

**NEW ISSUE  
BANK QUALIFIED**

**Moody's Rating: "\_\_\_"**

In the opinion of Wyatt, Tarrant & Combs, LLP, Special Counsel, interest on the Certificates is excludable from gross income for purposes of federal income taxation under existing laws, regulations and judicial decisions, subject to the conditions described in "TAX MATTERS" herein, and interest on the Certificates is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, under the Code, such interest may be subject to certain other taxes affecting holders of the Certificates. Interest on the Certificates is exempt from income taxation by the Commonwealth of Kentucky and the Certificates are exempt from ad valorem taxation by the Commonwealth of Kentucky and any political subdivision thereof. For a more complete discussion, see "TAX MATTERS" herein.

**BOOK-ENTRY-ONLY SYSTEM**

**PRELIMINARY OFFERING CIRCULAR  
Relating to the Original Sale and Delivery of  
\$1,045,000\*  
CERTIFICATES OF PARTICIPATION  
(City of Shelbyville, Kentucky General Obligation Improvement Project), Series 2002  
Evidencing Proportionate Interest in Rental Payments  
to be Paid by The City of Shelbyville, Kentucky**

**Dated: October 1, 2002**

**Due: October 1, as shown below**

The Certificates constitute proportionate interests in Rental Payments to be paid by the City of Shelbyville, Kentucky (the "City"), a municipal corporation and political subdivision of the Commonwealth of Kentucky (the "State"), under a Lease/Purchase Agreement dated as of October 1, 2002 (the "Lease") with Kentucky Municipal Finance Corporation ("Lessor"). The Lessor's rights (including rights to rental payments) and interest under the Lease will be assigned to Central Bank & Trust Company, Lexington, Kentucky (the "Trustee").

The Certificates are payable primarily from rental payments to be paid by the City to the Trustee as assignee of all rights of the Lessor under the Lease. **The City is not a party to the Certificates.**

**THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE IS DESCRIBED HEREIN UNDER "SECURITY FOR AND SOURCES OF PAYMENT OF THE CERTIFICATES". THE RENTAL PAYMENTS ARE THE SOURCE OF PAYMENT TO HOLDERS OF THE CERTIFICATES AND CONSTITUTE A GENERAL OBLIGATION OF THE CITY. THE FULL FAITH AND CREDIT OF THE CITY IS PLEDGED TO THE PAYMENT OF RENTAL PAYMENTS DUE UNDER THE LEASE.**

The Certificates 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 Certificates. Purchasers will not receive certificates representing their ownership interest in the Certificates. Accordingly, principal, interest and premium, if any, on the Certificates will be paid by Central Bank & Trust Co., Lexington, Kentucky, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Certificates. The Certificates will be issued in denominations of \$5,000 each or integral multiples thereof, and will bear interest payable on April and October 1 of each year, commencing April 1, 2003.

The Certificates are subject to optional redemption prior to maturity as described herein.

**SCHEDULE OF MATURITIES**

<u>Due</u> <u>October 1</u>	<u>Cusip #</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Due</u> <u>October 1</u>	<u>Cusip #</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>
2003		\$35,000			2013		\$50,000		
2004		35,000			2014		55,000		
2005		40,000			2015		55,000		
2006		40,000			2016		60,000		
2007		40,000			2017		60,000		
2008		40,000			2018		65,000		
2009		45,000			2019		65,000		
2010		45,000			2020		70,000		
2011		45,000			2021		75,000		
2012		50,000			2022		75,000		

The Certificates are offered when, as, and if executed and delivered by the Trustee, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approval of legality by Wyatt, Tarrant & Combs, LLP, Louisville, Kentucky, Special Counsel and certain other conditions. It is expected that delivery of the Certificates will be made against payment therefor in Shelbyville, Kentucky, on or about October 30, 2002. The underwriter anticipates that the Certificates will be eligible for the services of The Depository Trust Company.

\*Preliminary, Subject to Permitted Adjustment

**FIRST KENTUCKY SECURITIES CORPORATION**

Date: October 10, 2002

This Offering Circular does not constitute an offering of any securities other than the offering of the Certificates identified on the cover hereof. No dealer, broker, salesman or any other person has been authorized to give any information or to make any representations, other than those contained in this Offering Circular and, if given or made, such other information or representations must not be relied upon as having been authorized. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities offered hereby or any offer or solicitation of such offer of the securities offered hereby to any person in any jurisdiction where such offer or solicitation of such offer or sale of such securities would be unlawful. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Offering Circular nor the sale of any of the Certificates shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date of this Offering Circular.

Information herein has been obtained by the Underwriter from the City, the Lessor, the Trustee and other sources believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter.

Upon execution and delivery, the Certificates will not be registered under the Securities Act of 1933, as amended, or any state securities laws, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency will have passed upon the accuracy or adequacy of this Offering Circular or approved the Certificates for sale.

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**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECET TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SAID STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## PRELIMINARY OFFERING CIRCULAR

**\$1,045,000\***

### CERTIFICATES OF PARTICIPATION

**(City of Shelbyville, Kentucky General Obligation Improvement Project), Series 2002**

#### INTRODUCTION

The purpose of this Offering Circular is to provide information in connection with the sale and delivery of Certificates of Participation (City of Shelbyville, Kentucky General Obligation Improvement Project), Series 2002 in the aggregate principal amount of \$1,045,000\* (the "Certificates"). The Certificates represent proportionate interest of the registered owners (the "Owners") thereof in certain rental payments (the "Rental Payments") to be made by the City of Shelbyville, Kentucky (the "City"), a municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), as rental for a new Police Station (the "Project")

Under the Lease/Purchase Agreement dated as of October 1, 2002 (the "Lease") between the Kentucky Municipal Finance Corporation (the "Lessor") and the City, the Project will be leased by the Lessor to the City in consideration for the City's payment of the Rental Payments.

By the Lease Assignment Agreement dated as of October 1, 2002 (the "Assignment"), the Lessor will assign to Central Bank & Trust Company, Lexington, Kentucky, as trustee (the "Trustee"), all of its right, title and interest under the Lease (including rights to Rental Payments) and in the Project.

The Certificates will be executed and delivered by the Trustee pursuant to the Trust Agreement dated as of October 1, 2002 (the "Trust Agreement") between the Lessor and the Trustee.

The Lease is executed through and including October 1, 2022. The Rental Payments scheduled to be paid by the City under the Lease, including amounts available from the proceeds of the Certificates are designed to be sufficient in both time and amount to pay when due the principal of and interest on the Certificates (the "Certificate Payments").

The City's obligation to make Rental Payments constitutes a general obligation of the City, secured by an irrevocable pledge of the full faith, credit and taxing power of the City. For a further discussion of these and related matters, see "Security for and Sources of Payment of the Certificates".

The Lessor makes no representation regarding, nor has the Lessor participated in the preparation of this Offering Circular other than the information supplied by the Lessor and presented under the heading "The Lessor".

#### THE CERTIFICATES OF PARTICIPATION

##### General Provisions

The Certificates will be dated October 1, 2002, will mature on October 1, in the years and in the principal amounts, and bear interest from October 1, 2002 at the rates per annum, shown on the cover page. Interest will be payable on April 1 and October 1 of each year beginning April 1, 2003 (the "Payment Dates").

The City is not a party to the Certificates.

##### Book Entry

The following information regarding DTC and Cede & Co. will be applicable to the Certificates as long as a book entry system is utilized. Neither the City nor the Lessor assumes any responsibility for the accuracy or completeness of the information set forth under this caption "Book Entry", and neither is required to supervise, and will not supervise, the operation of the book entry system described herein.

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\*Preliminary, Subject to Permitted Adjustment

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

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

Neither the City nor the Lessor has any responsibility or liability for any aspects of the records relative to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership.

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

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

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

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

None of the City, the Lessor or the Paying Agent and Registrar represent or give any assurances that DTC, the DTC Participants or Indirect Participants or others will distribute payments of debt service charges on the Certificates paid to DTC or its nominee, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Offering Circular.

Certificates may be exchanged for Certificates of the same maturity of other authorized denominations, upon surrender together with a written instrument satisfactory to the Trustee executed by the Owner or his authorized attorney.

The Certificates are transferable only upon the Certificate Register maintained by the Trustee upon surrender of the Certificates to be transferred together with a written instrument satisfactory to the Trustee executed by the Owner or his authorized attorney. Upon transfer, the Trustee will provide, in the name of the transferee, a new Certificate or Certificates of the same maturity in the same aggregate unpaid principal amount as the surrendered Certificates.

**Optional Redemption**

Certificates maturing on or after October 1, 2013 are subject to optional redemption prior to maturity in whole or in part, after the exercise by the City of its option under the Lease to purchase the Project, on any date on or after October 1, 2012, at the following price, expressed as percentages of the principal amount to be redeemed, plus accrued interest to the redemption date:

<u>If Redeemed On</u>	<u>Redemption Price</u>
October 1, 2012 and thereafter	100.00%

The Certificates are also subject to redemption at the option of the City on any date in whole, but not in part, if the Project shall have been damaged or destroyed or title to or temporary use of the Project shall be taken by any governmental body or by any person, firm or corporation acting under governmental authority. The redemption price in such event shall be 100% of the amount of outstanding Certificates plus accrued interest to the date of redemption.

**Notice of Redemption**

The Trustee will give to the Owners of Certificates called for prior redemption notice of redemption, specifying the Certificates (or portions thereof in amounts of \$5,000 or any integral multiple thereof) to be redeemed, the redemption price, redemption date and the place or places of payment of the redemption price. Notice of redemption will be given to the Owners by mailing copies of the notice first class, postage prepaid, at least 30 days prior to the redemption date, to their addresses appearing on the Certificate Register.

On the specified redemption date the principal of and interest on each Certificate called for redemption will become due and payable, and, if moneys are available on that date for that purpose, from and after the redemption date interest on the Certificates called for redemption will cease to accrue.

**Defeasance**

The Certificates may be defeased at any time upon a deposit by the City with the Trustee of moneys or certain obligations sufficient to make all Certificate Payments to and including the redemption date. See "Trust Agreement/Defeasance".

**SECURITY FOR AND SOURCES OF PAYMENT OF THE CERTIFICATES**

Each Certificate represents a proportionate interest in the right to receive Rental Payments made by the City under the Lease. The holders of the Certificates will have a separate and distinct pledge of payments under the Lease. The amounts payable under the Lease are pledged as security for all the Certificates. Pursuant to the Constitution of the Commonwealth and Chapter 66 of the Kentucky Revised Statutes, as amended (the "General Obligation Statutes"), the obligation of the City created by the lease is a full general obligation of the City and, for the prompt payment of the Rental Payments, the full faith, credit and revenue of the City are pledged. During the period the Lease is outstanding, the City has agreed to levy on all the taxable property in the City, in addition to all other taxes, without limitation as to rate, a direct tax annually in an amount sufficient to pay the Rental Payments on the Lease when and as due. Provided, however, that in each year to the extent that the other taxes of the City are available for the payment of the Rental Payments and are appropriated for such purpose, the amount of such direct tax upon all of the taxable property in the City shall be reduced by the amount of such other taxes so available and appropriated.

Information concerning the City and the General Fund is contained in Appendix C and in the Financial Information of the City attached hereto as Appendix D.

By the Assignment, the Lessor has assigned, without recourse, its right to receive Rental Payments to the Trustee for the benefit of the Owners of the Certificates.

Due to the specialized design of the Project, its location and zoning and other restrictions relating to the use of City land, it may be difficult for the Trustee to relet the Project and, even if the Project is subleased or sold, the amount derived from such reletting may be insufficient to pay all principal of and interest on the Certificates outstanding at the time of any such event. Furthermore, the Trustee may not sublease or sell the Project if such reletting would cause the interest on the Certificates to be includable in gross income for federal income tax purposes.

## THE PROJECT

The Project consists of the construction of a new Police Station. The station is to be a 5,500 square foot, two-story building, constructed of load bearing masonry, steel joist, metal decking, slab-on-grade first floor and poured concrete slab for the second floor. The following is a list of other items included in the project.

- Historic Restoration of an existing structure.
- Site work including site clearing and building demolition.
- Site utility work.
- Extensive masonry work, both new load bearing CMU and brick detailing along with masonry restoration.
- Bullet resistant materials, such as glazing and fiber mesh board.
- Standing seam roofing.
- Interior metal stud partitions with gypsum wallboard and limited use of abuse resistant gypsum wallboard.
- Lighting, electrical, HVAC, & plumbing systems
- Emergency generator.

### Lease Period

The Lease will commence on October 1, 2002 and terminate on October 1, 2022.

### Rental Payments

Under the Lease, the City is required to make semi-annual Rental Payments directly to the Trustee on each April 1 and October 1 while the Lease Term is in effect (the "Rental Payment Dates"), commencing April 1, 2003. Each Rental Payment is to be in an amount sufficient, together with other money on deposit with the Trustee in the Rental Payment Fund to be credited as Rental Payments, to pay the principal and interest due on the Certificates on the next Payment Date, in accordance with the schedule set forth in Appendix B.

If paid throughout the Lease Term, the Rental Payments provided for in the Lease will be sufficient in both time and amount to pay the principal of and interest on the Certificates, when due.

## ESTIMATED SOURCES AND USES OF FUNDS

The aggregate proceeds to be received from the sale of the Certificates (exclusive of accrued interest) and certain income estimated to be received from the investment of the Trust Funds held by the Trustee under the Trust Agreement are to applied as follows:

### Sources of Funds

Certificate Proceeds

Total

### Uses of Funds

Construction  
Costs of Issuance  
Underwriter's Discount  
Miscellaneous Surplus

Total



## **THE LESSOR**

The Lessor, a Kentucky non-profit, non-stock corporation headquartered in Lexington, Kentucky, was incorporated in 1987. The primary focus of the Lessor's activities is providing assistance to municipal corporations with the financing of public projects. The Lessor will enter into the Lease with the City pursuant to which the Project will be financed and leased to the City.

In consideration for the payment by the Trustee of the proceeds of the sale of the Certificates, the Lessor will, by the Assignment and the Trust Agreement, assign its rights, title and interests under the Lease and in the Project to the Trustee. The Lessor is not financially liable for the Rental Payments, and Owners of the Certificates will have no right to look to the Lessor for payment of the Certificates.

## **LEASE**

The following summarizes certain provisions of the Lease, to which reference is made for its detailed provisions. Certain provisions of the Lease are also described under "Security for and Sources of Payment of the Certificates". The parties identified who will perform the obligations and have the rights of "Lessor" under the Lease are the parties to whom these obligations and rights are assigned under the Assignment.

### **General**

The Lease has been entered into by the Lessor and the City as lessee. The Lease contains the terms and conditions under which the Project is leased to the City.

Simultaneously with the execution of the Lease, the Lessor has by the Assignment assigned to the Trustee, without recourse, its rights, title and interests under the Lease and in the Project, including but not limited to the right to receive Rental Payments and to exercise such rights and remedies of Lessor as may be necessary to enforce payment of the Rental Payments when due or to otherwise protect the interests of the Owners of the Certificates.

While the Lease is in effect, the Trustee, as assignee of the Lessor, will retain a leasehold interest in the Project Site. Title to the Project, during the Lease Term will be retained by the City. All of the Trustee's right, title and interest in the Project will be transferred to the City when and if the City exercises its option to purchase the Project or if the City makes all Rental Payments due under the Lease. The City will then have title to the Project free and clear of the security interests granted under the Lease. Under the Lease, the City may purchase the Project under certain conditions as described under the heading "Lease--Option to Purchase".

### **Lease Term**

The Lease will terminate upon the earliest of the following events:

- (a) The payment by the City of all Rental Payments required to be paid by the City under the Lease; or
- (b) A default by the City under the Lease and termination of the Lease as hereinafter described (see "Remedies"); or
- (c) Exercise by the City of its option to purchase the Project; or
- (d) An event of non-appropriation by the City.

The City agrees, if the Lease is terminated following an Event of Default under the Lease, to peaceably surrender possession of the Project to the Trustee. Upon termination as a result of an event of default, the Trustee will have all legal and equitable rights and remedies to take possession of the Project.

### **Rental Payments**

During the Lease Term, the City agrees under the Lease to make Rental Payments to the Trustee, as assignee of the Lessor under the Lease, in the amounts and on the dates set forth in the Lease. Semi-annual Rental Payments will be due on each April 1 and October 1 in each calendar year during the Lease Term, commencing April 1, 2003. The Rental Payments payable by the City will be reduced by the amount of money in the Rental Payment Fund to be credited against those payments and representing Rental Payments.

The Rental Payments, including certain proceeds of the Certificates, are designed to be sufficient, in both time and amount, to pay when due the Certificate Payments.

The obligation of the City to make Rental Payments during the Lease Term will be absolute in all events and will not be subject to any set-off, defense, counterclaim or recoupment, or to delay in payment of Rental Payments, for any reason whatsoever.

The City's obligation to make Rental Payments constitutes a general obligation of the City, secured by an irrevocable pledge of the full faith, credit and taxing power of the City. (For a further discussion of the obligations of the City, see "Security for and Sources of Payment of the Certificates").

### **Use, Maintenance, Repair and Alterations**

Under the Lease, the City, at its expense, shall promptly comply or cause compliance with all laws, insurance policies and regulations regarding the use, maintenance and operation of the Project, and pay all costs, claims, damages, fees and charges arising out of its possession, use or maintenance of the Project, and shall obtain, maintain and comply with all permits, licenses and other authorizations required for ownership and operation of the Project or any part thereof, and will repair and maintain, or by contract provide for the proper maintenance of the Project during the Lease Term.

Neither the Lessor nor the Trustee has any responsibility for making repairs or improvements to the Project.

The City, in its discretion and at its expense may remodel or make such additions, modifications and improvements to the Project as it may deem to be desirable, provided that no such additions, modifications or improvements shall adversely affect the functionality or value of, or materially interfere with the use and operation of, the Project, and, subject to the right of the City to remove any such additions, modifications or improvements, the changes shall become and be deemed to constitute part of the Project.

### **Damage or Destruction**

The City expressly assumes all risk of damage to or loss or destruction of the Project from any cause. If the Project or any part of the Project is destroyed or damaged, the City will promptly repair or replace the same so that at all times during the Lease Term the Project can be used for its intended purpose.

No damage to, or defect in, or unfitness or obsolescence of, the Project will relieve the City from its obligations under the Lease, including the obligation to pay Rental Payments, during the Lease Term. However, if the Project shall be completely destroyed, the City shall, at its option, only be required to pay Rental Payments sufficient to redeem the Certificates at 100% of the principal amount thereof, plus interest accrued through the redemption date, whereupon the Lease shall terminate. See "The Certificates of Participation – Optional Redemption".

### **Insurance**

The City shall maintain, or cause to be maintained by the Contractors during the construction of the Improvements, with any loss deductible commonly used by the City, casualty insurance covering all parts of the Project which are essential to the overall operation of the Project.

Casualty insurance may be provided under blanket or similar coverage insuring other facilities of the Lessee. Such insurance may be a combination of self-insurance and an excess liability policy. The proceeds of any casualty insurance or appropriation awards, to the extent they are not promptly used or encumbered for the purposes of repairing the Project, shall be paid to the Trustee for deposit in the Rental Payment Fund and name the Trustee as a loss payee.

In the event of total destruction of the Project, the City shall apply insurance proceeds, self-insurance and any other moneys available and appropriated for the purpose, to the acquisition and construction of replacement Project, unless the City elects to exercise its option to purchase, in which case the proceeds of such insurance shall be applied as described under "The Lease-Damage or Destruction".

### **Option to Purchase**

Upon 45 days written notice from the City to the Trustee, and if there is not then existing an Event of Default described under (a) or (c) of the heading "The Lease-Events of Default", the City may purchase the Project on any Payment Date by paying to the Trustee as Lessor's assignee, the lesser of the sum necessary to defease the Lease in accordance with its terms or the amount necessary to purchase the Project on the next purchase option date (the "Pre-Payment Price"). Applicable amounts in the Rental Payment Fund will be applied to the Pre-Payment Price to be paid by the City.

Upon fulfillment of these purchase conditions, the Project will become the property of the City and all right, title and interest in the Project will pass to the City.

### **Assignment**

Without the prior written consent of the Trustee and an opinion of nationally recognized bond counsel to the effect that such assignment, transfer or other disposition will not adversely affect the excludability from gross income for federal income tax purposes of the interest component of the Rental Payments, the City may not assign, transfer, pledge, hypothecate or grant any security interest in or otherwise dispose of the Lease or the Project, or any interest in the Lease or the Project, or sublet the Project or permit it to be operated by anyone other than the City or employees of or persons authorized by the City in connection with its operation of the Project.

### **Taxes, Other Governmental Charges and Utility Charges**

The City shall pay when due all gas, water, steam, electricity, heat, power, telephone, and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project. If the Project shall become subject thereto, the City shall also pay all property and excise taxes and governmental charges of any kind whatsoever which may at any time be lawfully assessed or levied against or with respect to the Project or any part thereof or the Rental Payments, and which become due during the Lease Term with respect thereto; and all special assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Project; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Lease Term as when the same become due. The City shall not be required to pay any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock, corporate, or other similar tax payable by Lessor, its successors or assigns, unless such tax is made in lieu of or as a substitute for any real estate or other tax upon property.

### **Events of Default**

The occurrence of any one or more of the following events constitutes an "Event of Default" under the Lease:

- a. Failure by the City to pay any Rental Payment Additional Rental required to be paid under the Lease to replenish the Debt Service Reserve Fund during the Lease Term at the time specified therein and the continuation of said failure for a period of five (5) business days after telephonic or telegraphic notice given by the Trustee, as assignee of the Lessor, that the payment referred to in such notice has not been received, such telephonic or telegraphic notice to be subsequently confirmed in writing, or after written notice.
- b. Failure by the City of observe and perform any covenant, condition or agreement on its part to be observed or performed pursuant to the Lease, other than as referred to in clause (a) above, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.
- c. The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment of such consequence as would impair the ability of the City to carry on its operations at the Project, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Statute, as amended, or under any similar acts which may hereafter be enacted.
- d. Failure by the City to vacate the Project on the July 1 following an event of non-appropriation.

### **Remedies**

Upon the occurrence of an Event of Default described under (a) or (c) of the heading "Lease-Events of Default", and so long as the Event of Default is continuing, the Trustee may, at its option, exercise one or more of the following remedies:

- a. Take whatever action at law or in equity may appear necessary to desirable to collect the Rental Payments or to enforce specific performance and observance of any obligation, agreement or covenant of the City under the Lease; or

- b. Without terminating the Lease, re-enter and take possession of the Project and operate the Project or cause it to be operated on behalf of the City, in which event the City shall continue to be responsible for the payment of Rental Payments coming due under the Lease; or
- c. Terminate the Lease, re-enter and take possession of the Project, exclude the City from using it and operate the Project for and on behalf of itself, in which event the City shall not be responsible for the payment of any Rental Payments coming due after such termination; or
- d. Any other remedy available to the Trustee under the Trust Agreement, including the right to appoint a receiver for the Project and the rentals, revenues and other income charges and moneys therefrom.

Upon the occurrence of an Event of Default described under (a) or (d) of the heading "Lease-Events of Default", the Trustee may exercise any remedy available to it at law or in equity to enforce the Lease, including the right to petition a court of competent jurisdiction to appoint a receiver for the Project, and to collect the revenues and other income therefrom.

See the discussion under "Security for and Sources of Payment of the Certificates" of the rental value of the Project if sublet by the Lessor probably being insufficient to pay the equivalent of then unpaid Rental Payments.

### **Amendments**

The Rental Payments may not be amended without the written consent of the Trustee. For a discussion of the Trust Agreement Provision relating to amendments of the Lease, see "Trust Agreement – Amendment of Lease".

### **Defeasance**

The Rental Payments for the Lease Term will be deemed to be paid when: (a) there are irrevocably deposited with or made available to the Trustee in trust and irrevocably set aside exclusively for payment of the Certificate Payments when due, whether by redemption or at maturity, (i) moneys sufficient to pay those Certificate Payments, or (ii) certain obligations (see "Trust Agreement -- Defeasance") which mature in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to pay those Certificate Payments; and (b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to the Lease and the Trust Agreement and the Trustee's duties in connection therewith have been paid or the payment thereof is provided for to the Trustee's satisfaction.

When the Rental Payments are deemed paid and the Trustee has received the written legal opinion of nationally recognized bond counsel to the effect that the deposit of such money or obligations in trust will not cause the portion of the Rental Payments designated as the interest component to be includable in gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended, or any successor internal revenue laws of the United States which are then applicable to the Certificates, the Trustee will be entitled to payment of amounts representing Rental Payments solely from such money or obligations and the right, title and interest of the Trustee under the Lease will cease, terminate and become void.

## **TRUST AGREEMENT**

The following summarizes certain provisions of the Trust Agreement between the Trustee and the Lessor, to which reference is made for the detailed provisions thereof. The City is not a contracting party to the Trust Agreement. Certain of the provisions of the Trust Agreement are also described under "The Certificates of Participation".

### **Security**

The Trust Agreement pledges and assigns to the Trustee as security for payment of the Certificates: (a) all Rental Payments; (b) all other money receivable by the Trustee under the Lease, other than Trustee's fees, including all income or other money realized from the lease or other disposition of the Project; (c) all moneys and investments in the Trust Funds described below, all subject to and in accordance with the Trust Agreement; and (d) all income and profit from the investment of the foregoing.

Upon any Event of Default under the Trust Agreement (which is not necessarily an Event of Default under the Lease), the Trustee may enforce any and all rights under the Trust Agreement for or on behalf of the Owners of the Certificates (see "Default Provisions").

## **Trust Funds**

The Trust Agreement establishes special trust funds with the Trustee, for the benefit of the Certificate Owners, consisting of the Administrative Expense Fund, the Project Acquisition Fund, the Rental Payment Fund, and the Rebate Fund.

Proceeds received by the Trustee from the sale of the Certificates will be deposited in the Trust Funds as follows:

- (a) an amount equal to the accrued interest, if any, to be received at delivery will be deposited in the Rental Payment Fund and credited as part of the Rental Payments due on April 1, 2003;
- (b) \$ \_\_\_\_\_ of the proceeds will be deposited to the Administrative Expense Fund to pay for the costs of issuance of the Certificates; and
- (c) the balance of the proceeds will be deposited to the Project Acquisition Fund and applied to the payment of costs of constructing the Improvements.

## **Project Acquisition Fund**

Moneys in the Project Acquisition Fund will be disbursed by the Trustee in accordance with the provisions of the Trust Agreement to pay costs of acquiring, constructing, improving, installing, financing and renovating the Project, costs incurred in connection with the acquisition, renovation, construction and installation of the Project and the placing of the same in use and operation, including but not limited to, the construction manager's fee, the costs of land, labor, services, materials, equipment, furnishings, architectural, engineering, consultants, legal and supervisory services and insurance premiums and interest attributable to the period of construction of the Project.

All disbursements from the Project Acquisition Fund, except amounts to be transferred to the Rental Payment Fund and credited as Rental Payments, will be preceded by the Trustee's receipt of a requisition in a specified form. The Trustee must honor all requisitions delivered to it in accordance with the disbursement procedures of the Trust Agreement.

Any moneys remaining in the Project Acquisition Fund after payment of all costs of the Project will be transferred into the Rental Payment Fund. The Trustee may make this transfer upon receipt of a certificate, signed by authorized officers of the City and the Lessor, stating that all work called for under the Lease has been accepted by the City as of a specified date, that all costs of the Project have been paid and that no claims out of which a lien based on furnishing labor or material exist or are threatened.

## **Rental Payment Fund**

Within the Rental Payment Fund there is established the following accounts: Interest Account, Principal Account and Prepayment Account. On the Closing Date, the Trustee shall deposit that portion of the proceeds received from the sale of the Certificates to First Kentucky Securities Corporation (the "Underwriter") representing accrued interest into the Interest Account of the Rental Payment Fund. Moneys representing capitalized interest deposited in the Project Acquisition Fund shall be transferred to the Interest Account of the Rental Payment Fund as described under the heading "Trust Agreement-Project Acquisition Fund" and shall constitute a credit against the Rental Payments next due.

All amounts deposited by the City with the Trustee as Rental Payments shall be deposited by the Trustee in the Rental Payment Fund, except for such portion of the Rental Payments to be applied to funding the Reserve Requirement, which sum shall be deposited in the Debt Service Reserve Fund. Amounts deposited in the Rental Payment Fund shall be credited first, to the Interest Account to the extent necessary to make the total of amounts so credited, plus any balance already present in the Interest Account, equal to the amount of the interest component of the next succeeding payment on the Certificates, and second, to the Principal Account, provided that amounts paid by the City in the event of the exercise of its option to purchase the Project by prepaying Rental Payments pursuant to the Lease shall be credited to the Prepayment Account of the Rental Payment Fund. Anything in the foregoing to the contrary notwithstanding, any delinquent Rental Payments shall be deposited by the Trustee into the appropriate accounts of Rental Payment Fund for immediate payment of principal and interest payments past due with respect to the Certificates according to the tenor of the Certificates. Proceeds of insurance or appropriation by condemnation and all other moneys available for prepayment of the Certificates from the lease, sale, sublease or other disposition of the Project shall be deposited by the Trustee in the Prepayment Account of the Rental Payment Fund.

On each Certificate Payment Date, the Trustee shall apply the amounts in the Interest Account, Principal Account and Prepayment Account of the Rental Payment Fund for the payment of interest, principal and prepayment amounts, respectively, with respect to Certificates then due and payable.

## **Rebate Fund**

- (a) From and after the issuance of the Certificates, the Rebate Fund shall be held and maintained by the Trustee as a trust fund. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Memorandum of Instructions. Subject to the transfer provisions provided in paragraph (e) below, all moneys at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Memorandum of Instructions), for payment to the federal government of the United States of America, and neither the City nor the owner of any Certificates shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by Memorandum of Instructions (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the City including supplying all necessary information in the manner provided in the Memorandum of Instructions and shall have no liability or responsibility to enforce compliance by the City with the terms of the Memorandum of Instructions.
- (b) Upon the City's written direction, an amount shall be deposited in the Rebate Fund by the Trustee from deposits by the City or from amounts available for such purpose held in the Project Acquisition Fund and Rental Payment Fund, if, and to the extent required, so that the balance of the Rebate Fund after such deposit shall equal the Rebate Amount calculated as of the most recent Calculation Date (as defined in the Memorandum of Instructions). Computations of the Rebate Amount shall be furnished by or on behalf of the City in accordance with the Memorandum of Instructions.
- (c) The Trustee shall have no obligation to rebate any amounts required to be rebated, other than from moneys held in the funds and accounts created under the Trust Agreement or from other moneys provided to it by the City.
- (d) The Trustee shall invest all amounts held in the Rebate Fund in Eligible Investments, subject to the restrictions set forth in the Memorandum of Instructions. The Trustee shall retain all earnings on investments in the Rebate Fund. Moneys shall not be transferred from the Rebate Fund except as provided in paragraph (e) below.
- (e) Upon receipt of the City's written directions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the City so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such account or funds as directed by the City's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Certificates and payment and satisfaction of any Rebate Amount, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the City.
- (f) Notwithstanding any other provision of the Trust Agreement, the obligation to remit the Rebate Amount to the United States and to comply with all other requirements of this Section and the Memorandum of Instructions shall survive the defeasance or payment in full of the Certificates.

## **Investment of Funds**

Moneys held by the Trustee may be invested in Eligible Investments. Eligible Investments include (to the extent permitted by law):

- (a) Obligations of the United States and of its agencies and instrumentalities, including such obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreement is taken either directly by the Trustee or through an authorized custodian. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in the Commonwealth of Kentucky and rated in the top three rating categories by Moody's Investors Service;
- (b) Bonds or Certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities rated in the top three rating categories by Moody's Investors Service;
- (c) Any savings and loan association rated in the top three rating categories by Moody's Investors Service and insured by an agency of the government of the United States up to the amount so insured; and
- (d) Interest bearing deposits in national or state banks chartered in the Commonwealth of Kentucky and insured by an agency of the government of the United States up to the amount so insured and in larger amounts, providing such bank shall pledge as security, obligations as permitted by KRS 41.240(4), having a current quoted market value at least equal to any uninsured deposits.

## Events of Default

The following will constitute "Events of Default" under the Trust Agreement:

- (a) Failure by the City to pay any rental payment required to be paid under the Lease during the current fiscal year of the City when due and the continuation of such failure for a period of five business days after telephonic or telegraphic notice given by the Trustee; or
- (b) Failure by City to observe and perform any covenant, condition or agreement on its part to be observed or performed pursuant to the Trust Agreement, other than as referred to in clause (a) of this Section, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to City by Trustee, unless Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by City within the applicable period and diligently pursued until the default is corrected; or
- (c) The filing by City of a voluntary petition in bankruptcy, or failure by City promptly to lift any execution, garnishment or attachment of such consequence as would impair the ability of City to carry on its operations at the Project, or adjudication of City as a bankrupt, or assignment by City for the benefit of creditors, or the entry by City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to City in any proceedings instituted under the provisions of the Federal Bankruptcy Statute, as amended, or under any similar acts which may hereafter be enacted.

If an Event of Default occurs, the Trustee must, within five days after the Trustee has notice of such event, given written notice of the Event of Default by first class mail, postage prepaid, to the Owners of all Certificates then outstanding at the address shown on the Certificate Register.

The Trust Agreement does not impose any obligation on the Trustee to provide periodic notice to the Certificate Owners or to others as to the absence or existence of a default or an Event of Default under the Trust Agreement.

## Remedies

Upon the occurrence of any Event of Default under the Trust Agreement, the Trustee may pursue any available remedy to enforce the payment of Certificate Payments or the observance and performance of covenants and obligations and exercise, as an alternative or in addition to any other remedy, any remedy available to it as Lessor under the Lease (see "Lease--Remedies"). Among such remedies is the right to declare all Rental Payments and other amounts then due under the Lease and all remaining Rental Payments to be immediately due and payable or to sell or relet the Project.

If an Event of Default has occurred, and the Owners of at least 25% in aggregate principal amount of the affected Certificates then outstanding so request, the Trustee, upon indemnification by such Owners, must exercise one or more of the remedies as the Trustee shall be directed by the Owners of those Certificates.

All moneys received under the Trust Agreement by the Trustee upon or after the occurrence of an Event of Default will be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of those moneys and of the related expenses, liabilities and advances incurred or made by the Trustee. The balance if those moneys will be deposited in the Principal and Interest Accounts of the Rental Payment Fund and applied to pay the principal of and interest on the Certificates in the manner and in the order or priority set forth in the Trust Agreement.

The Trustee may in its discretion waive any Event of Default under the Trust Agreement and its consequences, and will do so upon the written request of the Owners of a majority in aggregate principal amount of all the Certificates then outstanding in respect of which any default in the payment of principal or interest exists, or of the owners of a majority in principal amount of all Certificates then outstanding in case of any other default. No Event of Default in the payment of principal or interest is to be waived unless, prior to that waiver, all arrears of interest, or all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with that default, have been paid or provided for. In case of any waiver, or in case any proceeding taken by the Trustee on account of any default is discontinued or abandoned or determined adversely, then the City, the Lessor, the Trustee and the Certificate Owners will be restored to their former respective positions and rights under the Trust Agreement. No waiver will extend to any subsequent or other default, or impair any right consequent thereon.

## **Indemnification**

Before taking any action with respect to a default or Event of Default pursuant to the Trust Agreement, the Trustee may require indemnification in a manner satisfactory to it for any liability and expense it might incur exercising its remedial powers under the Trust Agreement, except liability which is adjudicated to have resulted from its negligence or willful default by reason of any action so taken.

## **Rights of Certificate Owners**

The Owners of a majority in aggregate principal amount of the Certificates then outstanding will have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Trust Agreement or any other proceedings under the Trust Agreement. This direction must be in accordance with the provisions of law and of the Trust Agreement.

No Owner of any Certificate will have any right to institute any suit, action or proceeding for the enforcement of the Trust Agreement, for the execution of any trust under the Trust Agreement, or for any other remedy under the Trust Agreement, unless an Event of Default has occurred and the Owners of at least 25% in aggregate principal amount of Certificates then outstanding have made written request to the Trustee and have offered the Trustee indemnity as provided in the Trust Agreement and the Trustee has thereafter failed or refused to exercise its powers under the Trust Agreement or to institute such action, suit or proceedings in its own name and such failure or refusal to act is contrary to direction given to the Trustee by a majority of the Owners of the Certificates Outstanding.

Nothing in the Trust Agreement affects or impairs the right of any Certificate Owner to enforce the payment of the principal of and interest on any Certificate owned by such Owner at and after the due date thereof, or the obligation of the Trustee to pay the principal of and interest on each of the Certificates to the respective Owners thereof at the time and place, from the sources and in the manner provided in the Certificates.

## **Supplemental Trust Agreement**

The Lessor and the Trustee may, without the consent of or notice to any of the Certificate Owners, enter into agreements supplemental to the Trust Agreement that are not inconsistent with the terms and provisions of the Trust Agreement for any of the following purposes: (a) to cure any ambiguity, inconsistency or formal defect of omission in the Trust Agreement; (b) to grant to or confer upon the Trustee for the benefit of the Certificate Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Certificate Owners or the Trustee; (c) to subject additional revenues to the lien and pledge of the Trust Agreement; (d) to add to the covenants, agreements and obligations in the Trust Agreement other covenants, agreements and obligations thereafter to be observed for the protection of the Certificate Owners or to surrender or limit any right, power or authority reserved or conferred in the Trust Agreement; or (e) to evidence any succession to the Trustee and the assumption by its successor of the covenants, agreements and obligations of the Trustee under the Trust Agreement and the Certificates; and (f) to modify, amend or supplement the Trust Agreement in such manner as the permit the qualification thereof under the Trust Agreement Act of 1939, as amended or to comply with any similar requirements of any other law; or (g) to make any other change in the Trust Agreement which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners.

Exclusive of those types of supplemental trust agreements, the Owners of not less than 66-2/3% in aggregate principal amount of the Certificates then outstanding will have the right, from time to time, to consent to and approve the execution by the Lessor and the Trustee of such other amendments as are deemed necessary and desirable by the Lessor or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement or in any amendment thereto, provided, however that nothing in the Trust Agreement permits or is to be construed as permitting (i) an extension of the maturity of the principal of or the interest on any Certificate or a reduction in the principal amount of any Certificate or the rate of interest or redemption premium thereon will require the consent of each Certificate Owner so affected, or (ii) a privilege or priority of any Certificate over any other Certificate, or a reduction in the aggregate principal amount of the Certificates required for consent to such amendment, will require the consent of the Owners of all of the Certificates then outstanding.

Any supplement to the Trust Agreement which affects any rights or obligations of the City will not become effective unless and until the City consents in writing thereto.



## **Defeasance**

The right, title and interest of the Trustee and the Lessor under the Trust Agreement will terminate and become void when the whole amount of principal and any premium and interest payable on all the Certificates is paid or provision has been made as provided in the Trust Agreement for that payment.

Provision will be deemed to have been made for the payment of the Certificates if there has been deposited with the Trustee cash or Defeasance Obligations, as described below, in an amount sufficient (together with investment earnings thereon) or provide for the payment of the whole amount of the principal and any premium and interest when due and payable at maturity or redemption, as the case may be, and provision is made satisfactory to the Trustee for payment of all related expenses of the Trustee. Upon defeasance of the Trust Agreement, the Trustee will assign and transfer to or on the order of the City all applicable property in excess of the cash or securities required for defeasance then held by the Trustee, including the Lease and all applicable payments and rights under the Lease and all applicable balances in the Trust Funds.

Defeasance Obligations are defined under the Trust Agreement and Lease to consist of:

- (a) direct obligations of (including obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America), or obligations the timely payment of principal of and the interest and any premium on which are fully and unconditionally guaranteed by the United States of America;
- (b) any certificates or other evidence of ownership interest in obligations of the character described in (a) or in specified portions thereof, including, without limitation, portions consisting solely of the principal thereof or solely of the interest thereon; and
- (c) obligations of any state of the United States or any political subdivision of any state, provided that (i) the interest on such obligations shall be exempt from federal income taxes if purchased in order to prevent any Certificates from becoming "arbitrage bonds" under Sections 103(b)(2) and 148 or any successor provision of the Code, and (ii) the payment of such obligations is secured by direct obligations of (including obligations issued or held in book-entry form on the books of the Department of Treasury in the United States of America), or obligations the timely payment of principal of and the interest and any premium on which are fully guaranteed by the United States of America.

## **Amendments of Lease**

The Trustee may, without the consent of or notice to the Certificate Owners, consent to any amendment to the Lease which, in the judgment of the Trustee, is not to the prejudice of the Certificate Owners or the Trustee. The Owners of not less than 100% in aggregate amount of the Certificates then outstanding must approve the Trustee's consent to any other amendment of the Lease; provided further, that no amendment to the Lease shall be consented to if the amendment would result: (i) in an extension of the maturity of the principal or the interest with respect to any Certificate executed and delivered hereunder, or a reduction in the principal with respect to any Certificate or the rate of interest or prepayment premium with respect thereto, unless each Certificate Owner so affected consents; or (ii) in a privilege or priority of any Certificate over any other Certificate, or a reduction in the aggregate principal with respect to the Certificates required for consent to such amendment, unless the Owners of all of the Certificates then Outstanding so consent.

## **Non-Presentation of Certificates; Return of Moneys**

If a Certificate is not presented for payment when due or an interest payment check or draft is uncashed, and if moneys for the purpose of paying and sufficient to pay that amount have been made available to the Trustee, it is the duty of the Trustee to hold those moneys in trust, without liability for interest thereon, for the benefit of the registered Owner of that Certificate, who thereafter will be restricted exclusively to those moneys for any claim of whatever nature under the Trust Agreement or on or with respect to that Certificate.

Any moneys held by the Trustee for that purpose and remaining unclaimed by the Owner of a Certificate for four years after the due date will be paid to the City, to which the Certificate Owner must thereafter look for payment, without interest.

## **The Trustee**

The Trustee, Central Bank & Trust Company, has its principal corporate trust offices in Lexington, Kentucky. It is a state banking corporation organized and existing under the laws of the State of Kentucky, authorized to exercise corporate trust powers. The Trustee is a member of the Federal Reserve System and FDIC.

The Trustee may execute any of its trusts or powers and perform its duties under the Trust Agreement by or through attorneys, agents or receivers. The Trustee may consult with counsel with regard to legal questions and the opinion of such counsel will be full and complete authorization and protection for any action taken or suffered by the Trustee in good faith in accordance with such opinion. The Trustee is not answerable for the default or misconduct of any attorney, agent or receiver selected by it with reasonable care.

### **CONTINUING DISCLOSURE**

In accordance with Securities and Exchange Commission Rule 15c-12 (the "Rule") and so long as the Certificates are outstanding, the City will agree pursuant to a Continuing Disclosure Agreement dated as of October 1, 2002 with First Kentucky Securities Corporation, as disclosure agent (the "Disclosure Agent"), to be delivered on the date of delivery of the Certificates, to cause the following information to be provided through the Disclosure Agent:

- (i) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the State, to its state information depository ("SID"), certain annual financial information and operating data, including audited financial statements, generally consistent with the information contained under Appendices C and D to this Offering Circular ("annual financial information"); such information shall be provided on or before March 1 of each year for the fiscal year ending on the preceding June 30;
- (ii) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, if any, notice of the occurrence of the following events, if material, with respect to the Certificates:
  - (a) principal and interest payment delinquencies;
  - (b) non-payment related defaults;
  - (c) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (d) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (e) substitution of credit or liquidity providers, or their failure to perform;
  - (f) adverse tax opinions or events affecting the tax-exempt status of the security;
  - (g) modifications to rights of security holders;
  - (h) bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
  - (i) defeasances;
  - (j) release, substitution, or sale of property securing repayment of the securities; and
  - (k) rating changes.
- (iii) to each NRMSIR or to the MSRB and to the SID, if any, notice of a failure (of which the City or Disclosure Agent has knowledge) of the City to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The Continuing Disclosure Agreement provides certificate holders with certain enforcement rights in the event of a failure by the City to comply with the terms thereof; however, a default under the Continuing Disclosure Agreement does not constitute a default under the Trust Agreement. The Continuing Disclosure Agreement may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Certificate holders are advised that the Continuing Disclosure Agreement, copies of which are available at the office of the Trustee, should be read in its entirety for more complete information regarding its contents. The City has not failed to perform under any Continuing Disclosure Agreement.

### **TAX MATTERS**

Interest on the Certificates is excludable from gross income for federal income tax purposes federal income tax purposes, in the opinion of Special Counsel, under existing laws, regulations, rulings and judicial decisions, and so long as excludable from adjusted gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended and currently in effect (the "Code"). This opinion as to the excludability of interest from gross income for federal income tax purposes will be based on and will assume the accuracy of certain certifications and representations and compliance with certain covenants of the City referred to below and to be contained in the transcript of proceedings with regard to the Certificates, all of which are intended to evidence and assure that the Certificates are and will remain obligations described in Section 103(a) of the Code. At the date of that opinion and subsequent to the original delivery of the Certificates, those representations must be accurate and those covenants must be complied with, for that interest to be exempt from federal income tax under Section 103(a) of the Code.

Interest on the Certificates is exempt from income taxation by the Commonwealth of Kentucky and the Certificates are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

Special Counsel will not independently verify the certifications and representations of fact made by the City. Inaccuracy of the representations of fact or non-compliance with the certain covenants of the City subsequent to the delivery of the Certificates may cause interest on the Certificates to become subject to federal income taxation retroactively to the date of their original issuance.

Under the Code, interest on the Certificates will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations and the corporate environmental tax. However, under the Code, interest on the Certificates will have to be included in the "adjusted current earnings" of certain corporations and such corporations would be required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for alternative tax net operating losses.) Interest on the Certificates is therefore includable in the tax base for computing certain corporations' liability with respect to the alternative minimum tax, and with respect to the environmental tax which is equal, in general, to .12% of the amount of each such corporation's modified alternative minimum taxable income in excess of \$2,000,000 for taxable years beginning before January 1, 1996.

The City has designated the Certificates as "qualified tax-exempt obligations" under Section 265 of the Code.

The form of the opinion of Special Counsel is attached as Appendix A hereto.

**PROSPECTIVE PURCHASERS OF THE CERTIFICATES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO ANY PURCHASE OF THE CERTIFICATES AS TO THE IMPACT OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, UPON THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE CERTIFICATES.**

#### **LEGAL MATTERS**

Legal matters incident to the execution and delivery of the Certificates and with regard to the tax-exempt status of the interest thereon (see "Tax Matters") are subject to the approving legal opinion of Wyatt, Tarrant & Combs, LLP, Special Counsel. A signed copy of that opinion, dated and premised on facts existing and law in effect as of the date of original delivery of the Certificates, will be delivered to the Underwriter at the time of that original delivery.

#### **RATING**

Moody's Investors Service, Inc. has assigned the rating of "\_\_\_" to the Certificates. Any desired explanation of the significance of such rating should be obtained from Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007 (212-553-0300). There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such agency, circumstances so warrant. Any downward revision or withdrawal of the rating could have an adverse effect on the market price of the Certificates.

#### **ABSENCE OF LITIGATION**

To the knowledge of the Lessor and the appropriate City officials, no litigation or administrative action or proceeding is pending or threatened to restrain or enjoin, or seeking to restrain or enjoin, the execution and delivery of the Lease or to contest or question the proceedings or authority under which the Lease was authorized or the validity of the Lease. To the knowledge of the Lessor and the Trustee, no litigation or administrative action or proceeding is pending or threatened contesting or questioning the validity of the Trust Agreement or the Assignment or contesting or questioning the execution or delivery of the Certificates. Certifications to those effects will be delivered at the time of the original delivery of the Certificates.

**UNDERWRITER**

First Kentucky Securities Corporation, Frankfort, Kentucky, (the "Underwriter") has agreed to purchase the Certificates at a purchase price of \$\_\_\_\_\_ for the aggregate principal amount of the Certificates, plus accrued interest, pursuant to a purchase agreement among the City, the Lessor, the Trustee and the Underwriter. The purchase price reflects an Underwriter's discount of 2%. The Underwriter may offer, and sell Certificates to certain dealers (including dealer bank and dealers depositing Certificates into investment trusts) and others at prices lower than the respective public offering prices on the cover page hereof. These initial public offering prices may be changed from time to time by the Underwriter.

The obligation of the Underwriter to accept delivery of the Certificates is subject to various conditions of the purchase agreement. The Underwriter is obligated to purchase all of the Certificates if any of the Certificates are purchased.

**CONCLUDING STATEMENT**

Information pertaining to the City and the Project has been furnished by officials of the City. Information pertaining to the Lessor and the Trustee has been furnished by the Lessor and the Trustee, respectively.

To the extent that any statements in this Offering Circular involve matters of opinion or estimates, whether or not expressly stated to be such, those statements are made as such and not as representations of fact or certainty, and no representation is made that any of those statements will be realized. Information in this Offering Circular has been derived by the Underwriter from official and other sources and is believed by it to be reliable.

References to and summaries or descriptions of provisions of the Certificates, the Lease, the Trust Agreement and the Assignment, and all references to laws and other documents and materials not stated to be quoted in full do not purport to summarize or describe all of the provisions. Copies of those documents may be obtained during the offering period upon request directed to the Underwriter.

**CITY OF SHELBYVILLE, KENTUCKY**

/s/ David B. Eaton  
Mayor

**APPENDIX A**

**Form of Approving Opinion of Bond Counsel**

\_\_\_\_\_, 2002

City of Shelbyville, Kentucky  
Shelbyville, Kentucky

Central Bank & Trust Company, Trustee  
Lexington, Kentucky

RE: \$\_\_\_\_\_ Certificates of Participation, Series 2002B (the "Certificates") in Payments to be Made Under a Lease/Purchase Agreement dated as of October \_\_, 2002 (the "Lease"), between the City of Shelbyville, Kentucky (the "City") and Kentucky Municipal Finance Corporation (the "Corporation")

Ladies and Gentlemen:

At your request, we have reviewed the documents relating to the original issuance on the date hereof of the above-referenced Certificates, including but not limited to [i] the Lease, [ii] the Trust Agreement dated as of October \_\_, 2002 (the "Trust Agreement"), between the Corporation and Central Bank & Trust Company, as trustee (the "Trustee"), [iii] the Certificate Purchase Agreement dated as of October \_\_, 2002 (the "Purchase Agreement"), among the City, the Trustee, First Kentucky Securities Corporation, as underwriter, and the Corporation, and [iv] the form of the Certificates included in the Trust Agreement. All terms used herein and not defined herein shall have the meanings set forth in the Lease or the Trust Agreement.

As consideration for its leasing of the Property as lessee, the City is required to make the payments specified in the Lease (the "Lease Payments"). Each Lease Payment is allocated between principal and interest, with the interest portion denominated as such under the Lease. The Corporation has assigned to the Trustee the right, title and interest of the Corporation in and under the Lease, including the payments to be made by the City pursuant to the Lease.

The Lease and the interest thereon, which unless paid from other sources, are payable from taxes to be levied by the City pursuant to a Bond Ordinance enacted by the City on September \_\_, 2002 (the "Bond Ordinance").

We have examined such documents and matters and conducted such research as we have deemed necessary to enable us to express the opinions set forth below. As to certain questions of fact, we have relied on statements and certifications of certain of the directors, officers and employees of the City and the Corporation and other public officials.

In rendering our opinions set forth below, we have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons, and the conformity to the originals of all documents submitted to us as copies. We have also relied for purposes of the opinions set forth below on the representations and warranties made in such documents by all parties thereto.

Based on the foregoing, and in reliance thereon, and on the basis of our examination of such other matters of fact and questions of law as we have deemed relevant in the circumstances, it is our opinion under existing law that as of the date hereof:

1. The City is a political subdivision of the Commonwealth of Kentucky (the "Commonwealth"). The Corporation is duly existing as a Kentucky nonprofit corporation.

2. The Lease and the Trust Agreement constitute legal, valid and binding special limited obligations of the Corporation. The Lease and the Purchase Agreement constitute legal, valid and binding special limited obligations of the City. Such documents to which each is a party are enforceable against the City or the Corporation, respectively, in accordance with their respective terms; providing that the enforceability of each of such documents, including the rights and remedies thereunder may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights and remedies. We also express no opinion as to the availability of equitable rights or remedies.

3. Based on existing laws, regulations and judicial decisions, and assuming the correctness and accuracy of certain representations and warranties of the City made in connection with the original issuance of the Certificates, interest due with respect to the Certificates is excluded from gross income for federal income tax purposes. Interest due with respect to the Certificates is not an item of tax preference in determining "alternative minimum taxable income" under the Internal Revenue Code of 1986, as amended (the "Code"). However, interest due with respect to the Certificates is includable in computing "adjusted

City of Shelbyville, Kentucky  
Central Bank & Trust Company, Trustee  
October \_\_, 2002  
Page 3.

current earnings" for purposes of determining the alternative minimum taxable income of a corporation under the Code.

4. The Certificates are exempt from ad valorem taxation, and the interest due with respect to the Certificates is exempt from income taxation, by the Commonwealth and all of its political subdivisions and taxing authorities.

The opinion set forth in paragraph 3 above is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the delivery of the Lease and the Certificates in order that interest due with respect to the Certificates be and continue to be excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause such interest to be included in gross income retroactive to the date hereof. The City has covenanted in the Lease to comply with such requirements.

We express no opinion on the value of or title to any property, or on the investment quality of the Certificates or the Lease. We have not furnished, nor been asked to pass on, any facts respecting the City or the Corporation, and we are not passing on the accuracy or completeness of any factual representations that may have been made by the City or the Corporation to any parties. Our opinion is limited to the questions of law set forth herein. We express no opinion on any other question of law that may be presented by the facts outlined above.

We express no opinion as to the laws of any jurisdiction other than the Commonwealth and the United States of America.

Yours truly,

WYATT, TARRANT & COMBS, LLP



**APPENDIX B**

**Estimated Debt Service Schedule for  
\$1,045,000\*  
CERTIFICATES OF PARTICIPATION  
(City of Shelbyville, Kentucky General Obligation Improvement Project), Series 2002**

**\$1,045,000\***  
**CERTIFICATES OF PARTICIPATION**  
 (City of Shelbyville, Kentucky General Obligation Improvement Project), Series 2002

**ESTIMATED DEBT SERVICE SCHEDULE**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
4/1/03		\$ 20,976.25	\$ 20,976.25	\$ 20,976.25
10/1/03	\$ 35,000	20,976.25	55,976.25	
4/1/04		20,687.50	20,687.50	76,663.75
10/1/04	35,000	20,687.50	55,687.50	
4/1/05		20,363.75	20,363.75	76,051.25
10/1/05	40,000	20,363.75	60,363.75	
4/1/06		19,913.75	19,913.75	80,277.50
10/1/06	40,000	19,913.75	59,913.75	
4/1/07		19,383.75	19,383.75	79,297.50
10/1/07	40,000	19,383.75	59,383.75	
4/1/08		18,783.75	18,783.75	78,167.50
10/1/08	40,000	18,783.75	58,783.75	
4/1/09		18,123.75	18,123.75	76,907.50
10/1/09	45,000	18,123.75	63,123.75	
4/1/10		17,313.75	17,313.75	80,437.50
10/1/10	45,000	17,313.75	62,313.75	
4/1/11		16,458.75	16,458.75	78,772.50
10/1/11	45,000	16,458.75	61,458.75	
4/1/12		15,558.75	15,558.75	77,017.50
10/1/12	50,000	15,558.75	65,558.75	
4/1/13		14,533.75	14,533.75	80,092.50
10/1/13	50,000	14,533.75	64,533.75	
4/1/14		13,483.75	13,483.75	78,017.50
10/1/14	55,000	13,483.75	68,483.75	
4/1/15		12,301.25	12,301.25	80,785.00
10/1/15	55,000	12,301.25	67,301.25	
4/1/16		11,091.25	11,091.25	78,392.50
10/1/16	60,000	11,091.25	71,091.25	
4/1/17		9,741.25	9,741.25	80,832.50
10/1/17	60,000	9,741.25	69,741.25	
4/1/18		8,376.25	8,376.25	78,117.50
10/1/18	65,000	8,376.25	73,376.25	
4/1/19		6,865.00	6,865.00	80,241.25
10/1/19	65,000	6,865.00	71,865.00	
4/1/20		5,337.50	5,337.50	77,202.50
10/1/20	70,000	5,337.50	75,337.50	
4/1/21		3,675.00	3,675.00	79,012.50
10/1/21	75,000	3,675.00	78,675.00	
4/1/22		1,856.25	1,856.25	80,531.25
10/1/22	<u>75,000</u>	<u>1,856.25</u>	<u>76,856.25</u>	76,856.25
Totals	<u>\$1,045,000</u>	<u>\$549,650.00</u>	<u>\$1,594,650.00</u>	

Source: Financial Advisor

**APPENDIX C**

**Information Regarding the City**

**THE CITY OF SHELBYVILLE**

Shelby County was formed in 1792, the same year that Kentucky was made a state. The City of Shelbyville, the County seat, began when William Shannon donated a parcel of land for public use in 1792 and that land now showcases the central downtown district. Over the years, Shelbyville grew as a market, transportation and governmental center. Shelby County has an agricultural heritage that continues today; however, increasingly more and more of the population has moved off the farm and much growth has occurred over the past several years due to increased industrial expansions.

Today, Shelbyville displays an excellent example of a prosperous community, featuring a wide variety of architecturally interesting buildings and vibrant commerce within the business district.

Shelby County is located in the north central portion of Kentucky. Shelbyville is approximately 20 miles east of Louisville, Kentucky's largest city, and approximately 20 miles west of Frankfort, the State Capitol of Kentucky. Shelbyville provides easy access to the I-64 corridor with interchanges on both the east and west boundaries of the city. Additionally, US Highway 60, which is parallel to I-64, traverses the central business district of downtown Shelbyville.

The population of Shelbyville is approximately 6,238. The approximate number of families is 2,727. The amount of land area in Shelbyville is 11.556 sq. kilometers. The amount of surface water is 0.081 sq kilometers.

The downtown business district boasts over one hundred fifty small businesses. From retail and specialty to service related businesses, these employers provide jobs for approximately 400 people. The city and county governments collectively employ over 200 individuals. The postal system provides employment for 50 people. There are 98 realtors in the community, most having agencies located within the central business district of Shelbyville. All told, there are well over 1,000 employees who work in the downtown each day. The downtown area offers 132 sites that are either on or eligible for the National Register for Historic Places. Shelby County Courthouse and the surrounding commercial area has been placed on the register as an Historic District. Private and public investment for the downtown has totaled well over six million dollars since 1995. Cost of doing business in downtown Shelbyville averages around \$6 per square foot.

***Shelbyville Debt (as of October 1, 2002)***

	<b><u>Principal Amount Outstanding</u></b>
Lease Obligations	\$ 224,416 (as of 6/30/01)
Water & Sewer Revenue	13,022,170
Golf Course Revenue	3,235,000
General Obligation	1,460,000

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**Tax Base Information**

<u>Year</u>	<u>Real Estate</u>	<u>Tangible Personal</u>	<u>Bank Shares</u>	<u>Motor Vehicles</u>	<u>Watercraft</u>	<u>Total Assessed Value</u>
01/02	\$429,970,897	\$36,291,708	\$346,078,529	\$54,241,474	\$885,869	\$867,468,477
00/01	390,757,109	37,167,974	356,285,790	50,040,488	699,575	834,950,936
99/00	323,823,134	41,713,244	318,059,319	32,984,476	530,509	717,110,682
98/99	282,453,044	37,183,711	311,676,473	25,790,910	469,891	657,574,029
97/98	261,504,185	78,252,142	294,180,065	27,133,082	403,090	661,472,564
96/97	241,108,456	38,132,908	296,343,399	27,476,673	325,729	603,387,165
95/96	227,398,217	36,481,080	35,525,121	31,057,757	327,827	330,790,002
94/95	228,939,034	36,093,949	30,141,165	26,080,708	291,671	321,546,527

**Assessment Rates (per \$100.00 assessed valuation)**

<u>Year</u>	<u>Real Estate</u>	<u>Tangible Personal</u>	<u>Bank Shares</u>	<u>Motor Vehicles</u>	<u>Watercraft</u>
01/02	23.00¢	49.50¢	00.025¢	26.10¢	26.10¢
00/01	21.90	48.00	00.025	26.10	26.10
99/00	21.70	47.70	00.025	26.10	26.10
98/99	21.10	45.40	00.025	26.10	26.10
97/98	19.10	19.10	00.025	26.10	26.10
96/97	20.50	34.00	00.025	26.10	26.10
95/96	19.64	33.70	22.210	26.10	26.10
94/95	20.40	33.80	21.130	26.10	26.10

**Largest Corporate Taxpayers**

<u>Name</u>	<u>Assessment</u>
Noble Land Holdings	\$6,681,250
Alusuisse Flexible	6,575,000
Katayama America	6,100,000
Village Plaza Shopping	5,000,000
Kosmar Inc.	4,600,000
Ichikoh Mfg.	4,300,000
Citizen's Union Bank	3,854,000
Shelby Kentucky Invest	3,100,000
Faulkner Hinton	2,873,000
Flask Corp	2,750,000

**APPENDIX D**

**Audited Financial Statement  
Of the City of Shelbyville, Kentucky  
For Fiscal Year Ending June 30, 2001**

**CITY OF SHELBYVILLE**  
**AUDITED FINANCIAL STATEMENTS**  
**AND OTHER FINANCIAL INFORMATION**  
**JUNE 30, 2001**

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## INDEPENDENT AUDITORS' REPORT

Mayor and Members of the City Council  
Shelbyville, Kentucky

We have audited the accompanying general purpose financial statements of the City of Shelbyville, Kentucky as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Shelbyville, Kentucky's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the water and sewer fund, which represent 88 percent and 72 percent, respectively, of the assets and revenues of the proprietary fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the water and sewer fund, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Shelbyville, Kentucky as of June 30, 2001 and the results of its operations and the cash flows of its proprietary fund types 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 a report dated August 31, 2001, on our consideration of City of Shelbyville Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of City of Shelbyville, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Louisville, Kentucky  
August 31, 2001

**CITY OF SHELBYVILLE**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2001 (with comparative amounts for 2000)**

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPES	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
	General	Special	Enterprise	General	General	2001	2000
		Revenue		Fixed Assets	Long-Term Debt		
<b>ASSETS</b>							
Cash	\$2,001,861	\$ 101,673	\$ 192,976			\$ 2,296,510	\$ 1,965,320
Restricted cash			408,889			408,889	226,569
Restricted funds and investments			3,603,079			3,603,079	2,766,452
Savings & certificates of deposits			25,090			171,412	
Accounts receivable	100,000	46,322	346,740			346,740	68,352
Due from others			9,522			9,522	334,806
Property taxes receivable						9,091	18,963
Materials inventory	9,091		100,994			100,994	22,903
Other assets			967			967	91,896
Utility fixed assets			37,438,214			37,438,214	755
Unamortized debt discount & expenses			573,003			573,003	36,424,059
Land			2,956,223			2,956,223	617,887
Golf course fixed assets			979,422			979,422	2,956,223
Accumulated depreciation			(11,439,444)			(11,439,444)	979,422
General fixed assets				\$ 5,057,858		5,057,858	897,109
Amount to be provided for lease payments					\$ 224,416	224,416	260,881
Amount to be provided for revenue bonds					2,105,000	2,105,000	2,200,000
Amount to be provided for compensated absences					281,542	281,542	239,862
<b>TOTAL ASSETS</b>	<b>\$ 2,110,952</b>	<b>\$ 147,995</b>	<b>\$ 35,195,675</b>	<b>\$ 5,057,858</b>	<b>\$ 2,610,958</b>	<b>\$ 45,123,438</b>	<b>\$ 43,622,826</b>

**CITY OF SHELBYVILLE**  
**COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)**  
**JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	GOVERNMENTAL FUND TYPES			PROPRIETARY	ACCOUNT GROUPS		TOTALS	
			FUND TYPES	General	General	(MEMORANDUM ONLY)		
	General	Special Revenue	Enterprise	Fixed Assets	Long-Term Debt	2001	2000	
<b><u>LIABILITIES AND FUND EQUITY</u></b>								
Liabilities								
Accounts payable	\$ 22,799	\$ 1,764	\$ 98,036			\$ 122,599	\$ 96,247	
Accrued payroll	5,820		922			6,742	12,564	
Accrued expenses and withholdings	44,094		41,862			85,956	104,265	
Notes payable - bank			86,552			86,552	301,076	
Notes payable - KY Infrastructure Authority			1,549,093			1,549,093	1,661,709	
Obligations under capital lease agreement			113,425		\$ 224,416	337,841	807,639	
Obligations for revenue bonds					2,105,000	2,105,000	2,200,000	
Obligations for compensated absences			42,496		281,542	324,038	267,782	
Accrued interest			38,775			38,775	33,831	
Fixed rate lease obligation			11,935,000			11,935,000	11,235,000	
Accounts payable - construction			71,214			71,214	22,479	
Customer deposits			109,372			109,372	99,393	
Accrued interest - customer deposits			50,044			50,044	45,734	
Revenue bonds outstanding			3,505,000			3,505,000	3,630,000	
<b>TOTAL LIABILITIES</b>	<b>72,713</b>	<b>1,764</b>	<b>17,641,791</b>	<b>\$ -0-</b>	<b>2,610,958</b>	<b>20,327,226</b>	<b>20,517,719</b>	

**CITY OF SHELBYVILLE**  
**COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)**  
**JUNE 30, 2001 (cont'd)**  
**(with comparative amounts for 2000)**

	GOVERNMENTAL FUND TYPES		PROPRIETARY	ACCOUNT GROUPS		TOTALS	
			FUND TYPES			(MEMORANDUM ONLY)	
	General	Special Revenue	Enterprise	General Fixed Assets	General Long-Term Debt	2001	2000
Fund Equity							
Investment in general fixed assets				5,057,858		5,057,858	5,017,350
Reserved for streets		134,902				134,902	128,695
Reserved for community development economic assistance		-0- 6,025				-0- 6,025	101 4,612
Reserved other		5,304				5,304	13,146
Unreserved	2,038,239					2,038,239	1,305,233
Retained Earnings - unreserved			5,642,291			5,642,291	5,386,024
Contribution in aid of construction			3,979,484			3,979,484	3,717,837
Municipal contribution			155,962			155,962	155,962
Sanitation District No. 1 contribution			958,688			958,688	958,688
Grants			6,817,459			6,817,459	6,417,459
<b>TOTAL FUND EQUITY</b>	<b>2,038,239</b>	<b>146,231</b>	<b>17,553,884</b>	<b>5,057,858</b>	<b>-0-</b>	<b>24,796,212</b>	<b>23,105,107</b>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<b>\$ 2,110,952</b>	<b>\$ 147,995</b>	<b>\$ 35,195,675</b>	<b>\$ 5,057,858</b>	<b>\$ 2,610,958</b>	<b>\$ 45,123,438</b>	<b>\$ 43,622,826</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	Governmental Fund Types		Totals (Memorandum Only)	
	General	Special Revenue	2001	2000
TOTAL REVENUES	\$ 4,236,389	\$ 246,722	\$ 4,483,111	\$ 4,515,033
TOTAL EXPENDITURES	3,429,187	219,854	3,649,041	4,349,712
Excess of Revenues Over (Under Expenditures)	807,202	26,868	834,070	165,321
Other Financing Sources (Uses)				
Operating transfers in	110,000		110,000	584,989
Operating transfers out			-0-	(476,554)
Payment of lease principal		(23,900)	(23,900)	(332,600)
Payment of lease interest	(1,440)	(3,291)	(4,731)	(20,914)
Bond payment - City Hall	(80,000)		(80,000)	(75,000)
Bond payment - Clear Creek	(15,000)		(15,000)	(5,000)
Interest expense	(88,290)		(88,290)	(81,880)
Special assessment bond	54,159		54,159	76,105
Special assessment payment	(53,625)		(53,625)	(75,365)
Total Other Financing (Uses)	(74,196)	(27,191)	(101,387)	(406,219)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	733,006	(323)	732,683	(240,898)
Fund Balances, July 1, 2000	1,305,233	146,554	1,451,787	1,692,685
Fund Balances, June 30, 2001	\$ 2,038,239	\$ 146,231	\$ 2,184,470	\$ 1,451,787

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2001  
 (with comparative amounts for 2000)**

	Governmental Fund Types		Totals (Memorandum Only)	
	General	Special Revenue	2001	2000
<b>REVENUES:</b>				
Ad valorem taxes	\$ 1,213,522		\$ 1,213,522	\$ 1,046,491
Insurance tax	668,237		668,237	615,602
Franchise tax	101,414		101,414	122,121
In lieu of franchise tax	127,843		127,843	120,007
Housing Authority, in lieu of taxes	13,459		13,459	13,931
Streetscape assessment	9,950		9,950	19,267
Penalties and interest	19,366		19,366	15,249
Net profit license	169,556		169,556	189,284
Occupational license	1,107,810		1,107,810	1,202,302
Occupational interlocal agreement	405,396		405,396	274,320
Permits	8,655		8,655	12,632
Interest	64,000	\$ 6,235	70,235	62,338
Building inspector	24,239		24,239	1,888
Rent	28,548		28,548	24,600
<b>Intergovernmental:</b>				
State grant	8,000	50,983	58,983	169,931
Kentucky municipal aid		96,969	96,969	100,715
Economic assistance		2,251	2,251	-0-
Base court revenue	29,811		29,811	29,811
Police and fire incentive pay	125,164		125,164	117,463
Community Development Grant		2,250	2,250	138,716
Reveune 911 Board	84,000		84,000	84,000
Law Enforcement Grant			-0-	15,709
Justice Grant	9,432	88,034	97,466	70,473
Dare			-0-	1,955
Other	17,987		17,987	66,228
<b>TOTAL REVENUES</b>	<b>\$ 4,236,389</b>	<b>\$ 246,722</b>	<b>\$ 4,483,111</b>	<b>\$ 4,515,033</b>

The notes to the financial statements are an integral part of this statement.



**CITY OF SHELBYVILLE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	Governmental		Totals	
	Fund Types		(Memorandum Only)	
	General	Special Revenue	2001	2000
<b>EXPENDITURES</b>				
Current:				
Police department	\$ 739,302		\$ 739,302	\$ 802,124
Fire department	615,595		615,595	589,773
Street department	281,647	\$ 41,502	323,149	330,848
Recreation	137,000		137,000	137,500
Administrative and general	1,403,277	96,075	1,499,352	1,470,269
Community development	184,616		184,616	192,665
CDBG urban rehabilitation		54,334	54,334	308,973
Capital Outlay	67,750	27,943	95,693	517,560
<b>TOTAL EXPENDITURES</b>	<b>\$ 3,429,187</b>	<b>\$ 219,854</b>	<b>\$ 3,649,041</b>	<b>\$ 4,349,712</b>

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBYVILLE

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2001

	Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>			
Property tax	\$ 1,206,000	\$ 1,466,188	\$ 260,188
Licenses and permits	2,215,000	2,359,654	144,654
Intergovernmental revenues	191,700	196,646	4,946
Fines and penalties	10,000	19,366	9,366
Charges for services	84,000	84,000	-0-
Rent	22,000	28,548	6,548
Interest	38,000	64,000	26,000
Other	5,000	17,987	12,987
<b>TOTAL REVENUES</b>	<b>3,771,700</b>	<b>4,236,389</b>	<b>464,689</b>
<b>EXPENDITURES</b>			
<b>Current</b>			
General government	1,143,750	1,163,111	(19,361)
Insurance	307,500	240,166	67,334
Police	843,400	739,302	104,098
Fire	624,050	615,595	8,455
Streets	290,750	281,647	9,103
Community development	194,500	184,616	9,884
Parks and recreation	137,000	137,000	-0-
Capital Outlay	40,000	67,750	(27,750)
<b>TOTAL EXPENDITURES</b>	<b>3,580,950</b>	<b>3,429,187</b>	<b>151,763</b>
Excess of revenues over (under) expenditures	190,750	807,202	616,452
<b>Other Financing Sources (uses):</b>			
Operating transfers in	110,000	110,000	-0-
Interest expense	(88,385)	(88,290)	95
Payment of lease interest	-0-	(1,440)	(1,440)
Bond payment - City Hall	(80,000)	(80,000)	-0-
Bond payment - Clear Creek	(15,000)	(15,000)	-0-
Special assessment bond	82,000	54,159	(27,841)
Special assessment payment	(54,000)	(53,625)	375
<b>Total Other Financing (Uses)</b>	<b>(45,385)</b>	<b>(74,196)</b>	<b>(28,811)</b>
Excess of revenues and other sources over expenditures and other uses	145,365	733,006	587,641
Fund Balance, July 1, 2000	1,305,233	1,305,233	-0-
<b>Fund Balance, June 30, 2001</b>	<b>\$ 1,450,598</b>	<b>\$ 2,038,239</b>	<b>\$ 587,641</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE – BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2001**

	Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES</b>			
Intergovernmental			
State Grant	\$ 50,985	\$ 50,983	\$ (2)
Local Government Economic Assistance	2,200	2,251	51
Justice grant	88,034	88,034	-0-
Kentucky municipal aid	98,000	96,969	(1,031)
Community development block grant	2,350	2,412	62
Interest	4,637	6,073	1,436
<b>TOTAL REVENUES</b>	<b>246,206</b>	<b>246,722</b>	<b>516</b>
<b>EXPENDITURES</b>			
Current			
Street department	44,150	41,502	2,648
Police department	96,075	96,075	-0-
Community development	55,336	54,334	1,002
Capital outlay	26,000	27,943	(1,943)
<b>TOTAL EXPENDITURES</b>	<b>221,561</b>	<b>219,854</b>	<b>1,707</b>
Excess of revenues over (under) expenditures	24,645	26,868	2,223
Other Financing Sources (uses):			
Payment of lease principal	(23,900)	(23,900)	-0-
Payment of lease interest	(3,300)	(3,291)	9
<b>Total Other Financing Sources (Uses)</b>	<b>(27,200)</b>	<b>(27,191)</b>	<b>9</b>
Excess of revenues and other sources over (under) expenditures and other uses	(2,555)	(323)	2,232
Fund Balance, July 1, 2000	146,554	146,554	-0-
Fund Balance, June 30, 2001	<u>\$ 143,999</u>	<u>\$ 146,231</u>	<u>\$ 2,232</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN UNRESERVED RETAINED EARNINGS - BUDGET AND ACTUAL**  
**PROPRIETARY FUNDS (WATER AND SEWER-COMPONENT UNIT)**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	Budget	Actual	Variance - Favorable (Unfavorable)
TOTAL REVENUES	\$ 3,399,690	\$ 3,660,055	\$ 260,365
TOTAL EXPENSES	1,793,240	1,697,182	96,058
Excess of Revenues Over (Under) Expenses	1,606,450	1,962,873	356,423
Non-Operating Income (Expenses):			
Interest Expense	-0-	680,016	(680,016)
Depreciation and Amortization	-0-	947,643	(947,643)
	-0-	1,627,659	(1,627,659)
Income before operating transfers	1,606,450	335,214	(1,271,236)
Fund Transfers	-0-	(151,019)	(151,019)
Income after operating transfers	1,606,450	184,195	(1,422,255)
Retained Earnings, July 1, 2000	5,137,347	5,137,347	-0-
Retained Earnings, June 30, 2001	\$ 6,743,797	\$ 5,321,542	\$ (1,422,255)

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**PROPRIETARY FUNDS (WATER AND SEWER-COMPONENT UNIT)**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	2001	2000
OPERATING INCOME		
Sale of water	\$ 1,783,231	\$ 1,765,396
Sewer service	1,643,553	1,352,479
Other revenues	69,177	18,687
Interest earned	164,094	118,538
<b>TOTAL OPERATING REVENUE</b>	<b>3,660,055</b>	<b>3,255,100</b>
OPERATING EXPENSES		
Direct water expenses	587,516	573,022
Direct sewer expenses	398,182	370,723
Administrative expenses	711,484	699,505
<b>TOTAL OPERATING EXPENSES</b>	<b>1,697,182</b>	<b>1,643,250</b>
OPERATING INCOME BEFORE DEPRECIATION AND INTEREST	1,962,873	1,611,850
OTHER DEDUCTIONS		
Interest on long-term debt	680,016	568,825
Amortization - debt discount and expense	53,173	51,430
Depreciation - water plant	487,138	407,293
Depreciation - sewer plant	397,329	298,612
Depreciation - office building	10,003	10,003
<b>TOTAL OTHER DEDUCTIONS</b>	<b>1,627,659</b>	<b>1,336,163</b>
INCOME BEFORE OPERATING TRANSFERS	335,214	275,687
FUND TRANSFER TO GENERAL FUND	(151,019)	(151,395)
INCOME AFTER OPERATING TRANSFERS	184,195	124,292
RETAINED EARNINGS - BEGINNING OF YEAR	5,137,347	5,013,055
<b>RETAINED EARNINGS - END OF YEAR</b>	<b>\$ 5,321,542</b>	<b>\$ 5,137,347</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (WATER AND SEWER-COMPONENT UNIT)**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	2001	2000
<u>Operating Activities</u>		
Operating Income	\$ 335,214	\$ 275,687
Adjustment for non-cash operating activities		
Depreciation	894,470	715,908
Amortization	53,173	51,430
Changes in Operating Assets and Liabilities		
Accounts payable	58,334	(786,624)
Other accrued liabilities	(2,700)	17,145
Accounts receivable	(11,934)	(48,620)
Due from others	9,441	47,418
Inventory	(4,609)	1,784
Other assets	(212)	(572)
Customer deposits	9,979	10,929
Accrued interest - revenue bonds	5,965	2,179
Net Cash Provided By Operating Activities	1,347,121	286,664
 <u>Investing Activities</u>		
Purchase of assets	(1,014,155)	(2,139,199)
Funds and investments	(835,714)	1,596,353
Net Cash Used For Investing Activities	(1,849,869)	(542,846)
 <u>Non Capital Financing Activities</u>		
Operating transfers out - General Fund	(151,019)	(151,395)
Sanitation District No. 1 cash transfer	-0-	215,145
Net Cash Used for Non Capital Financing Activities	(151,019)	63,750

**CITY OF SHELBYVILLE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (WATER AND SEWER-COMPONENT UNIT)**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	2001	2000
<u>Financing Activities</u>		
Fixed Capital Lease-Bonds Retired	(415,000)	(380,000)
Fixed Capital Lease-Bonds Issued	715,000	-0-
Notes Payable - KY Infrastructure Authority	(112,616)	(64,195)
Notes Payable - Fiscal Court	-0-	(46,000)
Debt issue cost	(12,944)	583,430
Grants and contribution for construction	661,647	126,984
Net Cash Provided By Financing Activities	836,087	220,219
Increase in Cash and Cash Equivalents	182,320	27,787
Cash and Cash Equivalents, Beginning of Year	251,659	223,872
Cash and Cash Equivalents, End of Year	\$ 433,979	\$ 251,659
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 696,310	\$ 566,645

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL - PROPRIETARY FUNDS (GOLF COURSE)**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	Budget	Actual	Variance Favorable (Unfavorable)
TOTAL REVENUES	\$ 903,253	\$ 967,592	\$ 64,339
TOTAL EXPENSES	660,173	649,785	10,388
Excess of Revenues Over (Under) Expenses	243,080	317,807	74,727
Non-Operating Income (Expenses)			
Interest expense	(192,852)	(186,547)	6,305
Depreciation and Amortization	-0-	(59,188)	(59,188)
	(192,852)	(245,735)	(52,883)
Net Income	50,228	72,072	21,844
Retained Earnings, July 1, 2000	248,677	248,677	-0-
Retained Earnings, June 30, 2001	\$ 298,905	\$ 320,749	\$ 21,844

The notes to the financial statements are an integral part of this statement.



CITY OF SHELBYVILLE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

PROPRIETARY FUNDS (GOLF COURSE) FOR THE YEAR ENDED JUNE 30, 2001 (with comparative amounts for 2000)

	2001	2000
OPERATING INCOME		
Green fees	\$ 405,033	\$ 422,611
Driving range	22,307	18,863
Cart rental	266,227	298,155
Sale of merchandise	71,010	77,139
Sale of concessions	139,946	143,842
Season passes	39,177	34,087
Cart passes	15,750	14,000
Interest earned	5,351	2,870
Other revenue	2,791	5,724
TOTAL OPERATING REVENUE	967,592	1,017,291
OPERATING EXPENSES		
Group insurance	15,425	15,546
Driving range	3,053	3,606
Payroll taxes	16,921	15,742
Retirement expenses	12,621	13,015
Salaries	251,651	224,054
Utilities	18,493	15,218
Fuel and oil	4,730	4,293
Fertilizer/chemicals	101,747	67,347
Sand, seed and sod	2,425	3,801
Equipment repair and maintenance	23,218	16,899
Office expense	2,685	3,279
Advertising	1,632	1,698
Irrigation repairs	3,616	2,215
Merchandise	57,921	63,755
Concessions	69,024	70,845
Miscellaneous	1,274	2,555
Uniforms	901	528
Cart repairs	5,673	4,157
Building improvement	5,294	347
Professional fees	2,180	1,394
Dues, travel and training	2,106	1,811
Property maintenance	435	3,641
Credit card charges	6,154	6,079
Sales tax	-	791
Workman's comp	10,427	9,196
Building repair and maintenance	16,998	7,155
Course repair and maintenance	10,299	1,176
Handicap fees	2,882	2,090
TOTAL OPERATING EXPENSES	649,785	562,233
OPERATING INCOME BEFORE DEPRECIATION AND INTEREST	317,807	455,058

**CITY OF SHELBYVILLE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**PROPRIETARY FUNDS (GOLF COURSE) (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	2001	2000
Operating Income Before Depreciation and Interest	\$ 317,807	\$ 455,058
Interest on long-term debt	186,547	190,418
Operating Income Before Depreciation	131,260	264,640
Other Deductions		
Amortization	775	775
Depreciation - golf course	58,413	63,888
TOTAL OTHER DEDUCTIONS	59,188	64,663
Income (Loss) before Operating Transfers	72,072	199,977
Transfer In	-0-	-0-
Net Income	72,072	199,977
RETAINED EARNINGS - JULY 1, 2000	248,677	48,700
RETAINED EARNINGS - JUNE 30, 2001	\$ 320,749	\$ 248,677

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (GOLF COURSE)**  
**FOR THE YEAR ENDED JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	2001	2000
Operating Activities		
Operating Income	\$ 72,072	\$ 199,977
Adjustment for non- cash operating activities		
Depreciation	58,413	63,888
Amortization	775	775
Changes in Operating Assets and Liabilities:		
Accounts Payable	17,586	(6,730)
Other assets	3,880	3,880
Other accrued liabilities	(4,983)	(7,822)
Inventory	(4,489)	66
Compensated absences	14,576	5,793
Net Cash Provided By Operating Activities	<u>157,830</u>	<u>259,827</u>
Investing Activities		
Purchase of assets	(82,313)	(50,126)
Sale of assets	-0-	-0-
Net Cash Used For Investing Activities	<u>(82,313)</u>	<u>(50,126)</u>
Financing Activities		
Payment on bond issue	(125,000)	(120,000)
Payments on lease obligation	(33,333)	(31,319)
Proceeds from note payable	60,699	25,853
Net Cash Provided By Financing Activities	<u>(97,634)</u>	<u>(125,466)</u>
Increase (Decrease) in Cash and Cash Equivalents	(22,117)	84,235
Cash and Cash Equivalents, Beginning of Year	558,593	474,358
Cash and Cash Equivalents, End of Year	<u>\$ 536,476</u>	<u>\$ 558,593</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

**Note 1 - Summary of Significant Accounting Policies**

The financial statements of the City of Shelbyville (City) are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply 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 GASB pronouncements, in which case, GASB prevails.

The accounting and reporting frame work and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2001.

A. Inventory

The inventory is priced at cost on the first-in, first-out basis.

B. Amortization

The debt issue expense is amortized by the debt outstanding method over the term of the issue.

C. Utility Assets:

All property and equipment is recorded at cost. Interest incurred on funds borrowed for construction is capitalized during the construction period. During the fiscal year ending June 30, 2001, \$22,259 was capitalized for construction in progress. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

D. Customer Deposits:

Interest is accrued at the rate of 6%, but not paid until service is discontinued.

E. New Customers:

New service connection fees are recorded as an addition to the equity of the water and sewer system. The cost of installation of the new service is recorded as an addition to water or sewer plant in service and is subject to depreciation.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### F. Cash Equivalents:

For purposes of the statement of cash flows, the City of Shelbyville considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

#### G. Total Columns (Memorandum Only)

Total columns on the Combined Statements are captioned "memo only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

#### H. Fund Accounting

The accounts of the City are organized into funds and account groups, each of which is considered to be a separate accounting entity. The major fund categories and account groups are:

##### *Governmental Fund Types*

Governmental funds use the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

##### 1.) General Fund:

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

##### 2.) Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

##### *Proprietary Fund Types*

Proprietary funds use the economic resources measurement focus. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings.

CITY OF SHELBYVILLE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2001

**Note 1 - Summary of Significant Accounting Policies (Continued)**

H. Fund Accounting- (Continued)

*Proprietary Fund Types – (Continued)*

1. The Shelbyville Municipal Water and Sewer System operates a combined water and sewer system, which serves Shelbyville and the surrounding area. The original Commission established in 1955 was dissolved, reestablished, and restructured during 1993. During 2000, the Shelby County Fiscal Court conveyed all property and assets of Sanitation District No. 1 to the Commission and the Commission assumed the debts and obligations of Sanitation District No. 1 to form a newly constituted Commission. The new Commission consists of seven voting members. The Mayor of the City of Shelbyville shall be one voting member and shall serve as chairperson. Three other members are to be appointed by the Mayor, with approval of the City Council. One of the three members appointed by the Mayor shall be a member of the City Council. Three members are to be appointed by the Shelby County Judge Executive, with approval of the Fiscal Court. One of the three members appointed by the Judge Executive shall be a member of the Fiscal Court. Since the City exercises oversight authority over the Water and Sewer Commission, it is treated as a component unit and its operations have been included herein as if it were part of the City's operations. Copies of the Water and Sewer System general purpose financial statements are available at their office. The Shelbyville Municipal Water and Sewer Commission is a proprietary entity of the City of Shelbyville. It derives its revenues primarily from water and sewer receipts.
  
2. The City of Shelbyville purchased and began operations of a municipal golf course during the 1991-1992 fiscal year. All employees are employed by the City. The City runs the day-to-day operations of the golf course; therefore, the activity has been included herein. The golf course derives its revenue primarily from green fee charges and cart rental fees.

*Account Groups*

The account groups are used to account for fixed assets and long-term liabilities which are not reported in the respective governmental funds.

I. Fixed Assets

General Fixed Assets

Generally accepted accounting principles for government accounting requires that general fixed assets owned by municipalities be recorded at cost, or if cost is not readily ascertainable, a reasonable estimate of cost, in a general fixed asset group of accounts. As of the balance sheet date, the City of Shelbyville's major equipment, buildings, lots and building contents total \$ 5,057,858.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### I. Fixed Assets – (Continued)

##### General Fixed Assets – (Continued)

Infrastructure fixed assets including streets, sidewalks and lighting systems are not reported as part of the General Fixed Assets Account Group. Infrastructure assets are recorded as expenditures, and are not capitalized. All other fixed assets are recorded as general fixed assets or as assets of proprietary funds. Expenditures for repairs and maintenance were charged to expense as incurred.

The Shelbyville-Shelby County City of Parks and Recreation is a joint venture whose City members are appointed as follows: four by the Shelby County Judge, four by the Mayor and one which they jointly appoint. For the year ended June 30, 2001, the City and County jointly provided operating funds of \$139,500 each. Copies of financial statements can be obtained at the Shelbyville-Shelby County City of Parks and Recreation offices.

#### J. Basis of Accounting

##### 1. *Modified Accrual Basis of Accounting*

The City uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise fees, insurance license fees and intergovernmental revenues.

##### 2. *Accrual Basis of Accounting*

The accrual basis of accounting is used in proprietary fund types. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred. No provision has been provided for doubtful accounts due to the amount determined to be uncollectible.

#### K. Debt Service Coverage

**The debt service coverage is computed by dividing operating income before depreciation and interest on long-term debt by the maximum annual principal and interest coming due on all system debt outstanding in any year (including base rentals.) The fix rate lease purchase agreements require debt service coverage of 1.20.**

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### L. Budget Policy and Practice

The City and Water and Sewer Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

- **The Mayor and Office Administrator are responsible for preparing the proposed operating budgets prior to each fiscal year commencing on July 1. The proposed operating budget is submitted to the City Council for approval. The budget is legally enacted through passage of an ordinance.**
- The Chairman submits an annual budget to the Commission at the May monthly meeting. The budget provides for any request by the Commission for surplus funds deposited in the name of the City. The annual budget is to be approved no later than June 30 of each year. Surplus funds in excess of the amount required to be maintained under the provision of the lease agreements between Kentucky Municipal Finance Corporation and the City of Shelbyville are to be deposited in the name of the City as provided in the lease agreements and may be transferred to the general fund of the City as provided in the lease agreements.
- Budgeted amounts are as originally adopted, or as amended by the City Council or by the Shelbyville Municipal Water and Sewer Commission. The budget for the City of Shelbyville was amended by vote of the City Council.

#### M. Encumbrances

Encumbrance accounting is used for the General Fund and special revenue funds. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

#### N. Budget Basis of Accounting

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.



# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### O. Component Unit

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

### Note 2 - Property Taxes

Property taxes are assessed on January 1 of each year. Tax bills are normally distributed in the fall of the same year and become payable upon receipt. Property taxes unpaid at May 1 of the following year are subject to lien filed against their property. The 2000 tax rate was 26.1 cents per \$100 valuation for motor vehicles and 48.0 for personal property taxes, and 21.9 cents per \$100 valuation for real estate taxes.

During July and August 2001, the City collected ad valorem taxes from prior years. Such amounts are recorded as property taxes receivable at June 30, 2001 and are as follows:

<u>Year</u>	<u>Amount</u>
1995	\$ 687
1996	705
1997	688
1998	976
1999	1,319
2000	4,716
Total	<u>\$ 9,091</u>

### Note 3 - Municipal Road Aid

The City receives municipal aid from the Kentucky Department of Transportation to enable the City to meet their responsibilities for local streets and roads. The funds are restricted for construction and maintenance of roads only. As of June 30, 2001, the City had a carryover of \$128,695 from prior years and an excess of revenues over expenditures of \$6,207 for the current period.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 4 - Community Development Block Grant Program

#### Fairway Crossing

Working in partnership with developer, Faulkner, Hinton and Associates, the City of Shelbyville will be providing infrastructure, utilities and road, to develop 15.07 acres for commercial use. The project will create 9 commercial spaces, including hotels, fast food, other restaurants, branch bank, and gas/convenience stores, which will provide 137 new jobs. The total infrastructure cost is \$1.422 million. Infrastructure activities associated with this development include a new water tower and the addition of a sewer line to the project site. The estimated price for an elevated tank is \$582,000 with an additional \$50,000 for connecting piping. Valves, telemetry and site work for a total of \$632,000. This amount is to be paid from CDBG funds. The cost to increase the tank size at a cost of approximately \$378,000 will be contributed by the City of Shelbyville.

Project records as of June 30, 2001:	CDBG grant
	<u>monies received</u>
Through June 30, 2000	\$ 800,250
Allowable expenses	<u>( 800,250)</u>
Unexpended funds	<u>\$ -0-</u>

### Note 5 - KML Lease Program

On June 30, 1997, the City entered into a seven-year agreement with the Kentucky League of Cities Small Issuer Lease Program for the purchase of a fire engine. On April 14, 2000, the City paid this lease agreement balance in full. In April 1999 the City entered into a five-year agreement with the Kentucky League of Cities Small Issuer Lease Program for the purchase of a street sweeper. During November 1999, the City entered an eight-year agreement with Fifth Third Bank for the purchase of an Effluent Water System. The lease is to be paid by the Water and Sewer Commission. On March 9, 2000, the City entered into a three-year lease agreement with Ford Motor Company for the purchase of two police cruisers. In September of 2000, the City entered into a three year lease agreement with Fifth Third Bank to purchase 2 police cruisers.

At June 30, 2001 the City had the following lease obligations:

	<u>Lease # 1</u>	<u>Lease # 2</u>	<u>Lease # 3</u>	<u>Lease # 4</u>	<u>Total</u>
Due in:					
one year	\$ 25,100	\$ 22,376	\$ 13,856	\$ 6,992	\$ 68,324
two years	24,900	23,580	-0-	7,208	55,688
three years	-0-	24,848		7,431	32,279
four years		26,184			26,184
five years		27,593			27,593
Due beyond five years	<u>-0-</u>	<u>14,348</u>	<u>-0-</u>	<u>-0-</u>	<u>14,348</u>
Total Obligation	<u>\$ 50,000</u>	<u>\$ 138,929</u>	<u>\$ 13,856</u>	<u>\$ 21,631</u>	<u>\$ 224,416</u>

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 6 - Compensated Absences

The City allows unlimited accumulation of vacation pay, which is payable upon termination of employment or used by the employee. Sick pay may be accrued to a maximum of 720 hours, but employees who voluntarily terminate employment or who are dismissed or laid off shall not be paid sick leave credit.

Accumulated unpaid vacation and sick leave is as follows:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
<u>VACATION PAY</u>		
Administration	\$ 13,597	\$ 14,065
Firemen	23,892	23,252
Police	21,966	21,511
Public Works	13,944	13,050
Golf Course	<u>18,551</u>	<u>11,360</u>
Total	<u>\$ 91,950</u>	<u>\$ 83,238</u>
 <u>SICK LEAVE</u>		
Administration	\$ 30,615	\$ 22,788
Firemen	53,053	34,995
Police	84,597	73,042
Public Works	42,920	37,156
Golf Course	<u>23,946</u>	<u>16,560</u>
Total	<u>\$ 235,131</u>	<u>\$ 184,541</u>

### Note 7 - Funds and Investments - Water and Sewer Commission

The Commission maintains numerous operating and restricted cash and cash investment accounts at various depository banks. At June 30, 2001, the carrying amount of the Commission's cash investments was \$2,657,235 and the various bank balances were \$1,302,057. All cash investments were treasury certificates or were covered by collateral in the form of pledged treasury certificates. All of the bank balances were covered by the \$100,000 federal depository insurance or pledged treasury certificates, with the exception of \$450,542.

Following is a schedule of the restricted funds and investments:

	<u>Debt Service Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Depreciation Fund</u>	<u>Construction Funds</u>	<u>Surplus Funds</u>
Cash	\$ 239,691		\$ 386,660	\$ 1,448,419	\$ 174,295
U.S. Government Securities		<u>\$ 1,010,513</u>			
Total	<u>\$ 239,691</u>	<u>\$ 1,010,513</u>	<u>\$ 386,660</u>	<u>\$ 1,448,419</u>	<u>\$ 174,295</u>

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 7 - Funds and Investments - Water and Sewer Commission – (Continued)

The fixed rate lease purchase agreement dated November 25, 1991 requires that the Commission establish various funds and accounts and makes various monthly transfers. The Commission is in compliance with this requirement, except for their surplus fund is under funded by \$503. The series 1999A fixed rate lease purchase agreement dated June 1, 1999 also requires that the Commission establish various funds and accounts and make various monthly transfers. The Commission is in compliance with this requirement.

### Note 8 - Utility Plant

The water system was acquired from the Kentucky Water Service Company and all subsequent additions are recorded at cost. The sewer system is not recorded at cost. The actual cost to the Commission was the payment of outstanding Sewerage System Revenue Bonds in the amount of \$9,000. An appraisal made at the time of acquisition showed the system to have a net sound value of \$200,000. Consequently, entries were made in the Commission's records recording this amount as an asset. Subsequent additions have been recorded at cost. April 1, 2000 the Sanitation Districts assets were transferred to the Commission with a net book value of \$958,688.

Following is a schedule of the utility plant:

	<u>2001</u>	<u>2000</u>
<u>Water Plant</u>		
Source of supply land	\$ 5,000	\$ 5,000
Power of pumping land	21,500	21,500
Source of supply structures	4,633,210	4,627,273
Pumping structures	236,169	236,169
Standpipes	2,251,498	2,251,498
Purification system	2,378,346	2,361,640
Dam and line	240,963	240,963
Shop building	16,000	16,000
Miscellaneous structures	40,915	31,620
Pumping equipment	2,246,964	2,242,444
Distribution mains	4,534,467	4,526,856
Services and meters	1,388,870	1,300,002
Hydrants	<u>199,538</u>	<u>191,742</u>
Total water plant	18,193,440	18,052,707

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

**JUNE 30, 2001**

### Note 8 - Utility Plant – (Continued)

#### Sewer Plant

Land	\$ 42,900	\$ 42,900
Structures	3,250,919	3,245,673
Distribution lines	7,406,339	7,365,446
Manholes	266,866	253,097
Disposal plant equipment	6,388,799	5,891,209
Office furniture and fixtures	18,097	18,097
Total sewer plant	<u>17,373,920</u>	<u>16,816,422</u>

#### Administrative and General

Land and building	450,744	450,744
Office furniture and fixtures	172,339	168,357
Transportation equipment	372,648	346,092
Shop equipment	<u>353,013</u>	<u>349,048</u>
Total administrative and general	1,348,744	1,314,241

#### Construction in Progress

Water plant	5,748	1,260
Sewer plant	<u>350,710</u>	<u>73,777</u>
Total construction in progress	<u>356,458</u>	<u>75,037</u>
Total utility plant	<u>\$ 37,272,562</u>	<u>\$ 36,258,407</u>

### Note 9 - Unamortized Debt Issue Expense

This amount arose from the issuance of revenue bonds and is being amortized by the bonds outstanding method. During 1991, all earlier bond issues were retired with a capital lease. The refunding cost and the unamortized expenses of the earlier issues are shown as an additional unamortized expense of the 1991 capital lease and are being amortized over a 20-year period. During 1998, a portion of the capital lease was defeased and the remainder is still being amortized over the remaining 20-year period. The portion that was defeased and the new issuance costs is also being amortized over a 20-year period. April 1, 2000 the Sanitation District's assets and liabilities were merged with the Commission. This resulted in additional unamortized debt issue expense that is also being amortized over a 20-year period. July 14, 2000 new revenue bonds were issued. The new issuance costs is also being amortized over a 20 year period.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 10 - Fixed Rate Lease Obligation

On November 25, 1991, the City of Shelbyville entered into a fixed rate lease purchase agreement with the Kentucky Municipal Finance Corporation as lessor. Under the agreement, revenue bonds of \$7,995,000 were sold at par. Proceeds were used to retire all outstanding revenue bonds and other long-term lease obligations.

The bonds sold under the lease agreement will be retired over a period of twenty (20) years with interest rates from 4.6% to 6.7%. The annual base period rentals, including interest and fiduciary fees, under the agreement range from \$328,138 to \$336,105. The agreement establishes special trust funds as follows: General Revenue Fund, Debt Service Fund, Debt Service Reserve, Operation and Maintenance Fund, Depreciation Fund, and Surplus Fund. These funds are being maintained as required by the agreement except for the surplus fund, which is under funded by \$503. As provided under the Surplus Fund, \$151,019 was transferred to the City of Shelbyville General Fund during the fiscal year. At June 30, 2001 the Commission did comply with the required debt service coverage of 1.20.

On June 1, 1998 the City of Shelbyville entered into a fixed rate lease purchase agreement with the Kentucky Municipal Finance Corporation as lessor. Under the agreement, revenue bonds of \$9,540,000 were sold at par. \$3,607,880 of these funds was used to purchase US government securities. Those securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on a portion of the 1991 lease purchase agreement. As a result the fixed rate lease portion held in escrow is considered defeased and the liability has been removed from the balance sheet.

The bonds sold under the new (1998) lease agreement will be retired over a period of twenty (20) years with interest rates from 4.0% to 5.15%. The annual base period rentals, including interest, under the agreement range from \$680,515 to \$1,025,213. The new agreement establishes special trust funds as follows: Administrative Expense Fund, Project Acquisition Fund, Rental Payment Fund, Debt Service Reserve Fund, and the Rebate Fund. These funds have been established and maintained as required by the agreement.

On July 14, 2000 the City of Shelbyville entered into a fixed rate lease purchase agreement with the Kentucky League of Cities Funding Trust as lessor. Under the agreement, revenue bonds of \$715,000 were sold at par. Proceeds were used for water and sewer line extension and expansion.

The bonds sold under the lease agreement will be retired over a period of twenty (20) years with variable interest rates. The assumed rate of interest for base rental payments is 4.18%. After notice from the lessor, the Commission will either receive a credit against base rental payable on July 15, of each fiscal year in an amount equal to the excess, if any, of the aggregate of the interest components of base rentals paid by the Commission in the preceding fiscal year (at the assumed interest rate) over the

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 10 - Fixed Rate Lease Obligation – (Continued)

Commissions' proportionate share of all interest paid on variable rate bonds or the Commission will immediately pay as additional rentals, an amount equal to the excess, if any, of the Commission's proportionate share of all interest paid or to be paid on variable rate bonds over the aggregate on the interest components of base rentals then required to be paid by the Commission (at the assumed interest rate). Prior to May 1 of each fiscal year during the lease term, the lessor will inform the Commission of the amount of additional rentals that are estimated to be payable during the next ensuing fiscal year. The annual base period rentals, including interest and fiduciary fees, under the agreement range from \$40,729 to \$68,591

Outstanding revenue bonds under the lease agreement July 1, 2000	\$ 11,635,000
Bonds retired during the fiscal year	(415,000)
New bonds issued during the fiscal year	<u>715,000</u>
Bonds outstanding June 30, 2001	\$ 11,935,000
Current bonds outstanding	<u>( 440,000)</u>
Long term bonds outstanding	<u>\$ 11,495,000</u>

### Future maturities of long-term debt

<u>Due date</u>	<u>Interest rate</u>	<u>Amount</u>
2002	4.25 – 6.25	\$ 460,000
2003	4.30 – 6.35	480,000
2004	4.40 – 6.45	505,000
2005	4.50 – 6.55	535,000
2006	4.55 – 6.70	560,000
Thereafter	4.60 – 6.70	<u>8,955,000</u>
Total		<u>\$ 11,495,000</u>

### Note 11 – Notes Payable – KY Infrastructure Authority

On March 7, 2000 the Commission assumed the remaining unpaid portion of the debt as part of the Commission's assumption of the obligation to provide sewer service to the territory of the Sanitation District. The unpaid portion at March 7, 2000 was \$1,799,494. The KIA loan consists of two separate loans. Fund A original loan was \$1,402,737 at 2.6% with semi-annual principal and interest payments due on June 1 and December 1. Fund C original loan was \$774,511 at 4.5% to 6.375% with payments due January 1 and July 1.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED JUNE 30, 2001

### Note 11 – Notes Payable – KY Infrastructure Authority – (Continued)

Future maturities of these notes:

<u>Due date</u>	<u>Interest rate</u>	<u>Amount</u>
2001	2.60 – 5.337	\$ 101,487
2002	2.60 – 5.411	105,436
2003	2.60 – 5.509	109,406
2004	2.60 – 5.621	112,872
2005	2.60 – 4.125	116,915
Thereafter	2.60 – 4.750	<u>1,002,977</u>
Total Outstanding		<u>\$ 1,549,093</u>

### Note 12 - Contributions in Aid of Construction

This amount consists of facilities paid for by customers and turned over to the Commission. For periods after July 1, 1978 new meter installation charges are credited to the account. On March 23, 1989, a new ordinance was passed for a system development charge to provide for capital improvements and future expansions to the water and sewer system.

### Note 13 - Municipal Contribution

As mentioned in Note 8 on the valuation of the sewer system, this amount represents the excess of the system carried on the books over the cost to the Commission.

### Note 14 – Sanitation District No. 1 Contribution

As mentioned in Note 8, this amount represents net assets transferred from Sanitation District No. 1.

### Note 15 - Grants

The Commission has received grants from the federal and state governments for new construction and improvements to the water and sewer system. In June 30, 2001 fiscal year, \$400,000 Community Development Block Grant monies were secured by the Shelby County Fiscal Court for the Meadowbrook Sewer System Project.



# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

**JUNE 30, 2001**

### **Note 16 - Funds and Investments**

The City of Shelbyville maintains numerous accounts at various depository banks. All of the bank balances were covered by the \$100,000 federal depository insurance. The City has pledged securities for those accounts with balances over \$100,000.

Effective January 1, 1995, the General Assembly enacted KRS 66.480 which limits investments of public funds generally to obligations of the U.S. and certain of its agency and instrumentality, certificates of deposits or other interest-bearing accounts of FDIC insured banks or savings and loan institutions.

### **Note 17 - Pension Plan**

The City and Commission provide pension benefits for regular full-time employees with at least 100 hours of work per month. These benefits are provided under the County Employees Retirement System (CERS) of the state of Kentucky. Regular full-time employees are required to participate. The plan is included in the Annual Report of the Kentucky Retirement Systems. A copy may be obtained from the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description for Non-Hazardous and Hazardous Employees - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county 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 circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions for Non-Hazardous - For the year ended, June 30, 2000 and 1999, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statue 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 preceding 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2000 and 1999, participating employers contributed 7.28% and 8.22%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the Year ended June 30, 2000 and 1999, was 7.28% and 8.22%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

**JUNE 30, 2001**

### **Note 17 - Pension Plan – (Continued)**

Contributions for Hazardous - For the year ended, June 30, 2000 and 1999, plan members were required to contribute 8% of their annual creditable compensation. The State was 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 preceding 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2000 and 1999, participating employers contributed 17.55% and 18.85%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2000 and 1999, was 17.55% and 18.85%, respectively, of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The City's current year payroll was \$872,995 for non-hazardous and \$1,267,069 for hazardous. The City made the required contributions for the fiscal year amounting to \$263,221. \$243,322 and \$222,230 were contributed for June 30, 2000 and 1999 respectively. The Commission and covered employees made the required contributions for the fiscal year amounting to \$96,043. \$88,235 and \$86,978 were contributed for June 30, 2000 and 1999 respectively.

### **Note 18 - Weissinger Hills Golf Course Bonds Payable**

On October 26, 1992, the City of Shelbyville and Shelbyville Public Recreation Corporation declared a bond issue for the sum of \$3,200,000. These proceeds were to be used for the retirement of the note payable used for purchasing the Weissinger Hills Golf Course. A bond payment schedule, along with interest rates is included within these financial statements. This bond issue is for a term of 20 years. A portion of the bond proceeds in the amount of \$103,651 was used to cover bond issuance costs, which will be amortized over the life of the bonds. In addition to the bond issuance costs, \$314,375 was used to purchase U.S. Treasury Strips with Liberty National Bank of Louisville serving as trustee. These strips were set up as a reserve fund to aid in the retirement of these bonds.

On May 14, 1999, the City of Shelbyville declared a bond issue for the sum of \$3,880,000. Proceeds were used to retire all outstanding revenue bonds from the October 26, 1992 bond issuance and purchase of land adjacent to the golf course. A bond payment schedule, along with interest rates is included within these financial statements. This bond issue is for a term of 20 years. A portion of the bond proceeds in the amount of \$15,500 were used to cover bond issuance cost which will be amortized over the life of the bond. In addition, the bonds were issued at a discount of \$77,600, which is being amortized over the life of the bond. However, the advance refunding resulted in the recognition of an accounting loss of \$279,598.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

**JUNE 30, 2001**

### Note 18 - Weissinger Hills Golf Course Bonds Payable – (Continued)

Debt maturities are as follows:

Principal due October 1,	
2001	\$ 130,000
2002	140,000
2003	145,000
2004	155,000
2005	<u>160,000</u>
	730,000
Due beyond 2006	<u>2,775,000</u>
Total	<u>\$3,505,000</u>

### Note 19 - Lease Obligations - Weissinger Hills Golf Course

In March 1999, the City (Weissinger Hills Golf Course) entered into a lease agreement with TFC Textron for the purchase of new golf carts. The lease agreement is for a six year period.

At June 30, 2001 the City had the following lease obligation:

	<u>Lease</u>
Due in: one year	\$ 35,477
two years	37,759
three years	40,189
four years	-0-
five years	-0-
Due beyond five years	<u>-0-</u>
Total Obligations	<u>\$ 113,425</u>

### Note 20 – Loan Commitment

The City of Shelbyville entered an agreement with Shelby County Trust Bank for a commitment of a \$110,000 term loan at a rate of 7.5% of prime floating to adjust as prime changes. The unsecured loan is for the construction of a storage repair building on Weissinger Golf Course. As of June 30, 2001, The City had received \$84,937 of this commitment.

# CITY OF SHELBYVILLE

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

**JUNE 30, 2001**

### Note 21 - Fixed Assets

A summary of changes in general fixed assets follows:

	Balance <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2001</u>
Land	\$ 815,000			\$ 815,000
Buildings	1,916,531			1,916,531
Equipment	<u>2,285,819</u>	<u>\$ 40,508</u>	<u>\$ -0-</u>	<u>2,326,327</u>
Totals	<u>\$ 5,017,350</u>	<u>\$ 40,508</u>	<u>\$ -0-</u>	<u>\$ 5,057,858</u>

A summary of changes in proprietary fund type (golf course) fixed assets follows:

	Balance <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2001</u>
Land	\$ 2,956,223			\$ 2,956,223
Buildings	358,286	\$ 77,560		435,846
Equipment	<u>538,823</u>	<u>4,753</u>	<u>\$ -0-</u>	<u>543,576</u>
Sub-Total	3,853,332	82,313	-0-	3,935,645
Less accumulated Depreciation	<u>374,995</u>	<u>58,413</u>	<u>-0-</u>	<u>433,408</u>
Totals	<u>\$ 3,478,337</u>	<u>\$ 23,900</u>	<u>\$ -0-</u>	<u>\$ 3,502,237</u>

### Note 23 - Risk Management

The City of Shelbyville is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently carries property and general liability insurance through the Kentucky Municipal Risk Management Association. Workman's Compensation insurance is carried through the Kentucky League of Cities. The City reports all of its risk management activities in its General Fund and Golf Course Fund.

**CITY OF SHELBYVILLE**  
**COMBINING BALANCE SHEET - ALL PROPRIETARY FUNDS**  
**JUNE 30, 2001**  
**(with comparative amounts for 2000)**

<u>ASSETS</u>	Golf Course Fund	Water & Sewer Fund	Totals (Memorandum Only)	
	2001	2000	2001	2000
Cash	\$ 192,976		\$ 192,976	\$ 216,006
Restricted cash		\$ 408,889	408,889	226,569
Restricted funds and investments	343,500	3,259,579	3,603,079	2,766,452
Savings & Certificates of Deposits		25,090	25,090	25,090
Accounts Receivable		346,740	346,740	334,806
Due from others		9,522	9,522	18,963
Materials inventory	21,800	79,194	100,994	91,896
Other assets		967	967	755
Utility fixed assets		37,438,214	37,438,214	36,424,059
Unamortized debt discount & expenses	78,747	494,256	573,003	617,887
Land	2,956,223		2,956,223	2,956,223
Golf course fixed assets	979,422		979,422	897,109
Accumulated depreciation	(433,408)	(11,006,036)	(11,439,444)	(10,486,561)
<b>TOTAL ASSETS</b>	<b>\$ 4,139,260</b>	<b>\$ 31,056,415</b>	<b>\$ 35,195,675</b>	<b>\$ 34,089,254</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**COMBINING BALANCE SHEET – ALL PROPRIETARY FUNDS (CONTINUED)**  
**JUNE 30, 2001**  
**(with comparative amounts for 2000)**

<u><b>LIABILITIES AND FUND EQUITY</b></u>	Golf Course Fund	Water & Sewer Fund	Totals (Memorandum Only)	
	2001	2000	2001	2000
<b>Liabilities</b>				
Accounts payable	\$ 27,742	\$ 70,294	\$ 98,036	\$ 70,851
Accrued payroll	922		922	1,460
Accrued expenses and withholdings	11,743	30,119	41,862	52,296
Notes payable - bank	86,552		86,552	25,853
Notes Payable - KY Infrastructure Authority		1,549,093	1,549,093	1,661,709
Obligations under capital lease agreement	113,425		113,425	546,758
Obligations for compensated absences	42,496		42,496	27,920
Accrued interest	30,631	8,144	38,775	33,831
Fixed rate lease obligation		11,935,000	11,935,000	11,235,000
Accounts payable - construction		71,214	71,214	22,479
Customer deposits		109,372	109,372	99,393
Accrued interest - customer deposits		50,044	50,044	45,734
Revenue bonds outstanding	3,505,000		3,505,000	3,630,000
<b>TOTAL LIABILITIES</b>	<b>3,818,511</b>	<b>13,823,280</b>	<b>17,641,791</b>	<b>17,453,284</b>
<b>Retained Earnings - unreserved</b>				
Retained Earnings - unreserved	320,749	5,321,542	5,642,291	5,386,024
Contribution in aid of construction		3,979,484	3,979,484	3,717,837
Municipal contribution		155,962	155,962	155,962
Sanitation District No. 1 contribution		958,688	958,688	958,688
Grants		6,817,459	6,817,459	6,417,459
<b>TOTAL FUND EQUITY</b>	<b>320,749</b>	<b>17,233,135</b>	<b>17,553,884</b>	<b>16,635,970</b>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<b>\$ 4,139,260</b>	<b>\$ 31,056,415</b>	<b>\$ 35,195,675</b>	<b>\$ 34,089,254</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUND TYPES**  
**JUNE 30, 2001**  
**(with comparative amounts for 2000)**

	Special Grants Fund	Community Development Block Grant Fund	Municipal Road Aid Fund	LGEA Coal Severance Fund	Justice Grant Fund	Local Law Enforcement Block Grant	Public Properties Fund	TOTALS (MEMORANDUM ONLY)	
								2001	2000
<b><u>ASSETS</u></b>									
Cash			\$ 96,369		\$ 1	\$ 1	\$ 5,302	\$ 101,673	\$ 105,370
Savings & certificates of deposits			40,297	\$ 6,025				46,322	43,262
<b>TOTAL ASSETS</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 136,666</b>	<b>\$ 6,025</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 5,302</b>	<b>\$ 147,995</b>	<b>\$ 148,632</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>									
<b>Liabilities</b>									
Accounts payable			\$ 1,764					\$ 1,764	\$ 2,078
Notes payable								-0-	-0-
<b>TOTAL LIABILITIES</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 1,764</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 1,764</b>	<b>\$ 2,078</b>
<b>Fund Equity</b>									
Reserved fund balance	-0-	-0-	134,902	6,025	1	1	5,302	146,231	146,554
<b>TOTAL FUND EQUITY</b>	<b>-0-</b>	<b>-0-</b>	<b>134,902</b>	<b>6,025</b>	<b>1</b>	<b>1</b>	<b>5,302</b>	<b>146,231</b>	<b>146,554</b>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 136,666</b>	<b>\$ 6,025</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 5,302</b>	<b>\$ 147,995</b>	<b>\$ 148,632</b>

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBYVILLE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCECS – ALL SPECIAL REVENUE FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2001 (with comparative amounts for 2000)

	Special Grants	Community Development Block Grant	Municipal Road Aid	LGEA Coal Severance Fund	Justice Grant	Local Law Enforcemen t Block Grant	Public Properties	TOTALS (MEMORANDUM ONLY)	
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	2001	2000
<b>Revenues</b>									
State grant	\$ 50,983						\$ -0-	\$ 50,983	\$ 62,431
Local Government Economic Assistance				\$ 2,251				2,251	1,953
Justice grant					\$ 88,034			88,034	53,018
Law Enforcement grant								-0-	15,709
Kentucky municipal aid			\$ 96,969					96,969	100,715
Community development block grant		\$ 2,250						2,250	138,716
<b>Total Operating Revenues</b>	<b>50,983</b>	<b>2,250</b>	<b>96,969</b>	<b>2,251</b>	<b>88,034</b>	<b>\$ -0-</b>	<b>-0-</b>	<b>240,487</b>	<b>472,542</b>
<b>Expenses</b>									
Street department			41,502					41,502	59,102
Police Department					88,034	8,041		96,075	78,984
Community development	50,983	2,351		1,000				54,334	308,973
Capital Outlay			27,943					27,943	448,748
	50,983	2,351	69,445	1,000	88,034	8,041	-0-	219,854	895,807
Excess of revenue over (under) expenses	-0-	(101)	27,524	1,251	-0-	(8,041)	-0-	20,633	(423,265)
<b>Non-Operating Revenue (Expenses):</b>									
Interest income			5,874	162		37	162	6,235	6,595
Transfers In								-0-	474,989
Transfers (Out)								-0-	-0-
<b>Total Non-Operating Revenue (Expenses)</b>	<b>-0-</b>	<b>-0-</b>	<b>5,874</b>	<b>162</b>	<b>-0-</b>	<b>37</b>	<b>162</b>	<b>6,235</b>	<b>481,584</b>



CITY OF SHELBYVILLE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCECS – ALL SPECIAL REVENUE FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2001 (with comparative amounts for 2000) (cont'd)

	Special Grants Fund	Community Development Block Grant Fund	Municipal Road Aid Fund	LGEA Coal Severance Fund	Justice Grant Fund	Local Law Enforcemen t Block Grant	Public Properties Fund	TOTALS (MEMORANDUM ONLY)	
								2001	2000
Other Financing Sources (Uses):									
Payment of lease principal			(23,900)					(23,900)	(22,700)
Payment of lease interest			(3,291)					(3,291)	(4,404)
Total Other Financing Sources (Uses) (Expenses)	-0-	-0-	(27,191)	-0-	-0-	-0-	-0-	(27,191)	(27,104)
Excess of revenues & other sources over (under) expenses & other uses	-0-	(101)	6,207	1,413	-0-	(8,004)	162	(323)	31,215
Fund Balances, Beginning of year	-0-	101	128,695	4,612	1	8,005	5,140	146,554	115,339
Fund Balances, End of year	\$ -0-	\$ -0-	\$ 134,902	\$ 6,025	\$ 1	\$ 1	\$ 5,302	\$ 146,231	\$ 146,554

The notes to the financial statements are an integral part of this statement.

**CITY OF SHELBYVILLE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	CDBG Fund			Municipal Road Aid Fund			LGEA Coal Severance Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>									
Intergovernmental									
State Grant									
Local Government Economic Assistance							\$ 2,200	\$ 2,251	\$ 51
Justice grant									
Law Enforcement grant									
Kentucky municipal aid				\$ 98,000	\$ 96,969	\$ (1,031)			
Community Development	\$ 2,250	\$ 2,250	\$ -0-				100	162	62
Interest				4,500	5,874	1,374			
Total Revenues	2,250	2,250	-0-	102,500	102,843	343	2,300	2,413	113
<b>EXPENDITURES</b>									
Street Department				44,150	41,502	2,648			
Police Department									
Community Development	2,351	2,351	-0-				2,000	1,000	1,000
Capital Outlay				26,000	27,943	(1,943)			
Total expenditures	2,351	2,351	-0-	70,150	69,445	705	2,000	1,000	1,000
Excess of Revenues Over (Under) Expenditures	(101)	(101)	-0-	32,350	33,398	1,048	300	1,413	1,113

**CITY OF SHELBYVILLE**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2001 (cont'd)**

	CDBG Fund			Municipal Road Aid Fund			LGEA Coal Severance Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING									
SOURCES (USES)									
Transfers In (Out)									
Payment of lease principal				(23,900)	(23,900)	-0-			
Payment of lease interest				(3,300)	(3,291)	(9)			
Total Other Financing									
Sources (Uses)	-0-	-0-	-0-	(27,200)	(27,191)	(9)	-0-	-0-	-0-
Excess of Revenues and Other									
Sources Over (Under)									
Expenses and Other Uses	(101)	(101)	-0-	5,150	6,207	1,039	300	1,413	1,113
Fund Balance, July 1, 2000	101	101	-0-	128,695	128,695	-0-	4,612	4,612	-0-
Fund Balance, June 30, 2001	\$ -0-	\$ -0-	\$ -0-	\$ 133,845	\$ 134,902	\$ 1,039	\$ 4,912	\$ 6,025	\$ 1,113

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBYVILLE  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL -**  
**ALL SPECIAL REVENUE FUND TYPES (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	Special Grants Fund			Public Properties Corp.			Justice Grants Fund			Local Law Enforcement Grant		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>												
Intergovernmental												
State grant	\$50,985	\$50,983	\$ (2)									
Local Government Economic Assistance												
Justice grant							\$88,034	\$88,034	\$ -0-			
Law Enforcement grant												
Kentucky municipal aid												
Community development block grant												
Interest				\$ 100	\$ 162	\$ 62				\$ 37	\$ 37	\$
<b>TOTAL REVENUES</b>	<b>50,985</b>	<b>50,983</b>	<b>(2)</b>	<b>100</b>	<b>162</b>	<b>62</b>	<b>88,034</b>	<b>88,034</b>	<b>-0-</b>	<b>37</b>	<b>37</b>	<b>\$</b>
<b>EXPENDITURES</b>												
Street Department												
Police Department												
Community Development	50,985	50,983	2				88,034	88,034	-0-	8,041	8,041	
Capital Outlay				-0-	-0-	-0-						
<b>TOTAL EXPENDITURES</b>	<b>50,985</b>	<b>50,983</b>	<b>2</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>88,034</b>	<b>88,034</b>	<b>-0-</b>	<b>8,041</b>	<b>8,041</b>	
Excess of revenues over (under) Expenditures	-0-	-0-	-0-	100	162	62	-0-	-0-	-0-	(8,004)	(8,004)	
<b>OTHER FINANCING SOURCES (USES)</b>												
Transfers In (Out)												
Payment of lease principal												
Payment of lease interest												
Total Other Financing Sources (Uses)	-0-	-0-	-0-	-0-	-0-	0-	-0-	-0-	-0-	-0-	0-	
Excess of Revenues and Other Sources Over (Under) Expenses and Other Uses	-0-	-0-	-0-	100	162	62	-0-	-0-	-0-	(8,004)	(8,004)	
Fund Balances - July 1, 2000	-0-	-0-	-0-	5,140	5,140	-0-	1	1	-0-	8,005	8,005	
Fund Balances - June 30, 2001	\$ -0-	\$ -0-	\$ -0-	\$ 5,240	\$ 5,302	\$ 62	\$ 1	\$ 1	\$ -0-	\$ 1	\$ 1	\$

The notes to the financial statement are an integral part of this statement.



**CITY OF SHELBYVILLE  
SCHEDULE OF BOND REDEMPTION  
LEASE REVENUE BONDS  
JUNE 30, 2001**

Total Value of Bond Issue:		\$3,880,000
Year of Issue:		1998
Interest payable on:		April 1 - October 1
Interest rates:	\$	1,455,000 - 4.90%
		1,295,000 - 5.35%
		1,130,000 - 5.45%

PRINCIPAL AS FOLLOWS:

Due  
October 1,

2001	\$	130,000	
2002		140,000	
2003		145,000	
2004		155,000	
2005		160,000	
		730,000	
2006		170,000	
2007		180,000	
2008		190,000	
2009		200,000	
2010		210,000	
2011		220,000	
2012		230,000	
2013		245,000	
2014		260,000	
2015		275,000	
2016		290,000	
2017		305,000	
		2,775,000	
Total	\$	3,505,000	

Funds used to finance the acquisition and construction of golf course facilities.

**CITY OF SHELBYVILLE  
SCHEDULE OF BOND REDEMPTION  
REVENUE BONDS  
JUNE 30, 2001**

Total Value of Bond Issue:	City Hall	\$1,705,000
	Clear Creek	\$ 495,000
Year of Issue:	City Hall	1996
	Clear Creek	1999
Interest payable on:		Monthly
Interest rates:	6.20%	
	4.46%	

PRINCIPAL AS FOLLOWS:

<u>Due</u>	CITY HALL	CREEK PARK
2001	80,000	20,000
2002	85,000	20,000
2003	90,000	20,000
2004	90,000	20,000
2005	95,000	20,000
	440,000	100,000
2006	100,000	20,000
2007	100,000	25,000
2008	105,000	25,000
2009	110,000	25,000
2010	115,000	25,000
2011	120,000	25,000
2012	125,000	30,000
2013	130,000	30,000
2014	135,000	30,000
2015	145,000	35,000
2016		35,000
2017		35,000
2018		40,000
	1,185,000	380,000
Total	\$ 1,625,000	\$ 480,000

Funds used to refinance the acquisition and construction of City Hall and to assist in the construction of a Family Center at Clear Creek Park.

**CITY OF SHELBYVILLE  
CITY OFFICIALS AND COUNCIL MEMBERS  
JUNE 30, 2001**

		<u>Term Expires</u>
MAYOR	David B. Eaton	December 31, 2002
CITY COUNCIL	Tom Hardesty	December 31, 2002
	Charles Long	December 31, 2002
	Michael Miller	December 31, 2002
	Donald Cubert, Sr.	December 31, 2002
	Bobby Hudson	December 31, 2002
	Valoise Owens	December 31, 2002
OFFICE ADMINISTRATOR	Judith Smith	
CITY CLERK/TREAS.	Inez Harris	



**CITY OF SHELBYVILLE  
AUDITORS' CERTIFICATION  
JUNE 30, 2001**

We certify that as part of our examination of the general purpose financial statements we examined those local government economic assistance funds granted to the City of Shelbyville, and that those funds were expended for the purpose intended.

Louisville, Kentucky  
August 31, 2001

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

To the City Council  
City of Shelbyville, Kentucky

We have audited the general purpose financial statements of the City of Shelbyville, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated August 31, 2001. 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.

**Compliance**

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

**Internal Control Over Financial Reporting**

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

This report is intended for the information of management, City Council, others within the organization, the Department of Local Government 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.

Louisville, Kentucky  
August 31, 2001