	.224
2007	.054	.224

Taxes Levied and Collected (Includes Bank Shares)

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Taxes Levied</u>	<u>Taxes Collected</u>
2013	\$583,430.65	Unknown To Date
2012	559,000.00	\$562,947.00
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

Outstanding Water and Sewer Revenue Bonds

<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Amount of Original Issue</u>	<u>Outstanding January 28, 2014</u>
July 7, 2011	12/1/21	\$6,460,000	\$4,840,000
May 31, 2012	12/1/24	9,825,000	8,610,000
March 14, 2013	12/01/25	<u>7,835,000</u>	<u>7,390,000</u>
Total		<u>\$24,120,000</u>	<u>\$20,840,000</u>

Debt Service Coverage

The Bond Ordinance requires that, prior to the issuance of parity bonds, a certification by a Certified Public Accountant, not in the regular employ of the City, be obtained to the effect that the net revenues of the System are no less than 1.20 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 2014 Bonds, using amounts for ended June 30, 2013 (unaudited):

Gross Revenues	\$5,792,816
Less Operating Expenses	<u>(2,696,036)</u>
Net Operating Revenues	<u>\$3,096,780</u>
Debt Service - Estimated Maximum Principal and Interest in 2024	\$2,268,252
Debt Service Covered	1.37 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 For Series 2014 Bonds

**CITY OF VERSAILLES, KENTUCKY
WATER AND SEWER REVENUE BONDS
SERIES OF 2014**

ESTIMATED DEBT SERVICE REQUIREMENTS

Maturity Date	Principal	Interest	Total	Fiscal Year Total
06/01/2014		\$78,274.13	\$78,274.13	\$78,274.13
12/01/2014		114,547.50	114,547.50	
06/01/2015		114,547.50	114,547.50	229,095.00
12/01/2015		114,547.50	114,547.50	
06/01/2016		114,547.50	114,547.50	229,095.00
12/01/2016		114,547.50	114,547.50	
06/01/2017		114,547.50	114,547.50	229,095.00
12/01/2017		114,547.50	114,547.50	
06/01/2018		114,547.50	114,547.50	229,095.00
12/01/2018		114,547.50	114,547.50	
06/01/2019		114,547.50	114,547.50	229,095.00
12/01/2019		114,547.50	114,547.50	
06/01/2020		114,547.50	114,547.50	229,095.00
12/01/2020		114,547.50	114,547.50	
06/01/2021		114,547.50	114,547.50	229,095.00
12/01/2021		114,547.50	114,547.50	
06/01/2022		114,547.50	114,547.50	229,095.00
12/01/2022		114,547.50	114,547.50	
06/01/2023		114,547.50	114,547.50	229,095.00
12/01/2023		114,547.50	114,547.50	
06/01/2024		114,547.50	114,547.50	229,095.00
12/01/2024		114,547.50	114,547.50	
06/01/2025		114,547.50	114,547.50	229,095.00
12/01/2025		114,547.50	114,547.50	
06/01/2026		114,547.50	114,547.50	229,095.00
12/01/2026	\$620,000	114,547.50	734,547.50	
06/01/2027		103,387.50	103,387.50	837,935.00
12/01/2027	640,000	103,387.50	743,387.50	
06/01/2028		91,387.50	91,387.50	834,775.00
12/01/2028	670,000	91,387.50	761,387.50	
06/01/2029		78,322.50	78,322.50	839,710.00
12/01/2029	695,000	78,322.50	773,322.50	
06/01/2030		64,422.50	64,422.50	837,745.00
12/01/2030	725,000	64,422.50	789,422.50	
06/01/2031		49,560.00	49,560.00	838,982.50
12/01/2031	755,000	49,560.00	804,560.00	
06/01/2032		33,705.00	33,705.00	838,265.00
12/01/2032	785,000	33,705.00	818,705.00	
06/01/2033		17,220.00	17,220.00	835,925.00
12/01/1933	820,000	17,220.00	837,220.00	837,220.00
Totals	<u>\$5,710,000</u>	<u>\$3,817,971.63</u>	<u>\$9,527,971.63</u>	

Source: Financial Advisor

APPENDIX C

Audited Financial Statement as of June 30, 2012

CITY OF VERSAILLES
Versailles, Kentucky

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
June 30, 2012

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City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2012

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, 2012. 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, 2012

The City has two kinds of funds:

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

Proprietary Fund—When the City charges customers for the services it provides--whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net 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 requirement supplementary information concerning budgetary comparison schedules for the general fund.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

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.

Table A-1
Net Assets (In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current & Other Assets	\$ 4.4	\$ 3.5	\$ 2.9	\$ 2.6	\$ 7.3	\$ 6.1
Capital Assets	7.3	6.2	51.6	49.4	58.9	55.6
Total Assets	<u>\$ 11.7</u>	<u>\$ 9.7</u>	<u>\$ 54.5</u>	<u>\$ 52.0</u>	<u>\$ 66.2</u>	<u>\$ 61.7</u>
Long Term Debt Outstanding	\$ 0.5	\$ 0.2	\$ 22.0	\$ 22.7	\$ 22.5	\$ 22.9
Current Liabilities	0.6	0.4	2.1	2.0	2.7	2.4
Total Liabilities	<u>1.1</u>	<u>0.6</u>	<u>24.1</u>	<u>24.7</u>	<u>25.2</u>	<u>25.3</u>
Invested in Capital Assets,						
Net of Debt	7.0	6.2	23.1	21.7	30.1	27.9
Restricted	0.8	0.7	3.6	3.6	4.4	4.3
Unrestricted	2.8	2.2	3.7	2.0	6.5	4.2
Total Net Assets	<u>\$ 10.6</u>	<u>\$ 9.1</u>	<u>\$ 30.4</u>	<u>\$ 27.3</u>	<u>\$ 41.0</u>	<u>\$ 36.4</u>

The City's total governmental net assets increased from \$9.1 at 2011 to \$10.6 at 2012. This fluctuation is largely due to current year capital projects such as the Crossfield Drive project. This project was funded by grant revenues from the State of Kentucky. Long-term debt outstanding increased due to additional financing for the purchase of a new fire truck.

In the business-type activity (Enterprise Fund), total net assets increased by approximately \$3.1 million, primarily due to current year capital projects such as the interceptor sewer system and pump stations project, which was funded by grant proceeds from the State of Kentucky and/or with prior year funds designated for capital projects. This increase is also due in part to the river wall stabilization project, which was funded with grants funds and Natural Conservation Resource Services federal funding.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

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.

Table A-2
Change in Net Assets (In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program Revenues						
Charges for services	\$ 0.1	\$ 0.1	\$ 6.1	\$ 5.6	\$ 6.3	\$ 5.7
Operating Grants & Contributions	1.7	1.6	-	-	1.7	1.6
Capital Grants & Contributions	1.2	2.2	1.7	1.2	2.9	3.4
Investment Earnings	0.1	0.1	0.1	0.1	0.1	0.2
General Revenues						
Taxes	0.6	0.6	-	-	0.6	0.6
Licenses	5.4	4.3	-	-	5.4	4.3
Intergovernmental	0.5	0.5	-	-	0.5	0.5
Other Revenues	0.3	0.1	-	-	0.3	0.1
Total Revenue	<u>9.9</u>	<u>9.5</u>	<u>7.9</u>	<u>6.9</u>	<u>17.8</u>	<u>16.4</u>
Expenses:						
Program Expenses						
General Government	1.4	1.5	-	-	1.4	1.5
Police & 911	4.5	4.5	-	-	4.5	4.5
Fire	1.0	1.0	-	-	1.0	1.0
Streets	1.1	1.0	-	-	1.1	1.0
Cemetery	0.3	0.3	-	-	0.3	0.3
Water/Sewer/Sanitation	-	-	4.9	4.9	4.9	4.9
Total Expenses	<u>8.3</u>	<u>8.3</u>	<u>4.9</u>	<u>4.9</u>	<u>13.2</u>	<u>13.2</u>
Change in Net Assets	<u>\$ 1.6</u>	<u>\$ 1.2</u>	<u>\$ 3.0</u>	<u>\$ 2.0</u>	<u>\$ 4.6</u>	<u>\$ 3.2</u>

Governmental activity revenue increased by approximately \$300,000 from 2011 to 2012 as shown in Table A-2. The increase in revenue is attributable to an increase in the occupational tax revenue.

Business-type activity (enterprise) revenues increased from \$6.9 million in 2011 to \$7.9 million in 2012, due to an increase in grant revenue and federal funding for the river wall stabilization project and various other grant revenue for other work in progress projects and also rate increases enacted for water and sewer usage.

Overall, governmental and business-type activity expenses remained constant. The consistency of expenses for the two fiscal years was due largely to active oversight of the budget and to employees retiring and or resigning, and those positions not being filled, which in turn kept retirement expenses approximately the same, even though the rate was increased.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

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 40.

Table A-3
Condensed Governmental Activities - Revenues and Expenditures

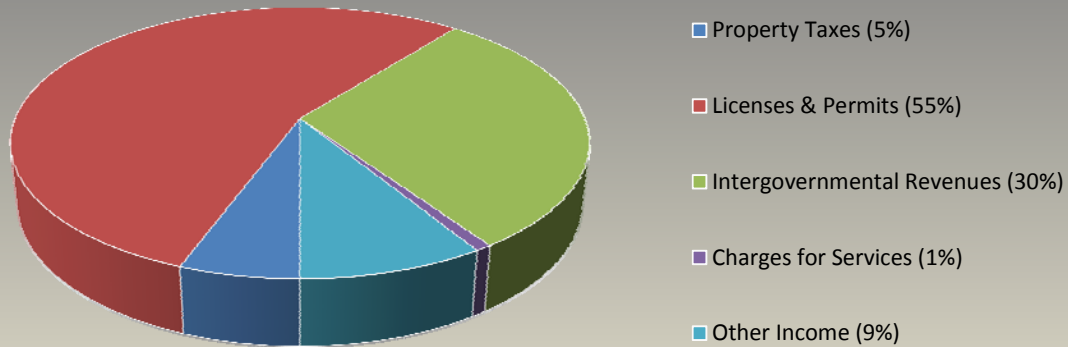
	2012	2011	Change Favorable (Unfavorable)
Revenues			
Taxes	\$ 562,947	\$ 579,291	\$ (16,344)
Licenses and permits	5,448,871	4,237,619	1,211,252
Intergovernmental revenues	2,946,423	3,826,107	(879,684)
Charges for services	77,966	83,827	(5,861)
Other income	875,991	729,754	146,237
Total Revenues	<u>\$ 9,912,198</u>	<u>\$ 9,456,598</u>	<u>\$ 455,600</u>
Expenditures			
General government	\$ 1,400,473	\$ 1,417,245	\$ 16,772
Merged police operations	3,536,931	3,500,451	(36,480)
Other police operations/grants	77,475	83,600	6,125
911 communications	621,942	591,367	(30,575)
Fire department	952,736	939,112	(13,624)
Street department	905,984	884,986	(20,998)
Cemetery department	287,975	294,587	6,612
Capital outlay	1,380,252	2,309,798	929,546
Debt service	79,431	25,598	(53,833)
Total Expenditures	<u>\$ 9,243,199</u>	<u>\$ 10,046,744</u>	<u>\$ 803,545</u>

The information above shows that revenues for governmental fund increased by \$455,600 from 2011 to 2012.

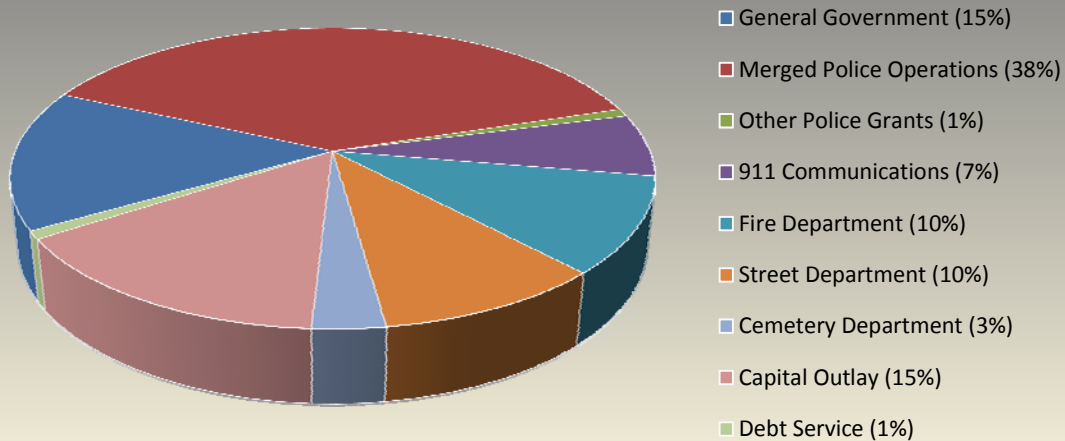
Once again, this is due in part from additional revenues derived from an increase in occupational tax revenues. Overall governmental activity expenses decreased by \$803,545 in 2012 from 2011. Some contributing factors were completion of the Dan Ct/Dan Drive project, fewer expenses attributed to the Crossfield Drive Extension project and vacated full-time, permanent positions not being filled and/or filled with part-time employees, which in turn reduces the costs of benefits. Also, capital outlay expenditures budgeted for the Streetscape Phase III project were unexpended.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

General Fund Revenue-June 30, 2012



General Fund Expenditures-June 30, 2012



Budget Highlights

Overall, expenses of both governmental activities and business-type activities remained slightly unchanged in 2012 from 2011. In part, this displays that all department heads were fiscally responsible with their budgets as originally adopted. Some exceptions to that were overtime for police and fire departments, which drove up retirement contributions. Also, not all budgeted for capital expenditures were made and/or completed.

The City budgeted \$9.1 million in revenues for 2012 and generated \$9.7 million. Licenses and permits revenue showed an increase of \$269,871, in part, as a result of an increase in occupational tax from 1.0% to 1.5%. Intergovernmental revenues increased by \$520,400 mainly attributable to the Crossfield Drive project and Police Asset Forfeiture revenue received, which was an unknown revenue source amount at the time the budget was prepared.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

Table A-4
General Fund - Budget & Actual

	Budget	Actual	Difference Favorable (Unfavorable)
Revenues			
Taxes	\$ 559,000	\$ 562,947	\$ 3,947
Licenses and permits	5,179,000	5,448,871	269,871
Intergovernmental revenues	2,247,086	2,767,486	520,400
Charges for services	68,000	71,166	3,166
Other income	1,023,125	846,716	(176,409)
Total Revenues	<u>\$ 9,076,211</u>	<u>\$ 9,697,186</u>	<u>\$ 620,975</u>
Expenditures			
General government	\$ 1,496,651	\$ 1,400,473	\$ 96,178
Merged police operations	3,670,760	3,536,931	133,829
Other police operations/grants	-	77,475	(77,475)
911 communications	644,690	621,942	22,748
Fire department	969,430	952,736	16,694
Street department	1,281,240	754,714	526,526
Cemetery department	317,000	284,986	32,014
Capital outlay	933,176	1,380,252	(447,076)
Debt service	53,984	79,431	(25,447)
Total Expenditures	<u>\$ 9,366,931</u>	<u>\$ 9,088,940</u>	<u>\$ 277,991</u>

The City budgeted \$9.4 million in expenditures, but actually expended only \$9.1. Contributing factors to expenses being decreased as a whole was partly due to salaries and benefits being below their budgeted amounts, as well as several large line-item expenses in the various departments that were under budget, which would indicate that each department was conservative in administering their fiscal year budgets.

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

Table A-5
Enterprise Fund - Revenue - Budget & Actual

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Charges for Services	\$ 5,701,500	\$ 6,075,625	\$ 374,125
Grants/Bond Sources	1,540,000	1,750,046	210,046
Interest Income	14,000	50,576	36,576
Other Income	<u>66,000</u>	<u>96,586</u>	<u>30,586</u>
Total Revenues	<u>\$ 7,321,500</u>	<u>\$ 7,972,833</u>	<u>\$ 651,333</u>

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

Table A-6
Enterprise Fund - Water Department Expenditures - Budget & Actual

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Salaries	\$ 546,700	\$ 538,340	\$ (8,360)
Payroll Taxes	42,900	40,869	(2,031)
Employee benefits	155,225	148,523	(6,702)
Advertising and printing	6,500	7,545	1,045
Professional and technical	15,000	20,808	5,808
Repairs and maintenance	120,000	95,878	(24,122)
Utilities	300,000	362,715	62,715
Telephone and postage	22,500	16,936	(5,564)
Insurance	53,892	41,395	(12,497)
Chemicals	140,000	150,658	10,658
Uniforms	3,500	3,203	(297)
Motor fuel	25,000	25,574	574
Office supplies	3,000	4,480	1,480
Other materials	12,500	16,327	3,827
Other expenses	144,000	103,938	(40,062)
Purchase of water	12,000	14,914	2,914
Training/travel	5,000	6,720	1,720
Lab analysis	20,000	14,235	(5,765)
Purchase of water meters	20,000	8,370	(11,630)
Misc expense	<u>18,000</u>	<u>15,427</u>	<u>(2,573)</u>
Total Expenditures	<u>\$ 1,665,717</u>	<u>\$ 1,636,855</u>	<u>\$ (28,862)</u>

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

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

	Budget	Actual	Difference
Salaries	\$ 414,420	\$ 367,332	\$ (47,088)
Payroll Taxes	32,490	25,113	(7,377)
Employee benefits	115,865	96,485	(19,380)
Advertising and printing	3,000	7,253	4,253
Professional and technical	20,000	17,606	(2,394)
Repairs and maintenance	155,000	132,318	(22,682)
Utilities	160,000	191,744	31,744
Telephone and postage	20,700	13,424	(7,276)
Insurance	34,560	24,805	(9,755)
Chemicals	45,000	48,904	3,904
Uniforms	2,500	1,862	(638)
Motor fuel	19,000	23,450	4,450
Office supplies	1,400	1,456	56
Other materials	2,000	1,993	(7)
Other expenses	49,000	8,750	(40,250)
Sludge removal	85,000	86,816	1,816
Misc expense	42,000	8,455	(33,545)
Training/travel	3,000	5,662	2,662
Lab analysis	22,000	23,856	1,856
Dumpster collection	2,500	1,798	(702)
Total Expenditures	<u>\$ 1,229,435</u>	<u>\$ 1,089,082</u>	<u>\$ (140,353)</u>

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

Table A-8
Enterprise Fund - Sanitation Department Expenditures - Budget & Actual

	Budget	Actual	Difference
Salaries	\$ 208,700	\$ 212,955	\$ 4,255
Payroll Taxes	16,360	15,390	(970)
Employee benefits	63,200	54,127	(9,073)
Advertising and printing	2,000	5,521	3,521
Repairs and maintenance	20,000	32,065	12,065
Utilities	3,000	3,057	57
Telephone and postage	7,900	6,823	(1,077)
Insurance	23,760	20,383	(3,377)
Uniforms	2,000	2,150	150
Motor fuel	30,000	37,586	7,586
Other materials	3,000	3,158	158
Landfill expense	151,000	215,994	64,994
Total Expenditures	<u>\$ 530,920</u>	<u>\$ 609,209</u>	<u>\$ 78,289</u>

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.

Table A-9
Capital Assets at Year-End, Net of Depreciation (In Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 2.0	\$ 1.5	\$ 2.1	\$ 2.1	\$ 4.1	\$ 3.6
Buildings & improvements	0.9	1.0	27.9	27.2	28.8	28.2
Equipment	0.7	0.8	0.4	0.5	1.1	1.3
Vehicles	0.7	0.5	0.1	0.1	0.8	0.6
Construction in progress	3.1	2.4	16.6	15.5	19.7	17.9
Total Capital Assets	<u>\$ 7.4</u>	<u>\$ 6.2</u>	<u>\$ 47.1</u>	<u>\$ 45.4</u>	<u>\$ 54.5</u>	<u>\$ 51.6</u>

City of Versailles, Kentucky
Management's Discussion and Analysis (MD&A)(Continued)
June 30, 2012

Debt

Table A-10
Table A-10 provides a summary of all the City's outstanding indebtedness

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Notes payable	\$ -	\$ 0.02	\$ 1.48	\$ 1.58	\$ 1.48	\$ 1.60
Leases payable	0.34	-	-	-	0.34	-
Bonds payable	-	-	22.92	22.22	22.92	22.22
Total Debt Outstanding	<u>\$ 0.34</u>	<u>\$ 0.02</u>	<u>\$ 24.40</u>	<u>\$ 23.80</u>	<u>\$ 24.74</u>	<u>\$ 23.82</u>

Economic Factors and Next Year's Budget and Rates

The City's Finance Committee, Mayor and Council consider many factors when setting the fiscal year 2012-13 budget. Some of the contributing factors were the local economy and trend, anticipated grant revenues and related expenses, and the ever-rising costs of retirement and health insurance expenses. Also, all City personnel received a 3% cost of living increase for the first time in two years, which in turn increases salaries and benefits.

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

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

INDEPENDENT AUDITOR'S REPORT

J. Carroll Luby, CPA

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 November 17, 2012, 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.

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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.

Our audit was conducted for the purpose of forming opinions 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

November 17, 2012

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Unit
	Governmental	Business-type		Public
	Activities	Activities	Total	Properties
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,209,253	\$ 603,910	\$ 1,813,163	\$ 1,809
Investments	2,523,435	-	2,523,435	-
Accounts receivable (net)	1,407,312	828,953	2,236,265	-
Grants receivable	266,040	151,211	417,251	-
Current lease receivable (net)	-	-	-	427,080
Other receivables	215,313	-	215,313	-
Inventories	-	127,636	127,636	-
Internal balances	(1,204,542)	1,204,542	-	-
Total current assets	4,416,811	2,916,252	7,333,063	428,889
Noncurrent assets				
Restricted cash and cash equivalents	-	2,439,053	2,439,053	766,018
Restricted investments	-	1,451,957	1,451,957	-
Capital assets				
Construction in progress	2,974,961	16,604,751	19,579,712	-
Land and improvements	2,037,672	2,106,509	4,144,181	-
Plant and utility systems, net	-	28,417,364	28,417,364	-
Depreciable buildings, property, and equipment, net	2,341,733	-	2,341,733	-
Long term lease receivable (net)	-	-	-	5,249,134
Other assets	-	444,621	444,621	111,459
Total noncurrent assets	7,354,366	51,464,255	58,818,621	6,126,611
Total assets	\$ 11,771,177	\$ 54,380,507	\$ 66,151,684	\$ 6,555,500
LIABILITIES				
Current liabilities				
Accounts payable	\$ 390,231	\$ 464,730	\$ 854,961	\$ 21,571
Accrued leave payable	8,810	5,252	14,062	-
Accrued payroll liabilities	66,302	16,891	83,193	-
Other accrued liabilities	-	28,971	28,971	-
Accrued interest payable	13,440	51,773	65,213	45,044
Deposits	-	231,303	231,303	-
Deferred revenue	48,954	-	48,954	494,842
Current portion of long-term obligation	40,400	1,318,350	1,358,750	386,228
Total current liabilities	568,137	2,117,270	2,685,407	947,685
Noncurrent liabilities				
Noncurrent portion of long-term obligations				
Compensated absences	254,273	44,220	298,493	-
Bonds and notes payable	301,943	21,915,222	22,217,165	5,487,279
Total liabilities	1,124,353	24,076,712	25,201,065	6,434,964
NET ASSETS				
Invested in capital assets, net of related debt	7,012,023	23,073,511	30,085,534	-
Restricted for				
Debt service and construction	-	3,588,318	3,588,318	-
Other purposes	792,377	-	792,377	120,536
Unrestricted	2,842,424	3,641,966	6,484,390	-
Total net assets	10,646,824	30,303,795	40,950,619	120,536
Total liabilities and net assets	\$ 11,771,177	\$ 54,380,507	\$ 66,151,684	\$ 6,555,500

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2012

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	\$ 1,398,797	\$ -	\$ -	\$ -	\$ (1,398,797)	\$ -	\$ (1,398,797)	
Police operations	3,846,945	3,459	1,528,903	74,448	(2,240,135)	-	(2,240,135)	
Disptach	643,750	-	-	-	(643,750)	-	(643,750)	
Fire department	1,053,257	-	-	8,250	(1,045,007)	-	(1,045,007)	
Street department	1,063,675	-	178,937	1,155,885	271,147	-	271,147	
Cemetery	304,306	74,507	-	-	(229,799)	-	(229,799)	
Interest on long-term debt	21,550	-	-	-	(21,550)	-	(21,550)	
Total governmental activities	8,332,280	77,966	1,707,840	1,238,583	(5,307,891)	-	(5,307,891)	
Business type activities								
Utilities-Water, sewer & sanitation	4,916,353	6,170,031	-	1,750,046	-	3,003,724	3,003,724	
Total business-type activities	4,916,353	6,170,031	-	1,750,046	-	3,003,724	3,003,724	
Total primary government	\$ 13,248,633	\$ 6,247,997	\$ 1,707,840	\$ 2,988,629	(5,307,891)	3,003,724	(2,304,167)	
Component Unit								
Public Properties Corporation	\$ 574,565	\$ 307,949	\$ -	\$ -				\$ (266,616)

General revenue				
Taxes				
Property taxes, levied for general purposes	562,947	-	562,947	-
License fees				
Franchise	251,826	-	251,826	-
Payroll	3,380,805	-	3,380,805	-
Insurance premiums	1,426,912	-	1,426,912	-
Net profits	330,816	-	330,816	-
Occupational	58,512	-	58,512	-
E911 wireless funding fees	534,764	-	534,764	-
Investment earnings	56,715	50,576	107,291	225,980
Miscellaneous	286,478	-	286,478	-
Total general revenues	6,889,775	50,576	6,940,351	225,980
Transfers	-	-	-	-
Gain (loss) on disposal of assets	(21,904)	2,180	(19,724)	-
Total general revenues, transfers and gains (losses)	6,867,871	52,756	6,920,627	225,980
Change in Net Assets	1,559,980	3,056,480	4,616,460	(40,636)
Net assets-beginning	9,086,844	27,247,315	36,334,159	161,172
NET ASSETS-ENDING	\$ 10,646,824	\$ 30,303,795	\$ 40,950,619	\$ 120,536

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

CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,050,946	\$ 158,307	\$ 1,209,253
Investments	2,008,254	515,181	2,523,435
Accounts receivable, net	1,363,141	29,171	1,392,312
Other receivables	215,313	-	215,313
Grants receivable	266,040	-	266,040
Due from other funds	<u>-</u>	<u>191,628</u>	<u>191,628</u>
 Total Assets	 <u>\$ 4,903,694</u>	 <u>\$ 894,287</u>	 <u>\$ 5,797,981</u>
LIABILITIES			
Accounts payable	\$ 288,321	\$ 101,910	\$ 390,231
Accrued payroll liabilities	66,302	-	66,302
Compensated absences	8,810	-	8,810
Deferred revenue	48,954	-	48,954
Due to other funds	<u>1,396,170</u>	<u>-</u>	<u>1,396,170</u>
 Total Liabilities	 <u>1,808,557</u>	 <u>101,910</u>	 <u>1,910,467</u>
FUND BALANCE			
Fund Balance			
Restricted	-	792,377	792,377
Unassigned	<u>3,095,137</u>	<u>-</u>	<u>3,095,137</u>
 Total Fund Balance	 <u>3,095,137</u>	 <u>792,377</u>	 <u>3,887,514</u>
 Total Liabilities and Fund Balance	 <u>\$ 4,903,694</u>	 <u>\$ 894,287</u>	 <u>\$ 5,797,981</u>

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

Fund balances reported above \$ 3,887,514

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 7,354,366

Accrued interest on long term debt is not payable in the current period and
therefore is not reported in the funds. (13,440)

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. (596,616)

The accompanying notes are an integral
part of the financial statements. \$ 10,646,824

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 562,947	\$ -	\$ 562,947
Licenses and permits	5,448,871	-	5,448,871
Intergovernmental revenues	2,767,486	178,937	2,946,423
Charges for services	71,166	6,800	77,966
Other income	846,716	29,275	875,991
	<u>9,697,186</u>	<u>215,012</u>	<u>9,912,198</u>
Total Revenues			
	<u>9,697,186</u>	<u>215,012</u>	<u>9,912,198</u>
EXPENDITURES			
Current			
General government	1,400,473	-	1,400,473
Merged police operations	3,536,931	-	3,536,931
Other police operations/grants	77,475	-	77,475
911 communications	621,942	-	621,942
Fire department	952,736	-	952,736
Street department	754,714	151,270	905,984
Cemetery department	284,986	2,989	287,975
Capital outlay	1,380,252	-	1,380,252
Debt service	79,431	-	79,431
	<u>9,088,940</u>	<u>154,259</u>	<u>9,243,199</u>
Total Expenditures			
	<u>9,088,940</u>	<u>154,259</u>	<u>9,243,199</u>
Excess of Revenues Over (Under) Expenditures	608,246	60,753	668,999
Other Sources			
Transfers in (out)	17,284	(17,284)	-
Proceeds from sale of assets	53,420	-	53,420
	<u>70,704</u>	<u>(17,284)</u>	<u>53,420</u>
Net change in fund balances	678,950	43,469	722,419
Fund Balance, beginning of year	2,416,187	748,908	3,165,095
	<u>2,416,187</u>	<u>748,908</u>	<u>3,165,095</u>
Fund Balance end of year	<u><u>\$ 3,095,137</u></u>	<u><u>\$ 792,377</u></u>	<u><u>\$ 3,887,514</u></u>
Net change in fund balances			\$ 722,419
Add: Capital outlay			1,380,252
Add: Debt service			79,431
Less: Change in long term compensated absences			(13,273)
Less: Loss on disposal of capital asset			(73,358)
Less: Depreciation on governmental activities			(513,941)
Less: Interest on long term debt			(21,550)
			<u>(21,550)</u>
Change in net assets			<u><u>\$ 1,559,980</u></u>

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

**CITY OF VERSAILLES, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2012**

	Business Type Activities
	Water, Sewer & Sanitation
ASSETS	
Current assets	
Cash and cash equivalents	\$ 603,910
Accounts receivable, net	828,953
Grants receivable	151,211
Due from other funds	1,204,542
Inventory	<u>127,636</u>
Total current assets	<u>2,916,252</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	2,439,053
Investments	1,451,957
Construction in progress	16,604,751
Land	2,106,509
Property and equipment	41,616,153
Less accumulated depreciation	(13,198,789)
Bond issue costs, net	<u>444,621</u>
Total noncurrent assets	<u>51,464,255</u>
Total assets	<u>\$ 54,380,507</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 464,730
Accrued leave	5,252
Accrued payroll	16,891
Other accrued liabilities	28,971
Accrued interest	51,773
Deposits	231,303
Due to other funds	-
Current portion-long term debt	<u>1,318,350</u>
Total current liabilities	<u>2,117,270</u>
Noncurrent liabilities	
Compensated absences	44,220
Long term debt	<u>21,915,222</u>
Total noncurrent liabilities	<u>21,959,442</u>
Total liabilities	<u>24,076,712</u>
NET ASSETS	
Invested in capital assets, net of debt	23,073,511
Restricted for debt service and construction	3,588,318
Unrestricted	<u>3,641,966</u>
Total net assets	<u>30,303,795</u>
Total liabilities and net assets	<u>\$ 54,380,507</u>

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

CITY OF VERSAILLES, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
for the year ended June 30, 2012

	Business Type Activities
	Water, Sewer & Sanitation
OPERATING REVENUES	
Charges for services	\$ 6,075,625
Other revenues	94,406
	<u>6,170,031</u>
OPERATING EXPENSES	
Salaries	1,118,627
Payroll taxes	81,372
Employee benefits	299,135
Advertising and printing	20,319
Professional and technical	38,414
Repairs and maintenance	260,261
Utilities	557,516
Telephone and postage	37,183
Insurance	86,583
Chemicals	199,562
Technical supplies	1,456
Uniforms	7,215
Motor fuel	86,610
Office supplies	4,480
Other materials	21,478
Other expenses	136,570
Purchase of water	14,914
Landfill expense	215,994
Sludge removal	86,816
Depreciation and amortization	989,612
Training/travel	12,382
Lab analysis	38,091
Purchase of water meters	8,370
Dumpster collection	1,798
	<u>4,324,758</u>
Total operating expenses	
Operating income (loss)	<u>1,845,273</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	50,576
Interest expense	(591,595)
Gain on sale of assets	2,180
	<u>2,180</u>
(Deficiency) of nonoperating revenues over expenses	<u>(538,839)</u>
CAPITAL CONTRIBUTIONS	
Capital grant proceeds	<u>1,750,046</u>
Net income (loss)	3,056,480
Beginning net assets	<u>27,247,315</u>
NET ASSETS ENDING	<u>\$ 30,303,795</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, 2012

	Business Type Activities
	Water, Sewer & Sanitation
Cash flows from Operating Activities:	
Receipts from customers	\$ 6,043,697
Cash payments to employees	(1,512,817)
Internal activity - payments to other funds	(371,451)
Cash payments to others for services	(1,991,043)
Net cash provided by operating activities	<u>2,168,386</u>
Cash flows from capital and related financing activities:	
Purchase of construction in progress	(2,313,884)
Purchase of property, plant and equipment	(66,400)
Gain on sale of assets	(2,180)
Proceeds from sale of assets	23,178
Grant revenue	1,696,978
Payment of bond principal	(15,683,855)
Proceeds from issuance of revenue bonds	15,099,440
Interest expense	(919,500)
Net cash (used) by capital and related financing activities	<u>(2,166,223)</u>
Cash flows from investing activities:	
Sale of investments	1,157,596
Purchase of investments	(508,628)
Investment income	59,088
Net cash provided by in investing activities	<u>708,056</u>
Net increase (decrease) in cash and cash equivalents	<u>710,219</u>
Cash and cash equivalents July 1, 2011	<u>2,332,744</u>
Cash and cash equivalents June 30, 2012	<u><u>\$ 3,042,963</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 1,845,273
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	989,612
Changes in assets and liabilities:	
Receivables, net	(126,333)
Due from other funds	-
Inventory	(17,673)
Other assets	(43,958)
Accounts payable	(115,258)
Payroll liabilities	(13,684)
Other liabilities	21,858
Due to other funds	(371,451)
Net provided by operating activities	<u>\$ 2,168,386</u>
Reconciliation of total cash and cash equivalents	
Current assets - cash and cash equivalents	\$ 603,910
Restricted assets - cash and cash equivalents	<u>2,439,053</u>
Total cash and cash equivalents	<u><u>\$ 3,042,963</u></u>
Noncash capital assets purchased	<u>\$ 57,734</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, 2012

	Agency Fund	Private Purpose Trust	Totals
ASSETS			
Cash and cash equivalents	\$ 234,529	\$ -	\$ 234,529
Accounts receivable	-		-
Investments	-	85,931	85,931
Other receivables	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ 234,529	\$ 85,931	\$ 320,460
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Other liabilities	232,592	-	232,592
	<hr/>	<hr/>	<hr/>
Total liabilities	232,592	-	232,592
	<hr/>	<hr/>	<hr/>
NET ASSETS			
Held in trust for payroll and other purposes	\$ 1,937	\$ 85,931	\$ 87,868
	<hr/>	<hr/>	<hr/>

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, 2012

	Agency Fund	Private Purpose Trust	Totals
ADDITIONS			
Investment income	\$ 1,103	\$ 5,979	\$ 7,082
Total investment earnings	<u>1,103</u>	<u>5,979</u>	<u>7,082</u>
Less investment expense			
Trust fees	-	700	700
Transfers	-	2,062	2,062
Miscellaneous	<u>-</u>	<u>629</u>	<u>629</u>
Total investment expenses	<u>-</u>	<u>3,391</u>	<u>3,391</u>
Net investment earnings	<u>1,103</u>	<u>2,588</u>	<u>3,691</u>
Total additions	<u>1,103</u>	<u>2,588</u>	<u>3,691</u>
Beginning net assets	<u>834</u>	<u>83,343</u>	<u>84,177</u>
Ending net assets	<u>\$ 1,937</u>	<u>\$ 85,931</u>	<u>\$ 87,868</u>

The accompanying notes are an integral
part of the financial statements

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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 fund – 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, 2012

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 applied.

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, 2012

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 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, 2012

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

L. Fund Balances

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fund Balances (continued)

As of June 30, 2012 fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:			
Road surface repairs	\$ -	\$ 277,196	\$ 277,196
Cemetery permanent fund		515,181	515,181
Unassigned	<u>3,095,137</u>	<u>-</u>	<u>3,095,137</u>
Total fund balances	<u>\$ 3,095,137</u>	<u>\$ 792,377</u>	<u>\$ 3,887,514</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 their bill by the 25th of the month, their service is cutoff and is not reinstated until the individual pays a reconnect fee. Deposits are applied to customers' final bill and any unpaid balance after applying the deposit is fully reserved and carried on the books for a period of five years.

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, 2012

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 November 17, 2012, 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, 2012, 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, 2012 the City held investments in three municipal bonds. Ratings of the municipal bonds were as follows :

<u>Municipal Security</u>	<u>Rating</u>
New Jersey State Higher Education Assistance Authority	Aa3
Rhode Island State Economic Development Corp Bonds	Aa3
Morehead State University Build America Bonds	Aa3
Wayne County Michigan Taxable-LTD	SP-1

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 \$8,227,608 and the bank balances totaled \$8,272,503. As of June 30, 2012, \$6,579,017 was held as collateral by the custodial banks in the City's name.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 \$767,827, and the bank balances totaled \$776,185. As of June 30, 2012, \$586,736 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, 2012, 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	\$ 2,093,221	\$ 2,062,754	\$ 30,467	\$ -	\$ -
U.S. govt. obligations	6,083	6,083	-	-	-
Mutual funds	402,859	402,859	-	-	-
Municipal bonds	<u>1,473,229</u>	<u>925,420</u>	<u>547,809</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,975,392</u>	<u>\$ 3,397,116</u>	<u>\$ 578,276</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	\$ 37,017	\$ -	\$ 37,017
Licenses, permits, billings	1,316,889	-	1,316,889
Charges for Service	-	-	-
Intergovernmental	21,417	29,171	50,588
Other	<u>20,818</u>	<u>-</u>	<u>20,818</u>
Gross receivables	1,396,141	29,171	1,425,312
Less: allowance for uncollectible	<u>(33,000)</u>	<u>-</u>	<u>(33,000)</u>
Net receivables	<u>\$ 1,363,141</u>	<u>\$ 29,171</u>	<u>\$ 1,392,312</u>
Business Type Activities:	<u>Total</u>		
Customer	\$ 818,074		
Other	17,879		
Less: allowance for uncollectible	<u>(7,000)</u>		
Net receivables	<u>\$ 828,953</u>		

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

4. CAPITAL ASSETS

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

<u>Governmental activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ 1,529,735	\$ 580,437	\$ (72,500)	\$ 2,037,672
Construction in progress	2,389,639	1,165,759	(580,437)	2,974,961
Total	<u>3,919,374</u>	<u>1,746,196</u>	<u>(652,937)</u>	<u>5,012,633</u>
Capital assets being depreciated:				
Buildings and Improvements	2,924,821	9,880	(12,900)	2,921,801
Equipment	2,327,251	56,246	(35,155)	2,348,342
Vehicles	2,555,885	566,736	-	3,122,621
Total	<u>7,807,957</u>	<u>632,862</u>	<u>(48,055)</u>	<u>8,392,764</u>
Total capital assets	<u>11,727,331</u>	<u>2,379,057</u>	<u>(700,991)</u>	<u>13,405,397</u>
Less accumulated depreciation				
Buildings and improvements	1,952,848	101,025	(12,040)	2,041,833
Equipment	1,561,291	194,854	(35,155)	1,720,990
Vehicles	2,040,834	247,374	-	2,288,208
Total accumulated depreciation	<u>5,554,973</u>	<u>543,253</u>	<u>(47,195)</u>	<u>6,051,031</u>
Governmental activities capital assets, net	<u>\$ 6,172,358</u>	<u>\$ 1,835,804</u>	<u>\$ (653,796)</u>	<u>\$ 7,354,366</u>
<u>Business-Type Activities</u>				
Capital assets not depreciated:				
Land	\$ 2,106,509	\$ -	\$ -	\$ 2,106,509
Construction in progress	15,463,477	2,625,365	(1,484,091)	16,604,751
Total	<u>17,569,986</u>	<u>2,625,365</u>	<u>(1,484,091)</u>	<u>18,711,260</u>
Capital assets being depreciated:				
Buildings	15,576,265	19,300	(20,465)	15,575,100
Equipment	1,370,832	-	(21,157)	1,349,675
Vehicles	277,620	47,100	(83,119)	241,601
Improvements	22,923,811	1,525,965	-	24,449,776
Total	<u>40,148,528</u>	<u>1,592,365</u>	<u>(124,741)</u>	<u>41,616,152</u>
Total capital assets	<u>57,718,514</u>	<u>4,217,730</u>	<u>(1,608,832)</u>	<u>60,327,412</u>
Less accumulated depreciation				
Buildings	2,134,630	308,865	(20,465)	2,423,030
Equipment	915,234	89,122	(58,035)	946,321
Vehicles	175,199	20,974	(25,244)	170,929
Improvements	9,078,689	579,819	-	9,658,508
Total accumulated depreciation	<u>12,303,752</u>	<u>998,780</u>	<u>(103,744)</u>	<u>13,198,788</u>
Business-type activities capital assets, net	<u>\$ 45,414,762</u>	<u>\$ 3,218,950</u>	<u>\$ (1,505,088)</u>	<u>\$ 47,128,624</u>

Current year additions to construction in progress include capitalized interest of \$253,746.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

4. CAPITAL ASSETS (continued)

During 2012, the City reclassified certain capital assets into different categories. Total capital assets was not effected by the reclassification. The City transferred \$29,312 of fully depreciated capital assets to the General Fund from the Water and Sewer Fund.

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

Governmental activities:		Business-type activities:	
General government	\$ 9,735	Water	\$ 630,590
Police operations	237,088	Sewer	296,414
Dispatch	19,088	Sanitation	<u>29,901</u>
Fire department	109,623	Total	<u>\$ 956,905</u>
Street department	123,754		
Cemetery	<u>14,653</u>		
Total	<u>\$ 513,941</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 AND LEASES 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. The loan matured on December 13, 2011.

On January 14, 2011, the City entered into a lease agreement for a fire truck. The lease bears interest at a rate of 3.92% with principal and interest payments to be annually for a term of 8 years. The first lease payment was made on July 1, 2011 and the lease is scheduled to mature on July 1, 2018. The lease is collateralized by the fire truck. The book value of the fire truck at June 30, 2012 was \$353,392.

The annual requirements to amortize all notes and leases outstanding as of June 30, 2012, are as follows:

June 30	Principal	Interest	Total
2013	\$ 40,400	\$ 13,440	\$ 53,840
2014	41,986	11,854	53,840
2015	43,634	10,206	53,840
2016	45,347	8,493	53,840
2017	47,127	6,713	53,840
2018-2019	<u>123,849</u>	<u>7,801</u>	<u>131,650</u>
	<u>\$ 342,343</u>	<u>\$ 58,507</u>	<u>\$ 400,850</u>

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

5. LONG TERM DEBT (continued)

The changes in general long term debt during 2012 are as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Falling Springs Note	\$ 24,609	\$ -	\$ (24,609)	\$ -
Fire Truck Lease	-	389,055	(46,712)	342,343
Compensated Absences	<u>241,000</u>	<u>13,273</u>	<u>-</u>	<u>254,273</u>
Total	<u>\$ 265,609</u>	<u>\$ 402,328</u>	<u>\$ (71,321)</u>	<u>\$ 596,616</u>

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 July 14, 2011, the City issued \$6,460,000 of Water and Sewer Refunding Revenue Bonds, Series 2011 to advance refund previously issued 2001 Water and Sewer Revenue Bonds. The net proceeds of \$6,561,601 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase 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 2001 Series bonds. As a result, the 2001 Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The new issue will reduce debt service payments by \$662,674 and has a net economic gain of \$351,034.

On May 31, 2012, the City issued \$9,825,000 of Water and Sewer Revenue Refunding and Improvement Bonds, Series 2012. The proceeds were used to advance refund previously issued 2004 Water and Sewer Revenue Bonds and provide \$800,000 for construction associated with the Sewer System Evaluation Survey and Wastewater Plant Expansion projects. The net proceeds of \$8,831,935 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase 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 2004 Series bonds. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The new issue will reduce debt service payments by \$407,020 and has a net economic gain of \$347,073.

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 which began on July 1, 2011. A final balloon payment will be due on April 1, 2016. The \$50,000 note was paid in full on March 1, 2012.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

5. LONG TERM DEBT (continued)

At June 30, 2012, 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	2005	\$ 7,170,000	\$ 245,000
Revenue Bonds	2011	5,920,000	535,000
Revenue Bonds	2012	9,825,000	600,000
Note Payable (\$1,525,000)		<u>1,476,145</u>	<u>40,645</u>
Total payable at par		24,391,145	1,420,645
Less: unamortized defeasance costs		<u>(1,157,573)</u>	<u>(102,295)</u>
		23,233,572	<u>\$ 1,318,350</u>
Less: current portion payable		<u>(1,318,350)</u>	
Total long-term portion		<u>\$ 21,915,222</u>	

The annual requirements to amortize all revenue bonds and notes outstanding as of June 30, 2012, are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,420,645	\$ 658,930	\$ 2,079,575
2014	1,457,087	630,704	2,087,791
2015	1,483,579	600,724	2,084,303
2016	2,819,834	557,243	3,377,077
2017	1,500,000	490,373	1,990,373
2018-2022	8,095,000	1,866,147	9,961,147
2023-2026	<u>7,615,000</u>	<u>549,281</u>	<u>8,164,281</u>
	<u>\$ 24,391,145</u>	<u>\$ 5,353,402</u>	<u>\$ 29,744,547</u>

The changes in long term debt during 2012 are as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
W & S Revenue Bonds	\$ 22,215,001	\$ 16,285,000	\$ 15,585,001	\$ 22,915,000
Notes Payable	1,575,000	-	98,855	1,476,145
Compensated Absences	<u>57,000</u>	<u>-</u>	<u>12,780</u>	<u>44,220</u>
Total	<u>\$ 23,847,001</u>	<u>\$ 16,285,000</u>	<u>\$ 15,696,636</u>	<u>\$ 24,435,365</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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

5. LONG TERM DEBT (continued)

Water and Sewer Revenue Debt Reserve Account

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

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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

5. LONG TERM DEBT (continued)

At June 30, 2012, 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	\$ 4,495,000	\$ 300,000
Revenue Bonds	2006B	<u>1,475,000</u>	<u>95,000</u>
Total payable at par		5,970,000	395,000
Less: unamortized defeasance costs		<u>(87,721)</u>	<u>(8,772)</u>
		5,882,279	<u>\$ 386,228</u>
Less: current portion payable		<u>(395,000)</u>	
Total long-term portion		<u>\$ 5,487,279</u>	

The annual requirements to amortize all revenue bonds and leases outstanding as of June 30, 2012, are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	465,000	166,406	631,406
2018-2022	2,620,000	532,581	3,152,581
2023-2024	<u>1,210,000</u>	<u>56,442</u>	<u>1,266,442</u>
	<u>\$ 5,970,000</u>	<u>\$ 1,594,553</u>	<u>\$ 7,564,553</u>

The changes in long term debt during 2012 are as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
KCTCS Revenue Bonds	<u>\$ 6,350,000</u>	<u>\$ -</u>	<u>\$ 380,000</u>	<u>\$ 5,970,000</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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

6. PROJECT FINANCING (continued)

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>	
2013	\$ 637,020
2014	637,020
2015	637,020
2016	637,020
2017	637,020
2018-2022	3,185,100
2023	<u>637,020</u>
Net minimum lease payments	7,007,220
Less amount representing interest	<u>(1,331,006)</u>
Present value of minimum lease payments	<u>\$ 5,676,214</u>

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, 2012, 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, 2012, participating employers contributed 18.96% of each employee's wages for non-hazardous classifications and 35.76% 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.

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

7. RETIREMENT PLAN (continued)

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>
2012	\$ 1,571,386	100%
2011	\$ 1,496,888	100%
2010	\$ 1,527,304	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 \$50,682 to the plan.

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.

9. CONCENTRATIONS

The City has a concentration of revenue for occupational tax and water, sewer and sanitation. Five industrial companies generated approximately 50% of the City's occupational tax revenue. Three users generated approximately 23% of the utility operation's service revenue. Also, at June 30, 2012, approximately 16% of the utility operation's accounts receivable was due from three users.

10. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2012 were levied in September 2011 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

CITY OF VERSAILLES, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental funds	\$ 191,628	\$ 1,396,170
Business-type funds	<u>1,204,542</u>	<u>-</u>
	<u>\$ 1,396,170</u>	<u>\$ 1,396,170</u>

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. The agreement was renewed in March 2010. The 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	\$ 3,660,760	\$ 3,536,931	\$ 123,829
Police Capital	<u>150,000</u>	<u>149,533</u>	<u>467</u>
Total cost shared with County	<u>\$ 3,810,760</u>	<u>\$ 3,686,464</u>	<u>\$ 124,296</u>

14. SUBSEQUENT EVENTS

Effective September 1, 2012, the City privatized garbage collection. The City approved Legacy Carting, LLC to provide garbage collection for a four year period terminating on August 31, 2016. Legacy Carting, LLC will pay the City a franchise fee of \$3.00 per month for each customer within the City. Payments are to be quarterly beginning on December 1, 2012.

SUPPLEMENTAL INFORMATION

CITY OF VERSAILLES, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISONS
GENERAL FUND
for the year ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Property taxes	\$ 559,000	\$ 559,000	\$ 562,947	\$ 3,947
License and permits	5,179,000	5,179,000	5,448,871	269,871
Intergovernmental revenues	2,247,086	2,247,086	2,767,486	520,400
Charges for services	68,000	68,000	71,166	3,166
Other income	1,023,125	1,023,125	846,716	(176,409)
Total revenues	9,076,211	9,076,211	9,697,186	620,975
Expenditures				
Current				
General government	1,474,151	1,496,651	1,400,473	96,178
Merged police operations	3,670,760	3,670,760	3,536,931	133,829
Other police operations/grants	-	-	77,475	(77,475)
911 communications	644,690	644,690	621,942	22,748
Fire department	969,430	969,430	952,736	16,694
Street department	1,281,240	1,281,240	754,714	526,526
Cemetery department	317,000	317,000	284,986	32,014
Capital outlay	933,176	933,176	1,380,252	(447,076)
Debt service	53,984	53,984	79,431	(25,447)
Total expenditures	9,344,431	9,366,931	9,088,940	277,991
Excess of Revenues Over (Under) Expenditures	(268,220)	(290,720)	608,246	898,966
Other Financing Sources (uses)				
Proceeds from Sale of Assets	-	-	53,420	53,420
Transfers	-	-	17,284	17,284
Total Other Financing Sources (uses)	-	-	70,704	70,704
Excess of Revenues and Other Sources Over (Under) Expenditures	(268,220)	(290,720)	678,950	969,670
Fund Balance July 1, 2011	2,416,187	2,416,187	2,416,187	-
Fund Balance June 30, 2012	\$ 2,147,967	\$ 2,125,467	\$ 3,095,137	\$ 969,670

CITY OF VERSAILLES, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
ASSETS			
Cash and cash equivalents	\$ 158,307	\$ -	\$ 158,307
Investments	-	515,181	515,181
Accounts receivable	29,171	-	29,171
Due from other funds	<u>191,628</u>	<u>-</u>	<u>191,628</u>
 Total Assets	 <u>\$ 379,106</u>	 <u>\$ 515,181</u>	 <u>\$ 894,287</u>
LIABILITIES			
Accounts payable	\$ 101,910	\$ -	\$ 101,910
Accrued liabilities	-	-	-
Compensated absences	-	-	-
Deferred revenue	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
 Total Liabilities	 <u>101,910</u>	 <u>-</u>	 <u>101,910</u>
FUND BALANCE			
Restricted	277,196	515,181	792,377
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>
 Total Fund Balance	 <u>277,196</u>	 <u>515,181</u>	 <u>792,377</u>
 Total Liabilities and Fund Balance	 <u>\$ 379,106</u>	 <u>\$ 515,181</u>	 <u>\$ 894,287</u>

CITY OF VERSAILLES, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2012

	Municipal Road Aid Fund	Permanent Fund	Total Non-Major Governmental
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental revenues	178,937	-	178,937
Charges for services	-	6,800	6,800
Other income	<u>421</u>	<u>28,854</u>	<u>29,275</u>
			-
Total Revenues	<u>179,358</u>	<u>35,654</u>	<u>215,012</u>
EXPENDITURES			
General government	-	-	-
Police department	-	-	-
Fire department	-	-	-
Street department	151,270	-	151,270
Cemetery department	-	2,989	2,989
Program expenses	-		-
Debt Service	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>151,270</u>	<u>2,989</u>	<u>154,259</u>
Excess of Revenues Over (Under) Expenditures	<u>28,088</u>	<u>32,665</u>	<u>60,753</u>
Other Sources			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>(17,284)</u>	<u>(17,284)</u>
			-
Total Other Sources	<u>-</u>	<u>(17,284)</u>	<u>(17,284)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures	28,088	15,381	43,469
Fund Balance-July 1, 2011	<u>249,108</u>	<u>499,800</u>	<u>748,908</u>
Fund Balance--June 30, 2012	<u>\$ 277,196</u>	<u>\$ 515,181</u>	<u>\$ 792,377</u>

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

<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>
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>\$ 7,170,000</u>	<u>\$ 1,422,970</u>	<u>\$ 1,282,604</u>	<u>\$ 9,875,574</u>

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

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal Payable by December 1</u>	<u>Interest Payable by December 1</u>	<u>Interest Payable by June 1</u>	<u>Total Principal and Interest</u>
2012-13	2.000%	\$ 535,000	\$ 73,538	\$ 68,188	\$ 676,725
2013-14	2.000%	545,000	68,188	62,738	675,925
2014-15	2.000%	560,000	62,738	57,138	679,875
2015-16	2.000%	565,000	57,138	51,488	673,625
2016-17	2.000%	580,000	51,488	45,688	677,175
2017-18	2.500%	590,000	45,688	38,313	674,000
2018-19	2.500%	610,000	38,313	30,688	679,000
2019-20	3.000%	625,000	30,688	21,313	677,000
2020-21	3.000%	645,000	21,313	11,638	677,950
2021-22	3.500%	<u>665,000</u>	<u>11,638</u>	<u>-</u>	<u>676,638</u>
Totals		<u>\$ 5,920,000</u>	<u>\$ 460,725</u>	<u>\$ 387,188</u>	<u>\$ 6,767,913</u>

**CITY OF VERSAILLES, KENTUCKY
ENTERPRISE FUND
WATER AND SEWER REVENUE REFUNDING AND
IMPROVEMENT BOND AMORTIZATION SCHEDULE
SERIES OF 2012**

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Payable by December 1</u>	<u>Interest Payable by June 1</u>	<u>Total Principal and Interest</u>
2012-13	1.000%	\$ 600,000	\$ 96,733	\$ 93,199	\$ 789,932
2013-14	1.000%	615,000	93,199	90,124	798,323
2014-15	1.500%	615,000	90,124	85,511	790,635
2015-16	1.500%	630,000	85,511	80,786	796,298
2016-17	1.500%	635,000	80,786	76,024	791,810
2017-18	1.500%	645,000	76,024	71,186	792,210
2018-19	2.000%	655,000	71,186	64,636	790,823
2019-20	2.000%	675,000	64,636	57,886	797,523
2020-21	2.000%	685,000	57,886	51,036	793,923
2021-22	2.250%	700,000	51,036	43,161	794,198
2022-23	2.375%	1,090,000	43,161	30,218	1,163,379
2023-24	2.600%	1,125,000	30,218	15,593	1,170,810
2024-25	2.700%	<u>1,155,000</u>	<u>15,593</u>	<u>-</u>	<u>1,170,593</u>
Totals		<u>\$ 9,825,000</u>	<u>\$ 856,093</u>	<u>\$ 759,360</u>	<u>\$ 11,440,453</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>
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>\$ 4,495,000</u>	<u>\$ 630,992</u>	<u>\$ 540,801</u>	<u>\$ 5,666,793</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>
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>\$ 1,475,000</u>	<u>\$ 211,389</u>	<u>\$ 211,389</u>	<u>\$ 1,897,778</u>



Certified Public Accountants and Consultants

**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**

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

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, 2012, which collectively comprise the City of Versailles, Kentucky's basic financial statements and have issued our report thereon dated November 17, 2012. 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

Management of City of Versailles, Kentucky, is responsible for establishing and maintaining effective 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.

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**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 (continued)**

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Versailles, Kentucky, in a separate letter dated November 17, 2012.

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
November 17, 2012



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**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**

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

Honorable Fred Siegelman, 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, 2012. 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 on 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, 2012.

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.

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**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 (continued)**

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
November 17, 2012

CITY OF VERSAILLES, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

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	\$ 780,104 *
Department of Transportation State and Community Highway Safety Cluster (Note 2)	20.600	PT-11-46 and OP-12-37	24,747
Department of Homeland Security Hazard Mitigation Grant (Note 1)	97.039	DR-1757-0004	64,970
U.S. Department of Justice Equitable Sharing Program	16.922	n/a	<u>68,797</u>
Total Department of Homeland Security			
Total Federal Financial Assistance			<u><u>\$ 938,618</u></u>

***Denotes Major Program**

Notes:

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

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Versailles 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, 2012

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>
10.923	Emergency Watershed Protection Program

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

NONE

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 28th day of January, 2014 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 \$5,710,000 of the City's Water and Sewer Revenue Bonds, Series of 2014, dated January 28, 2014 ("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 fifteen (15) 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 other material event affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond call, if material, and tender offers;
- (9) Defeasance;
- (10) Release, substitution or sale of property securing the repayment of the security, if material;
- (11) Rating change;
- (12) Merger/consolidation/acquisition and sale of all or substantially all assets, if material;
- (13) Bankruptcy, insolvency, receivership or similar event
- (14) Successor, additional or change in trustee, if material, and
- (15) Failure to provide event filing information as required.

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.

The Clerk/Treasurer of the City shall be the responsible person for filing the annual financial information and/or notices of the events set forth above within the time prescribed in this Agreement. The City shall cause the Finance Officer to institute an internal tickler system as a reminder of the obligations set forth herein. By December 1 of each fiscal year and each 30 days thereafter the Finance Officer will contact the auditor for the City to determine when the audited financial statements will be finalized. The Finance Officer will impress upon the auditor the necessity of having such audited financial report on or before March 15. Within 5 days of receipt of such audited financial report the finance officer will cause the annual financial information to be filed as required by this Agreement.

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

\$5,710,000* City of Versailles (Kentucky) Water and Sewer Revenue Bonds, Series of 2014 Dated January 28, 2014

DATE OF SALE: 11:00 A.M., E.S.T., JANUARY 14, 2014

As advertised in The Courier-Journal, published in Louisville, Kentucky, the City of Versailles, Kentucky, will until January 14, 2014, at the hour of 11:00 A.M., E.S.T., in the office of the City Clerk, City Hall, Versailles, Kentucky 40383, receive competitive bids for the Water and Sewer Revenue Bonds, Series of 2014, dated January 28, 2014 ("Bonds" or "Series 2014 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 \$570,000.

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 2014 Bonds will rank on the basis of parity as to security and source of payment with the City's outstanding Water and Sewer Refunding and Improvement Revenue Bonds, Series of 2011, Water and Sewer Refunding and Improvement Revenue Bonds, Series of 2012 and Water and Sewer Refunding Revenue Bonds, Series of 2013 ("Outstanding Bonds"). Prior to the delivery of the Series 2014 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 2014 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 2014 Bonds.

THE BONDS

The Bonds shall be in denominations in multiples of \$5,000 within the same maturity, bearing interest from January 28, 2014, payable June 1, 2014 and semiannually thereafter, maturing on December 1 in each of the years as follows:

<u>YEAR</u>	<u>PRINCIPAL MATURITIES</u>
2026	\$620,000
2027	640,000
2028	670,000
2029	695,000
2030	725,000
2031	755,000
2032	785,000
2033	820,000

The Bonds shall be subject to redemption by the City prior to maturity, in whole or in part, in the inverse order of their maturities (less than all of a single maturity to be selected by lot), on any date, on or after December 1, 2023, 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.

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.

BOND PROCEEDS FOR SYSTEM IMPROVEMENTS

The proceeds of these Series 2014 Bonds will be applied to improvements to the sewer system portion of the System and related plant improvements.

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 \$5,595,800 (98% 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

No assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax exemption of such interest. In addition, current and future legislative proposals, if enacted into law, may cause interest on state or local government bonds (whether issued before, on the date of, or after enactment of such legislation) to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the amount of interest on such bonds that may currently be treated as tax exempt by certain individuals. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the IRS, including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds or obligations which present similar tax issues, will not affect the market price for the Bonds.

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, 2014, 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 January 14, 2014, at the hour of 11:00 A.M., E.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 \$5,710,000* Water and Sewer Revenue Bonds, Series of 2014, dated January 28, 2014 ("Bonds" or "Series 2014 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 \$5,710,000* principal amount of Bonds, the total sum of \$_____ (not less than \$5,595,800 or 98% of par), plus accrued interest from January 28, 2014, at the following annual rate(s), payable semiannually beginning June 1, 2014 (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>
2026	\$620,000	_____ %
2027	640,000	_____ %
2028	670,000	_____ %
2029	695,000	_____ %
2030	725,000	_____ %
2031	755,000	_____ %
2032	785,000	_____ %
2033	820,000	_____ %

*The Bonds are offered subject to a Permitted Adjustment increasing or decreasing the principal amount of Bonds awarded by up to \$570,000.

It is understood that the City will furnish the final, approving Legal Opinions of Steptoe & Johnson PLLC, Bond Counsel, Louisville, Kentucky.

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

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

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

No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer an amount equal to 2% of the principal amount of Bonds awarded by the close of business on the date following the award. Said good faith amount will be applied (without interest) to the purchase price on delivery. Wire transfer procedures should be arranged through 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 January 28, 2014.

Respectfully submitted,

Bidder

By _____
Authorized Officer (Signature)

Address

Total interest cost from January 28, 2014 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>
2026	_____,000	_____ %
2027	_____,000	_____ %
2028	_____,000	_____ %
2029	_____,000	_____ %
2030	_____,000	_____ %
2031	_____,000	_____ %
2032	_____,000	_____ %
2033	_____,000	_____ %

Dated: January 14, 2014.

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