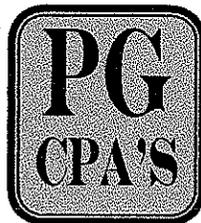


CITY OF BARDSTOWN, KENTUCKY

Audited Financial Statements

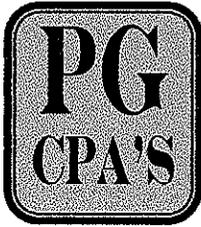
For the Year Ended June 30, 2009



Peercy and Gray, PSC
Certified Public Accountants
2300 Hursbourne Village Drive, Suite 500
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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Bardstown, Kentucky
220 North Fifth Street
Bardstown, Kentucky 40004

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardstown, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Bardstown, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardstown, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and page 48 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Bardstown, Kentucky
November 14, 2009

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bardstown, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements and other schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and other schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2009, on our consideration of the City of Bardstown, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Perry and Gray, PSC

November 14, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS



OLD KENTUCKY HOME
DOORWAY

City of Bardstown

J. RICHARD HEATON, MAYOR
220 N. 5TH ST.
BARDSTOWN, KENTUCKY 40004
TEL. NO. 877/348-5947
FAX. NO. 502/348-2433



ART TREASURES IN
ST. JOSEPH CATHEDRAL

Management's Discussion and Analysis Annual Financial Statements For the Fiscal Year Ended June 30, 2009

CFO Mike Abell and Accountant Kerry Greenwell present this narrative to help those who review this report better understand the statements, its schedules, and the notes. It is our intent that these comments provide all parties interested in the City's financial condition, especially the citizens of Bardstown, a better understanding of the City's operations and financial condition. The City reports its annual financial statements in a format required by the Governmental Accounting Standards Board. Should any reader of these statements have questions or desire additional information, please contact Mike Abell at mabell@bardstowncable.net.

Financial Highlights

- As of June 30, 2009, the City's net assets (assets minus liabilities) totaled \$63,668,000, nearly the same as the June 30, 2008 figure. Were it not for contributed assets of some \$300,000, net assets would have slightly decreased from last year.
- Net assets include capital assets, net of related debt, of \$48,846,000, \$10,685,000 in restricted resources (restricted to specific projects by law, regulation, or contractual agreement), and unrestricted resources of \$4,137,000.
- Unrestricted net assets, those resources available to continue City operations into the next fiscal year, decreased by nearly \$5,000,000 to the above \$4,137,000 during the fiscal year as major capital spending was funded internally.
- City liabilities on June 30, 2009 totaled \$25,074,000, of which \$16,681,000 is long term and \$8,393,000 is current, including FY 10 bond and lease payments of \$1,750,000 plus accounts payable, internal balances, deferred revenue, and other liabilities.
- There was significant capital asset but no long-term debt activity during the fiscal year. There were no known changes in credit rating and debt limitations. The City just completed the \$4,000,000 Town Creek Waste Water Interceptor line and the \$500,000 MAGO water pumping station, both started in FY 09, and both funded internally.

Financial Highlights (Continued)

- The City paid \$1,640,000 toward its bonded debt, as scheduled, this fiscal year.
- The unreserved fund balance for the General Fund, as of June 30, was \$981,936, a 4% increase over the prior year balance. This unreserved fund balance is equal to 13% of the FY 09 General Fund budgeted expenditures.
- The local economy has been affected by the national recession. Utility use by our newer and expanded plants was slightly less than anticipated and there was one plant closing (Intertec) and work reductions in others, resulting in fairly flat utility sales and revenue. The new Flowers Foods facility and call center for Sykes should stabilize or even increase utility revenue in FY 2010. Cable and Internet revenues, on the other hand, do show growth, both in FY 09 and projected into FY 10.
- The second challenge to the City's System Development Charges is still pending. While we cannot predict the outcome of this case, these funds are not pledged as security for the City's combined utility system revenue bonds and the case does not affect the City's ability to meet its bond related obligations.
- The City's Indirect Cost Allocation Plan was unchanged in the '09 fiscal year. The original plan treated some costs as indirect that management determined were more appropriately treated as direct. For example, all costs related to the reading of utility meters and the collection of customer payments were formerly treated as indirect costs and allocated to all departments. Management determined that such costs should be charged as direct costs to the utility services. The Indirect Cost Allocation Plan this more accurately accounts for the costs of providing utility services.
- City property tax revenues increased in FY 09, primarily due to new construction that had started prior to the national slow down.
- Parity coverage for the Combined Utilities Revenue Bonds remains above the required coverage of 1.4 as Table 2 demonstrates.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2009
November 14, 2009

TABLE 1: City of Bardstown, Assets, Liabilities, and Net Assets, 3-Year Review

Assets	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>
Capital Assets			
Governmental Activities	\$8,414,000	\$8,739,000	\$8,593,000
Business-type Activities	<u>64,851,000</u>	<u>64,334,000</u>	<u>66,298,000</u>
Total Capital Assets	73,266,000	73,073,000	74,891,000
Current & Other Assets			
Governmental Activities	5,112,000	4,230,000	3,790,000
Business-type Activities	<u>9,393,000</u>	<u>11,278,000</u>	<u>10,060,000</u>
Total Current & Other Assets	14,505,000	15,580,000	13,850,000
Total Assets			
Governmental Activities	13,526,000	12,969,000	12,382,000
Business-type Activities	<u>74,244,000</u>	<u>75,012,000</u>	<u>76,359,000</u>
Total Assets	87,770,000	88,581,000	88,741,000
Liabilities			
Current & Other Liabilities			
Governmental Activities	3,403,000	2,491,000	2,108,000
Business-type Activities	<u>4,156,000</u>	<u>4,182,000</u>	<u>6,285,000</u>
Total Current & Other Lia.	7,558,000	6,673,000	8,393,000
Long-term Liabilities			
Governmental Activities	90,000	50,000	0
Business-type Activities	<u>19,896,000</u>	<u>18,325,000</u>	<u>16,681,000</u>
Total Long-term Liabilities	19,986,000	18,375,000	16,681,000
Total Liabilities			
Governmental Activities	3,493,000	2,541,000	2,108,000
Business-type Activities	<u>24,052,000</u>	<u>22,507,000</u>	<u>22,966,000</u>
Total Liabilities	27,546,000	25,048,000	25,074,000
Net Assets			
Governmental Activities	10,033,000	10,428,000	10,275,000
Business-type Activities	<u>50,192,000</u>	<u>53,105,000</u>	<u>53,393,000</u>
Total Net Assets	60,255,000	63,533,000	63,668,000

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2009
November 14, 2009

**TABLE 1(cont): City of Bardstown, Assets, Liabilities, and
Net Assets, 3-Year Review**

	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>
Net Assets, Details			
Invested in Capital Assets			
Governmental Activities	7,880,000	8,248,000	8,145,000
Business-type Activities	<u>33,345,000</u>	<u>35,323,000</u>	<u>40,701,000</u>
Total Capital Assets (net of debt)	41,226,000	43,571,000	48,846,000
Restricted Net Assets			
Governmental Activities	1,290,000	1,235,000	1,148,000
Business-type Activities	<u>9,752,000</u>	<u>7,664,000</u>	<u>9,537,000</u>
Total Restricted Net Assets	9,881,000	8,899,000	10,685,000
Unrestricted Net Assets			
Governmental Activities	863,000	945,000	982,000
Business-type Activities	<u>7,095,000</u>	<u>8,518,000</u>	<u>3,155,000</u>
Total Unrestricted Net Assets	\$7,958,000	\$9,463,000	\$4,137,000

Notes: Restricted Net Assets include inventory and reserves for special and specific projects, plus reserves restricted under terms of revenue bond covenants or laws and regulations. Due to rounding, totals will not exactly equal the sum of all entries.

**Table 2
CITY OF BARDSTOWN, KENTUCKY
COMBINED UTILITIES REVENUE BONDS
HISTORICAL COVERAGE ANALYSIS
For Fiscal Year ending June 30,**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Income	\$1,935,816	\$2,469,687	\$3,934,469	\$2,913,188	\$287,844
Less Contributed Capital Assets	(366,445)	(1,425,932)	(1,685,714)	(500,874)	(328,000)
Add Back:					
Depreciation	2,267,788	2,395,810	2,261,763	2,484,058	2,479,000
Amortization					
Interest Expense	1,195,808	1,137,025	1,082,479	1,025,912	966,000
Transfers Out	<u>1,159,809</u>	<u>1,471,208</u>	<u>1,193,401</u>	<u>1,775,049</u>	<u>1,767,000</u>
Total Revenues Available for Debt Service	<u>6,192,776</u>	<u>6,047,798</u>	<u>6,786,398</u>	<u>7,697,333</u>	<u>5,171,844</u>
Annual Parity Debt Service in years presented	<u>\$2,598,470</u>	<u>\$2,598,470</u>	<u>\$2,598,470</u>	<u>\$2,598,470</u>	<u>\$2,598,470</u>
Coverage	2.38	2.33	2.61	2.96	1.99

Overview of the Financial Statements

The City provides governmental services, primarily funded by taxes and intergovernmental revenues, and business-type services, funded by user fees and charges. Governmental activities include services such as police, fire, recreation, streets and street lighting, prevention of drug and alcohol abuse, cemetery operation and maintenance, planning and zoning, industrial development, historic preservation, and the administrative and oversight functions necessary to provide all of the above. Business-type activities include electric, water, sewer, cable, Internet and garbage services.

The audited financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The audited Financial Statements also include other supplemental information and the Budget and Actual statements, which are required to demonstrate the City's compliance with state law regarding the budgeting of public funds.

Government-wide Financial Statements

The government-wide financial statements (Government-wide Statement of Net Assets and Government-wide Statement of Activities) are designed to provide readers with a broad overview of the City of Bardstown's finances in a manner similar to that used in the private sector. They report the financial condition on both governmental and business-type activities as of June 30. They report the City's short-term and long-term assets and liabilities, and how the City's net assets changed during the 2009 fiscal year. The revenues and expenditures of the past year are summarized and show there was very little growth in total net assets. The statements demonstrate that the business-type activities also show very little growth and that user charges and fees were becoming inadequate to cover expenses and contingencies, especially in the water, sewer, and garbage departments. This is clearly seen on the Combining Statement of Revenues, Expenditures, and Changes in Fund Net Assets. The Council did increase water, sewer, and garbage rates effective the beginning of FY 2010 to address this problem. Electric rates were also increased to address a 12% increase from the supplier of our electric.

Governmental service costs continue to exceed governmental revenue. Transfers from the business-type activities of the City fund this deficit. This puts additional pressure on the business activities of the City. Subsequent statements report separately on the two activities.

Governmental Fund Statements

The next two financial statements report only on governmental services:

- Balance Sheet/Governmental Funds
- Statement of Revenues, Expenditures, and Changes in Fund Balances/Governmental Funds.

The Balance Sheet lists the resources available as of June 30 to pay current liabilities and to continue governmental operations into the following fiscal year. Capital assets and long-term debt are not included in this report, but are included in the Government-wide Statement of Net Assets. The balance sheet is intended to demonstrate current, as opposed to long-term, financial strength and/or weakness.

The Statement of Revenues, Expenditures, and Changes in Fund Balances provides some of the most important data necessary to choose the level of governmental service. It also provides insight into the level of taxation and/or fees needed for those services.

Management presents the following observations about the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance, primarily related to the General Fund.

- The June 30 fund balance, \$2,160,070, includes \$299,282 in land and inventory, and \$878,852 restricted to specific services or projects, including street maintenance, cemetery operations and maintenance, and special law enforcement projects. The balance, \$981,936, is unrestricted and equals nearly 16% of FY 2010's General Fund Expenditures.
- The Statement of Revenues and Expenditures shows that the General Fund expenditures exceeded revenues by nearly \$2 million. Transfers from the business (utility) activities addressed most of this deficit. Much of that transfer represents the business activities' share of centralized City expenses, including administrative, insurance, and other indirect costs.
- The Fund Balance in the General Fund is \$37,000 higher than on 6-30-08.

The Budgetary and Comparison Schedule-Major Funds reports on the City's compliance with budget adoption and execution requirements. The City operated within its adopted budget.

Management concludes its comments on the major governmental fund statements by asserting that actions taken in the past four years to cut costs, properly allocate costs, and implement the Occupational License Fee have partially addressed the General Fund's structural deficit. More must be done in the future to make the General Fund support all governmental activities. Revenues of the Combined Utilities Fund are needed to replace and expand the infrastructure of the utilities.

Proprietary Fund Statements

The three primary statements reporting on the proprietary or business-type activities are:

- Statement of Net Assets – Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
- Statement of Cash Flows – Proprietary Funds.

The Statements show that the utility operations were flat for the year, and though affected by the recession, do remain sound. Net operating fund assets slightly decreased this year. Restricted net assets (funds set aside in accordance with bonded debt requirements, plus construction funds reserved for the Town Creek Sewer Interceptor and other capital projects) totaled \$9,537,000. The required reserve funds (Depreciation, Debt Service, Operations and Maintenance, and Bond Sinking Fund) are fully funded. Unrestricted net assets totaled \$3,155,000, a significant drop from prior years as some \$5,000,000 of these funds was spent on necessary capital projects. The City plans to use more of these funds for such projects in FY 2010.

The Proprietary Fund operations, after the noted rate increases, are producing sufficient revenue to fund payments for past capital improvements, maintenance and operating expenses, minor on-going expansions to the infrastructure, and a portion of the governmental services. Management's goal is to reduce the yearly transfer from the proprietary or utility fund operations to the Governmental Services or General Fund since growth demands that more of the utility operations' excess revenue be devoted to infrastructure expansion and improvement. The need for infrastructure expansion and improvement will continue into FY 2010 and beyond.

The Governmental Activities-Internal Service Fund, included as the last column in the Proprietary Fund statements represents the City's Employee Health Insurance Fund, a self-insured plan. This Fund reports on the City's attempt to control the ever-increasing cost of employee health insurance. The City, like most employers, has experienced serious cost increases in the provision of health insurance coverage for its employees. To combat these increases, the City became a self-insured entity several years ago and continuously modifies its plan to contain the ever-increasing cost of employee health care. Management believes the plan changes are leading to permanent cost containment, as evidenced by the below industry average yearly increase in expenditures. Management projects that future increases will not exceed the industry-wide growth rate.

Program Revenues

Revenue from service charges, or Program Revenue, funds all of the City's business-type activities, the utility services or departments and the self-insured employee health insurance program. Similar charges, or Program Revenue, fund only a small portion of the expenses of the governmental activities or departments. The balance of the governmental activity expense is funded by General Revenue (taxes, grants, and the like) and by transfers from the business-type activities.

Governmental Activities

Table 3 shows a 3-year history of expenses, program and grant revenues, and finally net expenses for each governmental program over the three most current fiscal years. These net expenses should be funded from tax revenues and investment income. The table also shows the tax, investment, and miscellaneous revenue generated to partially fund the net expenses of the governmental activities. However, the City is still relying on transfers from the utility operations to cover the costs of governmental services. These transfers are reported as "Transfers to Gen" in Table 3.

City Officials have been concerned for several years about the growing gap between governmental activity expenses and revenue and about the City's dependence on Business-type activity revenues to fund governmental services. The City implemented an Occupational and Business License and Net Profits ordinance effective August 1, 2003, to lessen that gap. That tax is helping to reduce this dependence but additional steps are needed.

Management's Discussion and Analysis
 Annual Financial Statements
 For The Fiscal Year Ended June 30, 2009
 November 14, 2009

Table 3

	FY 07			FY 08			FY 09		
	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.
General Government	\$982,669	\$200,932	\$781,737	\$1,286,903	\$359,530	\$927,373	\$1,020,462	\$145,167	\$875,385
Finance	675,048	33,095	641,953	655,136	28,777	626,359	673,728	28,461	645,267
Public Safety	2,240,638	330,531	1,910,107	2,483,682	737,330	1,746,352	2,568,817	555,479	2,013,338
Fire	820,276	165,626	654,650	864,330	166,597	697,733	997,128	178,722	818,406
Recreation	467,543	88,250	379,338	492,360	189,349	303,011	510,301	186,234	324,067
Risk Management	71,725	4,228	67,497	73,031	-	73,031	76,389	-	76,389
Prevention Center	191,053	198,598	(7,545)	173,447	162,127	11,320	119,288	156,527	(37,239)
Streets	671,549	450,520	221,029	665,826	480,554	185,272	722,589	272,859	449,730
Cemetery	30,431	42,330	(11,899)	23,898	44,335	(20,437)	19,817	45,125	(25,308)
	\$6,150,932	\$1,514,065	\$4,636,867	\$6,718,613	\$2,168,599	\$4,550,014	\$6,708,420	\$1,563,484	\$5,140,035
Governmental Activities, General Revenues									
Property Taxes		1,769,069			1,878,801			1,963,233	
Restaurant Tax		384,268			347,766			328,717	
Business License Fees		697,235			743,121			778,047	
Interest & Invest. Earnings		175,158			90,194			46,177	
Misc.		92,630			109,746			103,003	
Land Sale		375,000							
Total Gen. Revenues			3,493,360			3,169,628			3,219,177
Transfers To Prop Fund			<u>1,193,401</u>			<u>1,775,049</u>			<u>1,767,412</u>
Change in Net Assets			49,894			394,663			10,126,624
Net Assets, Beginning of Year			9,983,411			10,033,305			10,427,968
Net Assets, End of Year			<u>10,033,305</u>			<u>10,427,968</u>			<u>10,274,522</u>

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2009
November 14, 2009

Table 4: Program Revenue & Expense, Business-type Activities, 3-Year Comparison

Activity	FY 07		FY 08		FY 09	
	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue
<u>Electric</u>	\$11,084,757	\$9,257,006	\$1,827,751	\$12,370,126	\$9,573,329	\$2,796,797
<u>Water</u>	3,788,451	3,355,417	433,034	3,724,215	3,555,700	168,515
<u>Sewer</u>	2,589,441	1,844,548	744,893	2,524,526	1,998,178	526,348
<u>Cable TV</u>	3,723,065	3,518,419	204,646	3,928,919	3,952,710	(23,791)
<u>Internet</u>	1,027,817	392,457	635,360	1,438,998	498,143	940,855
<u>Garbage</u>	1,168,502	1,235,996	(67,494)	1,244,791	1,195,608	49,183
<u>Interest Exp</u>		1,082,749	(1,082,749)		1,025,912	(1,025,912)
Totals	23,382,033	20,686,592	2,695,441	25,231,575	21,799,580	3,431,995
				26,540,260	25,248,680	1,291,580

General Revenues, Business-type Activities

Interest & Invest. Earnings	739,715	748,367	426,590
Gain on Asset Disposal			
Grants & Contributions	1,685,714	500,874	328,376
Other	7,000	7,000	8,710
Less Net Transfers	(1,193,401)	(1,775,049)	(1,767,412)
Change in Net Assets	3,934,469	2,913,187	287,844
Net Assets, Beginning	46,257,709	50,192,178	53,105,365
Net Assets, Ending	\$50,192,178	\$53,105,365	\$53,393,209

Business-type Activities

Table 4 presents a 3-year history of program revenues and expenses for the Business-type Activities, the utility services. Electric and Water revenues increased, but not as much as expenses. Sewer revenues dropped, yet expenses increased. Cable and Internet revenues continue to grow and the increase in cable expenses will taper off after FY 2010, as the expansion of service area nears completion and there is less need for contact installers. The rate increases adopted effective for FY 2010 for Electric, Water, Sewer, and Garbage will make each service more self-supporting, though a new study of rates for water and sewer is to be done in FY 2010 to address more long term needs. The significant increase in costs (from \$21,800,000 in FY 08 to \$25,249,000 in FY 09) when compared to the lesser growth in revenue, was partially caused by an electric supply cost increase that took effect prior to a customer rate increase intended to cover that increase. In the cable department, significant costs were incurred in order to move to the hi-def level of service and the higher than expected demand for high-def boxes. Cable net revenue is further squeezed by the ever increasing wholesale producers' charges.

Summary and Pending Actions

The City's finances are sound, but there is a continuing need to lessen the dependence on business activity revenues to supplement governmental revenues to provide governmental services. The City also recognizes the need to structure its rates for utility services so that new customers pay for the increased infrastructure needed to serve them. The City initiated a water and sewer rate study in late FY 05 that has been implemented. However a new study is now needed to address increasing regulatory demands for infrastructure improvements. This new study will be completed in FY 2010. The goal of the study is to fairly allocate costs to the various types of customers the City has: in-city, out-of-city, residential, commercial, industrial, and wholesale.

The most significant actions taken during FY 09 that will affect the City in the future include:

1. Further progress by the City of Bloomfield toward completion of those improvements necessary to implement Bardstown's agreement to treat Bloomfield's waste water, an agreement that will result in increased utilization of Bardstown's excess treatment capacity and additional sewer department revenue for debt service.
2. The replacement of the Town Creek Waste Water Interceptor line (completed in December 2009), which will eliminate much of the city's waste water overflow problem.
3. Significant expansion of the area served by the city's cable-internet system, including the purchase of the system that had served the Bloomfield and later the Chaplin areas, and the move to more digital and hi-def offerings.
4. The completion of the Flower Foods facility and the opening of the Sykes call center, both of which will contribute new utility and tax revenue.
5. The award on Transportation Enhancement and other funds to renovate the downtown streetscape and infrastructure.

BASIC FINANCIAL STATEMENTS

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current Assets:			
Cash and cash equivalents	\$ 440,004	\$ 2,123,236	\$ 2,563,240
Investments	542,000	1,593,844	2,135,844
Accrued interest	49,325	240,805	290,130
Receivables, net	231,298	2,789,367	3,020,665
Due from other governments	0	320	320
Internal balances	2,148,234	2,020,411	4,168,645
Inventory	35,181	1,060,559	1,095,740
Prepaid items	342,791	233,078	575,869
Total Current Assets	3,788,833	10,061,620	13,850,453
Noncurrent Assets:			
Restricted cash and investments	134,268	7,270,988	7,405,256
Land held for resale	264,101	0	264,101
Capital assets, net (Note 5)	8,194,960	59,026,566	67,221,526
Total Noncurrent Assets	8,593,329	66,297,554	74,890,883
Total Assets	12,382,162	76,359,174	88,741,336
Liabilities			
Current Liabilities:			
Accounts payable	1,538,813	74,610	1,613,423
Internal balances	171,981	3,996,664	4,168,645
Accrued taxes	11,412	15,861	27,273
Other liabilities	335,434	501,063	836,497
Deferred revenue	0	52,690	52,690
Lease payable	50,000	0	50,000
Bonds payable	0	1,644,222	1,644,222
Total Current Liabilities	2,107,640	6,285,110	8,392,750
Noncurrent liabilities (Note 6):			
Bonds payable	0	16,680,855	16,680,855
Total Noncurrent Liabilities	0	16,680,855	16,680,855
Total Liabilities	\$ 2,107,640	\$ 22,965,965	\$ 25,073,605

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2009

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Net Assets			
Invested in capital assets, net of related debt	\$ 8,144,960	\$ 40,701,489	\$ 48,846,449
Restricted for:			
Infrastructure	0	509,404	509,404
Inventory and land held for resale	299,282	0	299,282
Revenue bond reserves	0	6,430,063	6,430,063
Construction fund	0	2,020,411	2,020,411
Special projects	848,344	577,034	1,425,378
Unrestricted	981,936	3,154,808	4,136,744
Total Net Assets	<u>\$ 10,274,522</u>	<u>\$ 53,393,209</u>	<u>\$ 63,667,731</u>

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 June 30, 2009

Programs Activities	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government	
			Operating Grants and Contributions	Capital Grants and Contributions		Business-Type Activities	Total
Governmental Activities							
General government	\$ (1,020,462)	\$ 292	\$ 144,785	\$ 0	\$ (875,385)	\$ 0	\$ (875,385)
Finance	(673,728)	28,461	0	0	(645,267)	0	(645,267)
Public safety	(2,568,817)	262,735	292,744	0	(2,013,338)	0	(2,013,338)
Fire	(997,128)	115,209	63,513	0	(818,406)	0	(818,406)
Recreation	(510,301)	83,159	103,075	0	(324,067)	0	(324,067)
Risk management	(76,389)	0	0	0	(76,389)	0	(76,389)
Community Center	(119,288)	0	156,527	0	37,239	0	37,239
Streets	(722,589)	0	197,859	75,000	(449,730)	0	(449,730)
Cemetery	(19,817)	45,125	0	0	25,308	0	25,308
Total Governmental Activities	(6,708,519)	534,981	958,503	75,000	(5,140,035)	0	(5,140,035)
Business-Type Activities:							
Electric	(11,408,223)	12,610,925	0	0	0	1,202,702	1,202,702
Water	(3,964,897)	3,954,379	0	92,640	0	82,122	82,122
Sewer system	(2,244,241)	2,392,686	0	235,736	0	384,181	384,181
Cable TV	(4,701,996)	4,494,510	0	0	0	(207,486)	(207,486)
Garbage	(1,411,175)	1,443,479	0	0	0	32,304	32,304
Internet	(551,720)	1,644,281	0	0	0	1,092,561	1,092,561
Interest expense	(966,428)	0	0	0	0	(966,428)	(966,428)
Total Business-Type Activities	(25,248,680)	26,540,260	0	328,376	0	1,619,956	1,619,956
Total Government	\$ (31,957,199)	\$ 27,075,241	\$ 958,503	\$ 403,376	\$ (5,140,035)	\$ 1,619,956	\$ (3,520,079)

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)
 June 30, 2009

	<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Governmental</u>	<u>Primary Government</u>	
	<u>Activities</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
General Revenues:			
Taxes:			
Property taxes	\$ 1,963,233	\$ 0	\$ 1,963,233
Business and occupational licenses	778,047	0	778,047
Restaurant tax	328,717	0	328,717
Interest and investment earnings	46,177	426,590	472,767
Other	103,003	8,710	111,713
Transfers	1,767,412	(1,767,412)	0
	<u>4,986,589</u>	<u>(1,332,112)</u>	<u>3,654,477</u>
Change in Net Assets	(153,446)	287,844	134,398
Net Assets - Beginning	<u>10,427,968</u>	<u>53,105,365</u>	<u>63,533,333</u>
Net Assets - Ending	<u>\$ 10,274,522</u>	<u>\$ 53,393,209</u>	<u>\$ 63,667,731</u>

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2009

	General	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 28,822	\$ 344,005	\$ 372,827
Investments	0	542,000	542,000
Restricted cash	22,746	0	22,746
Restricted investments	0	111,522	111,522
Accrued interest receivable	0	49,325	49,325
Accounts receivable	194,052	0	194,052
Inventory	35,181	0	35,181
Land held for resale	264,101	0	264,101
Internal balances	2,144,193	4,041	2,148,234
Prepaid items	323,758	19,033	342,791
Total Assets	3,012,853	1,069,926	4,082,779
Liabilities			
Accounts payable	1,384,789	19,093	1,403,882
Accrued payroll	335,434	0	335,434
Payroll taxes payable	11,412	0	11,412
Internal balances	0	171,981	171,981
Total Liabilities	1,731,635	191,074	1,922,709
Fund Balances			
Reserved for:			
Inventory and land held for resale	299,282	0	299,282
Special projects	0	878,852	878,852
Unreserved, reported in:			
General fund	981,936	0	981,936
Total Fund Balances	1,281,218	878,852	2,160,070
Total Liabilities and Fund Balances	\$ 3,012,853	\$ 1,069,926	\$ 4,082,779

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)
 June 30, 2009

	<u>Total Governmental Funds</u>
<p>Amounts reported for governmental activities in the statement of net assets are different because :</p>	
Total Fund Balances - Total Governmental Funds	\$ 2,160,070
Allocation of internal service fund balances	(30,508)
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	8,194,960
Long-term debt, including bonds and capital leases, are not due and payable in the current period and funds	<u>(50,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 10,274,522</u></u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,996,707	\$ 0	\$ 2,996,707
Business licenses	28,305	0	28,305
Fines and forfeitures	44,985	0	44,985
Intergovernmental	598,529	434,974	1,033,503
Charges for services	229,283	305,698	534,981
Interest	16,608	29,569	46,177
Other	56,050	46,953	103,003
Total Revenues	3,970,467	817,194	4,787,661
Expenditures			
Current:			
General government	897,376	48,144	945,520
Finance	651,511	0	651,511
Public safety	1,800,137	635,538	2,435,675
Fire	909,599	0	909,599
Recreation	440,935	0	440,935
Risk management	73,673	0	73,673
Community Center	116,962	0	116,962
Streets	359,321	0	359,321
Cemetery	0	17,576	17,576
Capital outlay	561,661	0	561,661
Debt service	41,792	0	41,792
Total Expenditures	5,852,967	701,258	6,554,225
Excess (Deficiency) of Revenues Over Expenditures	(1,882,500)	115,936	(1,766,564)
Other Financing Sources (Uses):			
Transfers in	2,134,016	99,530	2,233,546
Transfers out	(203,634)	(262,500)	(466,134)
Total Other Financing Sources (Uses)	1,930,382	(162,970)	1,767,412
Net Change in Fund Balance	47,882	(47,034)	848
Fund Balances, Beginning of Year	1,233,336	925,886	2,159,222
Fund Balances, End of Year	\$ 1,281,218	\$ 878,852	\$ 2,160,070

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES-GOVERNMENTAL FUNDS (CONTINUED)
 Fiscal Year Ended June 30, 2009

	Total Governmental Funds
Net Change in Fund Balances-Total Governmental Funds	\$ 848
Amounts reported for governmental activities in the statement of activities are different because :	
Depreciation expense reported in statement of activities	(701,642)
Capital outlay reported in governmental expenditures	561,661
Book Value of Disposed Assets	(2,807)
Principal payments on long-term debt reported as governmental expenditures	40,000
Change in net assets - self insurance fund	(51,506)
Change in Net Assets of Governmental Activities	\$ (153,446)

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2009

	Business-Type Activities				Governmental Activities
	Enterprise Funds				Internal Service Fund
	Utility Operating Fund	Debt Service Reserve	Total Non-Major Enterprise Funds	Total Enterprise Funds	Self- Insurance Fund
Assets					
Current Assets:					
Cash and cash equivalents	\$ 2,123,236	\$ 0	\$ 0	\$ 2,123,236	\$ 67,177
Investments	1,593,844	0	0	1,593,844	0
Accrued interest	30,217	121,018	89,570	240,805	0
Receivables (net of allowance for doubtful accounts, \$108,040)	2,754,367	0	35,000	2,789,367	37,246
Prepaid expenses	233,078	0	0	233,078	0
Due from other governments	320	0	0	320	0
Internal balances	0	0	2,020,411	2,020,411	0
Inventory-parts and supplies	1,060,559	0	0	1,060,559	0
Total Current Assets	7,795,621	121,018	2,144,981	10,061,620	104,423
Noncurrent Assets:					
Restricted Assets:					
Cash	0	501	22,000	22,501	0
Investments	0	3,504,626	3,743,861	7,248,487	0
Total Restricted Assets	0	3,505,127	3,765,861	7,270,988	0
Capital Assets:					
Land	995,712	0	0	995,712	0
Distribution systems	67,040,944	0	0	67,040,944	0
Plant and buildings	18,485,996	0	0	18,485,996	0
Equipment	4,555,864	0	0	4,555,864	0
Less accumulated depreciation	(32,051,950)	0	0	(32,051,950)	0
Capital Assets, Net of Accumulated Depreciation	59,026,566	0	0	59,026,566	0
Total Noncurrent Assets	59,026,566	3,505,127	3,765,861	66,297,554	0
Total Assets	\$ 66,822,187	\$ 3,626,145	\$ 5,910,842	\$ 76,359,174	\$ 104,423

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS (CONTINUED)
June 30, 2009

	Business-Type Activities				Governmental Activities
	Enterprise Funds				Internal Service Fund
	Utility Operating Fund	Debt Service Reserve	Total Non-Major Enterprise Funds	Total Enterprise Funds	Self- Insurance Fund
Liabilities					
Current Liabilities:					
Accounts payable	\$ 74,610	\$ 0	\$ 0	\$ 74,610	\$ 134,931
Accrued taxes	15,861	0	0	15,861	0
Internal balances	3,996,589	0	75	3,996,664	0
Customer deposits	293,726	0	0	293,726	0
Accrued payroll	207,337	0	0	207,337	0
Deferred revenue	52,690	0	0	52,690	0
Bonds, notes, and loans payable	0	1,644,222	0	1,644,222	0
Total Current Liabilities	4,640,813	1,644,222	75	6,285,110	134,931
Noncurrent Liabilities:					
Bonds, notes, and loans payable	0	16,970,000	0	16,970,000	0
Unamortized issuance costs	0	(256,076)	0	(256,076)	0
Unamortized deferred refunding costs	0	(33,069)	0	(33,069)	0
Total Noncurrent Liabilities	0	16,680,855	0	16,680,855	0
	4,640,813	18,325,077	75	22,965,965	134,931
Net Assets					
Invested in capital assets, net of related debt	59,026,566	(18,325,077)	0	40,701,489	0
Restricted for:					
Bond reserves	0	3,626,145	2,803,918	6,430,063	0
System capacity reserve	0	0	509,404	509,404	0
Construction Fund	0	0	2,020,411	2,020,411	0
Other purposes	0	0	577,034	577,034	(30,508)
Unrestricted	3,154,808	0	0	3,154,808	0
Total Net Assets	62,181,374	(14,698,932)	5,910,767	53,393,209	(30,508)
Total Liabilities and Net Assets	\$ 66,822,187	\$ 3,626,145	\$ 5,910,842	\$ 76,359,174	\$ 104,423

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS –
PROPRIETARY FUNDS
Year Ended June 30, 2009

	Business-Type Activities			Governmental	
	Enterprise Funds			Activities	
	Utility Operating Fund	Debt Service Reserve	Total Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Fund Self- Insurance Fund
Operating Revenues:					
Charges for services	\$ 24,997,616	\$ 0	\$ 0	\$ 24,997,616	\$ 1,072,170
Utility surcharge	7,083	0	0	7,083	0
Connection fees	186,120	0	0	186,120	0
System development charges	0	0	111,750	111,750	0
Contract services	380,303	0	0	380,303	0
Penalties	251,461	0	0	251,461	0
Miscellaneous	605,927	0	0	605,927	0
Total Operating Revenues	26,428,510	0	111,750	26,540,260	1,072,170
Operating Expenses:					
Purchases for resale	12,444,197	0	0	12,444,197	0
Personal services	4,216,811	0	0	4,216,811	0
Contractual services	771,989	0	75	772,064	0
Materials and supplies	1,570,950	0	0	1,570,950	0
Maintenance and repairs	1,052,543	0	0	1,052,543	0
Other expenses	1,747,035	0	0	1,747,035	1,123,792
Depreciation	2,478,652	0	0	2,478,652	0
Total Operating Expenses	24,282,177	0	75	24,282,252	1,123,792
Income (Loss) from Operations	2,146,333	0	111,675	2,258,008	(51,622)
Nonoperating Revenues (Expenses):					
Investment earnings	119,987	143,341	163,262	426,590	116
Lease revenue	8,710	0	0	8,710	0
Interest expense	0	(966,428)	0	(966,428)	0
Total Nonoperating Revenues (Expenses)	128,697	(823,087)	163,262	(531,128)	116
Income (Loss) Before Contributions and Transfers	2,275,030	(823,087)	274,937	1,726,880	(51,506)
Capital contributions	328,376	0	0	328,376	0
Transfers in	609,550	2,450,124	1,475,273	4,534,947	0
Transfers out	(4,769,086)	0	(1,533,273)	(6,302,359)	0
Change in Net Assets	(1,556,130)	1,627,037	216,937	287,844	(51,506)
Net Assets, Beginning of Year	63,737,504	(16,325,969)	5,693,830	53,105,365	20,998
Net Assets, End of Year	\$ 62,181,374	\$ (14,698,932)	\$ 5,910,767	\$ 53,393,209	\$ (30,508)

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2009

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 23,857,425	\$ 1,077,906
Cash payments to suppliers for good and services	(15,510,440)	(1,090,136)
Cash payments to employees for services	(4,201,013)	0
Other operating cash receipts	602,206	0
	<u>4,748,178</u>	<u>(12,230)</u>
Cash Flows From NonCapital Financing Activities		
Transfers to other funds	(1,767,412)	0
	<u>(1,767,412)</u>	<u>0</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(6,285,388)	0
Principal paid on capital debt	(1,571,295)	0
Interest paid on capital debt	(966,428)	0
Contributed capital	328,376	0
Other receipts	8,710	0
	<u>(8,486,025)</u>	<u>0</u>
Cash Flows From Investing Activities		
Proceeds from disposition and acquisition of investments	4,573,219	0
Interest and dividends	426,590	116
	<u>4,999,809</u>	<u>116</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(505,450)	(12,114)
Cash and Cash Equivalents, Beginning of Year	2,651,187	79,291
Cash and Cash Equivalents, End of Year	<u>\$ 2,145,737</u>	<u>\$ 67,177</u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2009

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Reconciliation of Income (Loss) from Operations to Net Cash Provided (Used) by Operating Activities		
Income (loss) from operations	\$ 2,258,008	\$ (51,622)
Adjustments to reconcile operating income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	2,478,652	0
Change in assets and liabilities:		
(Increase) Decrease in receivables, net	(1,979,626)	5,736
Increase in inventory	(39,500)	0
Increase in accounts and other payables	2,115,849	33,656
Decrease in customer deposits	(3,721)	0
Decrease in deferred revenues	(97,282)	0
Increase in accrued payroll	15,798	0
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,748,178</u>	<u>\$ (12,230)</u>

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The City of Bardstown is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements of the City include the funds, agencies boards and entities for which the City is considered to be financially accountable. Blended component units are legally separate entities, but are, in substance, part of the City's operations. The City does not have any blended component units.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the City's operations include how the budget is adopted, whether debt is secured by general obligation of the City, the City's duty to cover any deficits that may occur and supervision over the accounting functions.

The Bardstown Cemetery is governed by a board that is appointed by the City Council. The mayor appoints the Sexton to maintain records and provide daily management of the facility. The Public Works Director of the City also provides technical assistance and grounds maintenance. The Cemetery Committee recommends rate revisions to the City Council for approval.

The City does not have any discretely presented component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all the activities of the primary government and its component units. Interfund activity, which duplicates revenues or expenses, has been eliminated from these statements, except for those transactions and balances between governmental and business-type activities. Governmental activities and business-type activities are reported separately to highlight the differences in funding and operations. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, on the other hand, rely mostly on fees and charges that are designed to recover the costs of operations, including the cost of capital.

The statement of activities outlines the direct expenses of each of the City's major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund statements include separate statements for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Combined Utilities Operating Fund reports the major segments of the utilities operations, which are presented as *Other Supplementary Information*. The City's utilities include operation of the electric distribution, water treatment and distribution, wastewater treatment, garbage pickup, cable TV, and Internet services.

The Debt Service Reserve Fund accounts for the accumulation of resources for the payment of general long-term debt principal and interest. Debt Service is provided through annual transfers from the Combined Utility Operating Fund in the amount of the debt service requirement for the year.

Health insurance for all city employees is funded through a Self-Insurance Fund. This fund is reported as an internal service fund within the proprietary fund statements.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Commercial accounting standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent commercial accounting guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the transfers between the Utilities Fund and the General Fund. Interfund balances at June 30 represent amounts due for obligations paid from the City's consolidated accounts payable account. These balances are generally repaid within the subsequent month.

Transfers during fiscal year 2009 include both operating transfers and increases to restricted funds. A total of \$1,227,051 was allocated to the General Fund from the Combined Utility Operating Fund to cover administrative costs, using an indirect cost allocation. During fiscal year 2009, the Combined Utility Operating Fund also transferred \$2,357,124 for the annual debt service payments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utilities are charges to the customers for services. Principal operating revenues of the internal service fund are premiums charged to individual departments for insurance coverage. The City's utilities also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City are certificates of deposits, which are reported at cost since the redemption terms do not consider market rates.

State statutes (KRS 66.480) authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds that meet prescribed ratings, repurchase agreements, and the State Treasurer's Investment Pool.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing transactions outstanding at the end of the fiscal year are designated as internal balances.

All trade and property tax receivables, including those for the utilities, are shown net of an allowance for uncollectible. Trade accounts that are classified as inactive have been included in the allowance for uncollectible. Property taxes are secured by a lien on the property, but uncollected amounts are fully reserved as of June 30, 2009.

Cash Equivalents

For purposes of the statement of cash flows for proprietary fund types, all highly liquid investments (including restricted assets) with maturity of three months or less when purchased are considered to be cash equivalents.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

In fiscal year 2002, the development costs for Wilson Industrial Park were reclassified to the balance sheet as an inventory. The lots will be sold to industrial or manufacturing entities that locate their facilities in the Park.

Restricted Assets

Certain proceeds of the City's combined utilities fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Surplus funds in any of the reserves may only be used to fund principal or interest payments on outstanding debt.

The Operations and Maintenance Reserve reflects resources that have been set aside to subsidize potential deficiencies from the utility operations that could adversely affect debt service payments. Bond indentures require that this reserve include two months of budgeted operations.

The Construction account represents proceeds of revenue bond issues that are restricted for use in construction projects.

The City is required to set aside the lower of the average annual debt service, maximum annual debt service, or 125% of the outstanding bonds in the Debt Service Reserve. These funds are held in reserve until all outstanding bonds are retired.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Restricted Assets (Continued)

The Bond Sinking Fund includes monthly transfers to fund the annual principal and interest installments.

Revenue Bond indentures also require the City to set aside \$500,000 in the Depreciation Reserve to provide funding for future improvements to the utility system or emergency repairs necessary to maintain current service levels.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's network of streets was inventoried and valued during the fiscal year ending June 30, 2002. Estimated historical costs were based on current replacement costs discounted to the date of the last major renovation or construction of the street. Prior period adjustments include the retroactive reporting of street construction in prior years.

The City of Bardstown was established in 1780, with the first justices for the local government appointed in 1785. The justices appointed surveyors to manage the roads and ensure that the roads were "cleared, ditched, and in good repair". A portion of the streets in Bardstown has been in existence for over 220 years. However, historical cost estimates were only discounted back to 1980, in accordance with provisions of GASB Statement 34.

The City has established a capitalization policy to recognize capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Department staff completed a comprehensive review of capital assets during the fiscal year ended June 30, 2002. The results of this inventory were compiled in a capital asset management database to bring perpetual inventory records current with the physical inventory

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements, other than buildings	10-15
Infrastructure	25-50
Vehicles	3-6
Equipment	5-15

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Unused sick leave is not paid upon termination of employment. Employees who retire from the City service who have more than 240 hours accumulated sick leave and who have not used more than 480 hours sick leave during the ten year period immediately preceding the date of retirement shall be paid an amount equal to one-half the amount of accrued leave time at the time of retirement. Management has determined that these restrictions will result in actual payments that are immaterial to total assets in the fund financial statements.

Accumulated vacation leave must be used within one year, so there is no long-term debt for these benefits. Any employee whose employment with the City ends in retirement or with the employee giving proper notice and being in good standing, shall be compensated for all unused vacation. The liability for these compensated absences is recorded as current liabilities in the government-wide statements. Liabilities are calculated using the employee's current rate of pay and the total hours of accumulated leave.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable unamortized issuance costs and the unamortized deferred amounts from refunding issues.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Reservations as of June 30, 2009 include the following balances:

Materials and supplies inventories	35,181
Land development for resale	264,101
Street improvements	48,677
Cemetery maintenance	286,362
Capital projects	450,311
Public safety projects	93,503

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net assets reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. The self-insurance fund balances are reported within the governmental activities for the government-wide statements. In addition, capital assets, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1 – Summary of Significant Accounting Policies (Continued)

Reconciliation of Government-Wide and Fund Financial Statements (Continued)

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense. The change in net assets for the self-insurance fund is added to the governmental activities, and principal payments on long-term debt are eliminated from the operating costs.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles. Proprietary fund budgets are adopted on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The Mayor submits the proposed budget to the Council no later than June 1. Council revises and adopts the budget no later than June 30. The budget ordinance establishes authorized appropriations at the department level of control. Amendments are adopted during the year as necessary to comply with KRS 91A.030.

Note 3 – Deposits and Investments- Collateral Insufficient:

The City maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the City's deposits may not be returned. The City does have a deposit policy for custodial credit risk and follows the requirements of KRS 41.240(4). On June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 4 – Property Tax

Property taxes include amounts levied against all real and public utility property, plus tangible personal property that is located within the city limits. All property taxes are levied as of July 1 based on the assessment values as of the previous January 1. Property taxes are due by November 1. After that date, a 10% penalty is imposed. If bills are not paid by December 1, all delinquent accounts bear interest at 12% per annum until paid. Liens are filed for all delinquent property taxes in May of the following year. Assessed values are established by the County Property Valuation Administration at 100% of appraised market value. The City's tax rate applicable to the 2009 fiscal year was \$.1910 per \$100 of assessed valuation for real estate and \$.2168 for personal property.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

	<u>7/1/08</u>	<u>Completions</u>	<u>Adjustments</u>	<u>6/30/09</u>
Governmental activities:				
Capital assets not depreciated				
Land	\$ 521,278	0	0	\$ 521,278
Capital assets depreciated				
Buildings and improvements	3,490,922	30,267	0	3,521,189
Improvements other than buildings	2,210,460	0	0	2,210,460
Vehicles	1,813,693	63,253	0	1,876,946
Equipment	2,414,856	248,502	(5,500)	2,657,858
Infrastructure	12,835,780	219,639	0	13,055,419
Total assets depreciated at historical cost	<u>22,765,711</u>	<u>561,661</u>	<u>(5,500)</u>	<u>23,321,872</u>
Buildings and improvements	(1,332,173)	(98,218)	0	(1,430,391)
Improvements other than buildings	(2,060,967)	(22,272)	0	(2,083,239)
Vehicles	(1,494,401)	(117,861)	0	(1,612,262)
Equipment	(1,503,755)	(138,392)	2,693	(1,639,454)
Infrastructure	<u>(8,557,945)</u>	<u>(324,899)</u>	<u>0</u>	<u>(8,882,844)</u>
Total accumulated depreciation	<u>(14,949,241)</u>	<u>(701,642)</u>	<u>2,693</u>	<u>(15,648,190)</u>
Depreciable capital assets, net	<u>7,816,470</u>	<u>(139,981)</u>	<u>(2,807)</u>	<u>7,673,682</u>
Governmental activities capital assets, net	<u>\$ 8,337,748</u>	<u>\$ (139,981)</u>	<u>\$ (2,807)</u>	<u>\$ 8,194,960</u>

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 5 – Capital Assets (Continued)

	Primary Government			Balance 6/30/09
	Balance 7/1/08	Additions/ Completions	Retirements/ Adjustments	
Business-type activities:				
Capital assets not depreciated				
Land	\$ 995,712	0	0	\$ 995,712
Capital assets depreciated				
Plant facilities	16,563,361	18,068	0	16,581,429
Other improvements	1,904,567	0	0	1,904,567
Vehicles	1,211,992	121,724	(2,785)	1,330,931
Equipment	2,950,794	274,139	0	3,224,933
Infrastructure	61,169,486	5,871,458	0	67,040,944
Total assets depreciable at historical cost	83,800,200	6,285,389	(2,785)	90,082,804
Plant facilities	(8,705,851)	(441,913)	0	(9,147,764)
Other improvements	(768,653)	(85,907)	0	(854,560)
Vehicles	(1,040,079)	(45,272)	0	(1,085,351)
Equipment	(1,485,987)	(269,954)	2,785	(1,753,156)
Infrastructure	(17,575,512)	(1,635,607)	0	(19,211,119)
Total accumulated depreciation:	<u>(29,576,082)</u>	<u>(2,478,653)</u>	<u>2,785</u>	<u>(32,051,950)</u>
Depreciable capital assets, net	<u>54,224,118</u>	<u>3,806,736</u>	<u>0</u>	<u>58,030,854</u>
Business-type activities capital assets, net	<u>\$ 55,219,830</u>	<u>\$ 3,806,736</u>	<u>\$ 0</u>	<u>\$ 59,026,566</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Streets	\$ 356,058
Protection to persons and property	192,380
General government	85,826
Recreation	63,185
Cemetery	2,241
Community Center	266
Risk Management	<u>1,686</u>
Total governmental depreciation expense	<u><u>\$ 701,642</u></u>

Depreciation expense was charged to business-type activities as follows:

Electric	\$ 311,795
Water	989,646
Sewer system	710,583
Cable TV	377,723
Garbage	25,823
Internet	<u>63,083</u>
Total business-type depreciation expense	<u><u>\$2,478,653</u></u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2009

Note 6 – Long-Term Liabilities

Changes during fiscal year 2009 and balances as of June 30, 2009, including the current portions, of the City were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
GOVERNMENTAL ACTIVITIES:					
Other liabilities:					
Capital leases	\$ 90,000	\$ 0	\$ (40,000)	\$ 50,000	\$ 50,000
Total other liabilities	<u>90,000</u>	<u>0</u>	<u>(40,000)</u>	<u>50,000</u>	<u>50,000</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Bonds and notes payable:					
Series 1997	2,830,000	0	(235,000)	2,595,000	250,000
Series 2001	16,595,000	0	(965,000)	15,630,000	1,005,000
Series 2003	885,000	0	(440,000)	445,000	445,000
	<u>20,310,000</u>	<u>0</u>	<u>(1,640,000)</u>	<u>18,670,000</u>	<u>1,700,000</u>
Less:					
Unamortized issuance costs	330,270	0	(39,693)	290,577	34,501
Deferred amount on refunding	83,358	0	(29,012)	54,346	21,277
Total bonds and notes payable	<u>19,896,372</u>	<u>0</u>	<u>(1,571,295)</u>	<u>18,325,077</u>	<u>1,644,222</u>
Business-type activities					
Long-term liabilities	<u>\$19,896,372</u>	<u>\$ 0</u>	<u>\$ (1,571,295)</u>	<u>\$ 18,325,077</u>	<u>\$ 1,644,222</u>

Revenue bonds are not included in the calculation of the City's legal debt margin in accordance with the Kentucky Constitution. Since there are no general obligation debt issues outstanding, the City has not committed any funds against the legal debt margin.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 6 – Long-Term Liabilities (Continued)

The City issues consolidated revenue bonds to finance water, sewer, cable and Internet projects. These departments, plus the electric and garbage departments are reported in a single fund, the Combined Utility Operating Fund. Revenues from all departments are pledged as security for the outstanding revenue bonds. The Electric Department provides electric service for customers within specific boundaries inside the city limits. Water, cable TV and Internet services are provided to city residents, as well as certain county customers. The Water Department also sells water to the Bloomfield, New Haven and the North Nelson Water District in Nelson County, and to Lebanon Junction and the Larue county Water District. Currently sewer service is provided to city residents and to approximately 1,000 county residents, some of whom are billed for sewer service by the North Nelson Water District. Garbage services are provided to all households within the city limits.

General fund resources are used to retire long-term obligations in the governmental activities. Principal and interest requirements to retire the City’s long-term obligations were as follows:

	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
Governmental Activities:		
2010	50,000	1,045
Total Governmental Activities	<u>\$ 50,000</u>	<u>\$ 1,045</u>

	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
Business-Type Activities		
2010	1,700,000	831,027
2011	1,795,000	757,857
2012	1,875,000	675,753
2013	1,965,000	589,010
2014	1,195,000	517,663
2015-2019	6,880,000	1,685,988
2020-2021	3,260,000	165,000
Total Business-Type Activities	<u>\$18,670,000</u>	<u>\$ 5,222,298</u>

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 6 – Long-Term Liabilities (Continued)

Other information on the city’s long-term indebtedness is summarized below.

<u>Obligation</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Original Cost (Capitalized Leases)</u>	<u>Principal Balance</u>	<u>Security</u>
Fire Truck, KLC Lease Pool	4.18%	06/15/10	365,000	50,000	Truck
Utility Revenue Bonds, Series 1997	4.65%-4.7%	12/01/12		2,595,000	Utility revenues
Utility Revenue Bonds, Series 2001	4%-5%	12/01/20		15,630,000	
Utility Revenue Bonds, Series 2003	1.5% - 2.75%	12/01/09		445,000	

Note 7 – Pensions and Other Post Employment Benefits

All full-time employees of the City belong to the state operated cost-sharing multiple-employer pension plan, the County Employees Retirement System (CERS). Police and firefighters are members of the hazardous-duty benefit plan, while all other employees participate in the non-hazardous duty benefits.

CERS is a defined benefit plan created by the Kentucky General Assembly. CERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by telephone at 502-564-4646.

Kentucky Revised Statutes provides statutory authority for employee and employer contributions. Employees and the City have contributed 100% of the required contributions for fiscal year ended June 30, 2009. Contribution rates for the fiscal year ended June 30, 2009, were as follows:

	<u>Employee</u>	<u>Employer</u>
Nonhazardous	5.00%	13.50%
Hazardous-duty	8.00%	29.50%

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 7 – Pensions and Other Post Employment Benefits (Continued)

The City's contributions for the fiscal years ending June 30 were as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous-duty</u>
2009	\$ 522,981	\$ 397,672
2008	580,611	416,532
2007	451,433	352,201

CERS also provides post retirement health care coverage to age and service retirees with 20 or more years of qualifying CERS service credit. A portion of each employer and employee's contribution to CERS is set aside for the funding of post retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board Statement Number 12. KRS provides statutory authority requiring public employers to fund post retirement health care through their contributions to CERS.

The City also provides a 401K plan for its employees who elect to participate. The City does not match any portion of the 401K contributions.

Note 8 – Contingencies

The City participates in several federally assisted programs and is a recipient of several federal and state grants. These programs and grants are subject to a variety of financial and compliance audits by the grantors or their representatives. As of June 30, 2009, the audits of these grants and programs were complete through 2008 and the City's compliance with applicable requirements has been established. The City's compliance with applicable requirements for 2009 will be established at a future date.

The City is party to several pending civil suits that normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of these proceedings cannot be predicted, due to the insurance coverage maintained by the City, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Note 9 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. The City contracts with the Kentucky League of Cities Insurance Services (KLCIS), a local government risk pool for insurance coverage for these risks. KLCIS was formed for the primary purpose of managing and funding third-party liability claims against its members. As a member of KLCIS, the City is required to make annual contributions sufficient to produce the funds necessary to fund the administrative expenses and the claims and claims expenses, and any deficiencies in the cumulative reserves.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 9 – Risk Management (Continued)

Coverage by KLCIS consists of \$2,000,000 in general liability insurance with \$5,000 deductible. Coverage for property risk is \$33,668,660 per occurrence with deductible of \$1,000, per occurrence on all perils. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in recent years.

In July 1998, the City initiated a self-insured health insurance plan to provide employees with traditional health care insurance that covers hospitalization and major medical expenses within specified limits.

The plan is administered by a third-party administrator. The City pays the administrator a monthly fixed fee for various claim administration services, plus premiums for excess coverage insurance to insure claims that exceed \$30,000 per participant. Monthly payments also include a specified amount to set aside funds for payment of claims that do not exceed the \$30,000 amount. The third party administrator pays these claims from the funds set aside by the City and bills the City for additional funds if funds on hand are not sufficient to pay claims.

All remaining funds in the Self-Insurance fund are reserved for claims. The stop-loss insurance company requires the City to reserve 25% of estimated claims for the subsequent year and federal law limits the reserves to no more than five months of average claim experience.

Changes in the fund's claims liability amounts are:

	<u>2008</u>	<u>2009</u>
Balance at Beginning of Year	128,247	101,275
Current year claims	743,859	915,086
Claims paid	<u>(770,831)</u>	<u>#####</u>
Balance at End of Year	<u>\$ 101,275</u>	<u>#####</u>

Note 10 – Related Organizations

The City of Bardstown participates with the County to provide a variety of services with joint funding from both organizations. All entities operate independently with separate management personnel. In most cases, the city and county contribute equal funding for operations. The following table outlines these organizations and the city's contribution during fiscal year 2009.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 10 – Related Organizations (Continued)

Organization	Contribution
Planning Commission	\$ 38,938
Nelson County Economic Development Agency	48,420
Nelson County Chamber of Commerce	6,000
Nelson County Airport	4,800
Nelcasa	1,600
Lincoln Trail ADD	3,112
Bardstown Main Street	10,000

In addition, the City has assisted the Bardstown Industrial Development Corporation (BIDC) with development of the Wilson Industrial Park. The City funded the land purchase and infrastructure improvements, including electric service, streets, water, and sewer services. BIDC funded initial planning and survey costs in addition to the continuing costs of marketing the developed industrial sites. BIDC and the City split proceeds from land sales based on the respective contributions.

Note 11 – Joint Venture

The joint city-county Emergency 911 Dispatch operation changed significantly during FY 08. The Interlocal Cooperation Agreement, approved by the City, the County, and the Kentucky Governor's Office of Local Development in 2006 created the Nelson County E911 Board and agreed that the Board will have management control of the dispatching operation, including the authority to set and enforce priorities, selection, supervision, and termination of personnel, and additional broad authority. Prior to FY 08, there were two separate dispatch centers, one operated and controlled by the City, and one operated and controlled by the County. On December 1 of FY 08, the two were combined into one, located in a building separate from both city and county headquarters. At that point the independence of the Board became reality and the funding formula was changed. Formerly, the County paid 33% of the cost of the City operated center and all the costs of the ambulance center. Effective 12-1-08, the Board and the operation are funded by the E-911 fees, with any shortfall to be paid 60% by the County and 40% by the city.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 3,102,000	\$ 3,102,000	\$ 2,996,707	\$ (105,293)
Licenses and permits	10,000	10,000	28,305	18,305
Fines and forfeitures	54,000	54,000	44,985	(9,015)
Intergovernmental revenues	1,482,358	1,482,358	598,529	(883,829)
Charges for services	282,000	282,000	229,283	(52,717)
Interest	60,000	60,000	16,608	(43,392)
Other	57,000	57,000	56,050	(950)
Total Revenues	<u>5,047,358</u>	<u>5,047,358</u>	<u>3,970,467</u>	<u>(1,076,891)</u>
Expenditures:				
Current:				
General government	1,795,650	1,795,650	897,376	898,274
Finance	631,700	631,700	651,511	(19,811)
Public safety	1,888,950	1,888,950	1,800,137	88,813
Fire	876,225	876,225	909,599	(33,374)
Recreation	436,190	436,190	440,935	(4,745)
Risk management	76,950	76,950	73,673	3,277
Community Center	202,775	202,775	116,962	85,813
Streets	315,600	315,600	359,321	(43,721)
Capital outlay	563,807	563,807	561,661	2,146
Debt service:				
Principal	40,000	40,000	40,000	0
Interest	6,000	6,000	1,792	4,208
Total Expenditures	<u>6,833,847</u>	<u>6,833,847</u>	<u>5,852,967</u>	<u>980,880</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,786,489)</u>	<u>(1,786,489)</u>	<u>(1,882,500)</u>	<u>(96,011)</u>
Other Financing Sources (Uses):				
Transfers in	2,124,050	2,124,050	2,134,016	9,966
Transfers out	(224,308)	(224,308)	(203,634)	20,674
Total Other Financing Sources (Uses)	<u>1,899,742</u>	<u>1,899,742</u>	<u>1,930,382</u>	<u>30,640</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	113,253	113,253	47,882	(65,371)
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>1,233,336</u>	<u>1,233,336</u>
Fund Balances, End of Year	<u>\$ 113,253</u>	<u>\$ 113,253</u>	<u>\$ 1,281,218</u>	<u>\$ 1,167,965</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2009

	Municipal Road Aid	Land Acquisition and Building	E911	Law Enforcement	Cemetery	Total Other Governmental Funds
Assets						
Cash and cash equivalents	\$ 37,861	\$ 84,954	\$ 174,778	\$ 20,414	\$ 25,998	\$ 344,005
Investments	0	351,000	0	38,000	153,000	542,000
Restricted Investments	0	0	0	0	111,522	111,522
Accrued receivables	10,816	10,316	21,636	905	5,652	49,325
Due from other funds	0	4,041	0	0	0	4,041
Prepaid items	0	0	19,033	0	0	19,033
Total Assets	<u>48,677</u>	<u>450,311</u>	<u>215,447</u>	<u>59,319</u>	<u>296,172</u>	<u>1,069,926</u>
Liabilities						
Accounts payable	0	0	19,093	0	0	19,093
Due to other funds	0	0	157,656	4,515	9,810	171,981
Total Liabilities	0	0	176,749	4,515	9,810	191,074
Fund Balances						
Reserved for:						
Special projects	48,677	450,311	38,698	54,804	286,362	878,852
Total Liabilities and Fund Balances	<u>\$ 48,677</u>	<u>\$ 450,311</u>	<u>\$ 215,447</u>	<u>\$ 59,319</u>	<u>\$ 296,172</u>	<u>\$ 1,069,926</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2009

	Municipal Road Aid	Land Acquisition and Building	E911	Law Enforcement	Cemetery	Total Nonmajor Funds
Revenues						
Intergovernmental	\$ 221,683	\$ 15,000	\$ 198,291	\$ 0	\$ 0	\$ 434,974
Charges for services	0	0	260,573	0	45,125	305,698
Interest	1,284	16,082	1,614	1,381	9,208	29,569
Other	0	19,184	7	26,808	954	46,953
Total Revenues	222,967	50,266	460,485	28,189	55,287	817,194
Expenditures						
Current:						
General government	0	48,144	0	0	0	48,144
Public safety	0	0	629,745	5,793	0	635,538
Cemetery	0	0	0	0	17,576	17,576
Total Expenditures	0	48,144	629,745	5,793	17,576	701,258
Excess (Deficiency) of Revenues Over Expenditures	222,967	2,122	(169,260)	22,396	37,711	115,936
Other Financing Sources (Uses):						
Transfers in	0		99,530	0	0	99,530
Transfers out	(255,000)	0	0	(7,500)	0	(262,500)
Total Other Financing Sources (Uses)	(255,000)	0	99,530	(7,500)	0	(162,970)
Net Change in Fund Balances	(32,033)	2,122	(69,730)	14,896	37,711	(47,034)
Fund Balances, Beginning of Year	80,710	448,189	108,428	39,908	248,651	925,886
Fund Balances, End of Year	\$ 48,677	\$ 450,311	\$ 38,698	\$ 54,804	\$ 286,362	\$ 878,852

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET -
NON-MAJOR PROPRIETARY FUNDS
 June 30, 2009

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement Fund	Lagoon Clearing Fund	Total Non-Major Enterprise Funds
Assets						
Current Assets:						
Accrued interest	\$ 9,479	\$ 66,388	\$ 0	\$ 9,479	\$ 4,224	\$ 89,570
Receivables	0	0	0	0	35,000	35,000
Due from other funds	0	0	2,020,411	0	0	2,020,411
Total Current Assets	<u>9,479</u>	<u>66,388</u>	<u>2,020,411</u>	<u>9,479</u>	<u>39,224</u>	<u>2,144,981</u>
Noncurrent Assets:						
Restricted Assets:						
Cash	0	22,000	0	0	0	22,000
Investments	500,000	2,521,051	0	500,000	222,810	3,743,861
Total Noncurrent Assets	<u>500,000</u>	<u>2,543,051</u>	<u>0</u>	<u>500,000</u>	<u>222,810</u>	<u>3,765,861</u>
Total Assets	<u>509,479</u>	<u>2,609,439</u>	<u>2,020,411</u>	<u>509,479</u>	<u>262,034</u>	<u>5,910,842</u>
Liabilities						
Current Liabilities:						
Due to other funds	0	0	0	75	0	75
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>75</u>	<u>0</u>	<u>75</u>
Net Assets						
Restricted for:						
Bond reserves	194,479	2,609,439	0	0	0	2,803,918
System capacity reserve	0	0	0	509,404	0	509,404
Construction Fund	0	0	2,020,411	0	0	2,020,411
Other purposes	315,000	0	0	0	262,034	577,034
Total Net Assets	<u>509,479</u>	<u>2,609,439</u>	<u>2,020,411</u>	<u>509,404</u>	<u>262,034</u>	<u>5,910,767</u>
Total Liabilities and Net Assets	<u>\$ 509,479</u>	<u>\$ 2,609,439</u>	<u>\$ 2,020,411</u>	<u>\$ 509,479</u>	<u>\$ 262,034</u>	<u>\$ 5,910,842</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
NET ASSETS – NON-MAJOR PROPRIETARY FUNDS

June 30, 2009

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Operating Revenues:						
System development charges	\$ 0	\$ 0	\$ 0	\$ 111,750	\$ 0	111,750
Total Operating Revenues	0	0	0	111,750	0	111,750
Operating Expenses:						
Contractual services	0	0	0	75	0	75
Total Operating Expenses	0	0	0	75	0	75
Income (Loss) from Operations	0	0	0	111,675	0	111,675
Nonoperating Revenues (Expenses):						
Investment earnings	14,004	90,563	6,092	46,740	5,863	163,262
Total Nonoperating Revenues (Expenses)	14,004	90,563	6,092	46,740	5,863	163,262
Income (Loss) Before Contributions and Transfers	14,004	90,563	6,092	158,415	5,863	274,937
Transfers in	0	0	1,440,273	0	35,000	1,475,273
Transfers out	(18,179)	(93,000)	0	(1,422,094)	0	(1,533,273)
Change in Net Assets	(4,175)	(2,437)	1,446,365	(1,263,679)	40,863	216,937
Net Assets, Beginning of Year	513,654	2,611,876	574,046	1,773,083	221,171	5,693,830
Net Assets, End of Year	\$ 509,479	\$ 2,609,439	\$ 2,020,411	\$ 509,404	\$ 262,034	\$ 5,910,767

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS

June 30, 2009

	Electric	Water	Sewer	Cable TV	Garbage	Internet	Total Operating
Operating Revenues:							
Charges for services	\$ 12,103,666	\$ 3,733,529	\$ 2,222,671	\$ 4,125,486	\$ 1,206,591	\$ 1,605,673	\$ 24,997,616
Utility surcharge	7,083	0	0	0	0	0	7,083
Connection fees	0	45,978	16,800	85,635	0	37,707	186,120
Contract services	228,321	0	13,614	138,368	0	0	380,303
Penalties	80,166	55,401	24,570	77,066	14,258	0	251,461
Miscellaneous	191,689	119,471	3,281	67,955	222,630	901	605,927
Total Operating Revenues	12,610,925	3,954,379	2,280,936	4,494,510	1,443,479	1,644,281	26,428,510
Operating Expenses:							
Purchases for resale	9,944,864	0	0	2,499,333	0	0	12,444,197
Personal services	579,849	1,463,276	634,951	730,202	666,730	141,803	4,216,811
Contractual services	44,061	117,847	114,615	119,079	338,907	37,480	771,989
Materials and supplies	63,687	666,645	158,164	508,301	92,315	81,838	1,570,950
Maintenance and repairs	320,971	285,005	172,270	175,894	95,180	3,223	1,052,543
Other expenses	146,523	438,068	455,053	289,781	192,105	225,505	1,747,035
Depreciation	308,268	994,056	709,113	379,406	25,938	61,871	2,478,652
Total Operating Expenses	11,408,223	3,964,897	2,244,166	4,701,996	1,411,175	551,720	24,282,177
Income From Operations	\$ 1,202,702	\$ (10,518)	\$ 36,770	\$ (207,486)	\$ 32,304	\$ 1,092,561	\$ 2,146,333

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS (CONTINUED)

June 30, 2009

	Electric	Water	Sewer	Cable TV	Garbage	Internet	Total Operating
Nonoperating Revenues (Expenses):							
Interest and investment revenue	\$ 119,987	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 119,987
Lease revenue	0	8,710	0	0	0	0	8,710
Total Nonoperating Revenue (Expense):	119,987	8,710	0	0	0	0	128,697
Income Before Contributions and Transfers							
	1,322,689	(1,808)	36,770	(207,486)	32,304	1,092,561	2,275,030
Capital contributions							
Transfers in	0	92,640	235,736	0	0	0	328,376
Transfers out	(1,092,008)	(1,200,158)	(1,412,639)	(315,082)	(58,698)	(690,501)	(4,769,086)
Change in Net Assets	\$ 230,681	\$ (1,109,326)	\$ (1,140,133)	\$ 86,982	\$ (26,394)	\$ 402,060	(1,556,130)
Net Assets, Beginning of Year							63,737,504
Net Assets, End of Year							\$ 62,181,374

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



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**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

To the City Council
City of Bardstown, Kentucky
220 North Fifth Street
Bardstown, Kentucky 40004

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardstown, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, and City Council, 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.

Perry and Gray, PSC

November 14, 2009