

# **CITY OF BARDSTOWN, KENTUCKY**

Audited Financial Statements

For the Year Ended June 30, 2010



**Percy and Gray, PSC**

**Certified Public Accountants**

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## TABLE OF CONTENTS

<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
GOVERNMENT-WIDE STATEMENT OF NET ASSETS	15
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES	18
BALANCE SHEET – GOVERNMENTAL FUNDS	20
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	22
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS	24
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS	26
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	27
<b>NOTES TO FINANCIAL STATEMENTS</b>	29
<b>OTHER SUPPLEMENTARY INFORMATION:</b>	
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND	47
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS	48
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS	49
COMBINING BALANCE SHEET – NON-MAJOR PROPRIETARY FUNDS	50
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS – NON-MAJOR PROPRIETARY FUNDS	51
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS	52
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	54
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	57
<b>REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	58

**TABLE OF CONTENTS (CONTINUED)**

<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	<b>61</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>64</b>



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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, 2010, 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, 2010, 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.

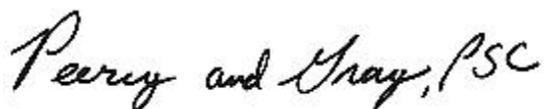
The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and page 47 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have 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  
September 28, 2010

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The schedule of expenditures for federal awards has 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 of the basic financial statements taken as a whole.

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 September 28, 2010, 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.

A handwritten signature in cursive script that reads "Perry and Gray, PSC".

September 28, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



OLD KENTUCKY HOME  
DOORWAY

# City of Bardstown

J. RICHARD HEATON, MAYOR  
220 N. 5TH ST.  
BARDSTOWN, KENTUCKY 40004  
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ART TREASURES IN  
ST. JOSEPH CATHEDRAL

## **Management's Discussion and Analysis Annual Financial Statements For the Fiscal Year Ended June 30, 2010**

CFO Mike Abell and Accountant Kerry Greenwell present this narrative to help those who review this report better understand the statements, schedules, and 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](mailto:mabell@bardstowncable.net).

### **Financial Highlights**

- As of June 30, 2010, the City's net assets (assets minus liabilities) totaled \$65,309,000, a \$1.6 million dollar increase over the June 30, 2009 figure.
- Net assets include capital assets, net of related debt, of \$50,081,000, \$10,690,000 in restricted resources (restricted to specific projects by law, regulation, or contractual agreement), and unrestricted resources of \$4,538,000.
- Unrestricted net assets, those resources available to continue City operations into the next fiscal year, increased by 10% during the fiscal year.
- City liabilities on June 30, 2010 totaled \$23,810,000, of which \$14,929,000 is long term and \$8,881,000 is current, including FY 11 bond payments of \$1,665,000 plus accounts payable, internal balances, deferred revenue, and other liabilities.
- There was significant capital asset and long-term debt activity during and at the close of the fiscal year. The City was in the process of refinancing \$17,000,000 in outstanding utility bond debt due to the availability of lower interest rates. In connection with that, Moody's assigned a better Aa3 rating to the City. This refinancing was completed just after June 30, 2010. During the year, the City also obtained preliminary approval of Kentucky Infrastructure Authority loans for a major water plant project, a major water main extension, and a sewer force main project that will allow the City to receive and treat wastewater from the City of Bloomfield. There were preliminary expenditures on all 3 projects in FY 2010. These projects and loans will impact utility rates in late FY 2011 or FY 2012.

Management's Discussion and Analysis  
Annual Financial Statements  
For The Fiscal Year Ended June 30, 2010  
September 28, 2010

- The City paid \$1,644,000 toward its bonded debt, as scheduled, this fiscal year.
- The unreserved fund balance for the General Fund, as of June 30, was \$732,000, a 23% decrease from the 2009 balance. This unreserved fund balance is equal to 11.6% of the FY 10 General Fund budgeted expenditures.
- The national recession continues to affect the City, though not as severely as elsewhere. Total utility department revenue was up by 8.2% for the year, but Occupational License fee collections were down by 12.6% for the year. New buildings resulted in a small increase in total property tax revenue.
- The City's Indirect Cost Allocation Plan was unchanged in FY 2010. This plan allocates city overhead costs to all departments, including utility departments, based on the revenue of each department as a percent of total revenue.
- Parity coverage for the Combined Utilities Revenue Bonds remains above the required coverage of 1.4 as Table 2 demonstrates.

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

<b>Assets</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>
<b>Capital Assets</b>			
Governmental Activities	8,739,000	8,593,000	8,181,000
Business-type Activities	64,334,000	66,298,000	66,711,000
<b>Total Capital Assets</b>	73,073,000	74,891,000	74,892,000
<b>Current &amp; Other Assets</b>			
Governmental Activities	4,230,000	3,790,000	4,665,000
Business-type Activities	11,278,000	10,060,000	9,562,000
<b>Total Current &amp; Other Assets</b>	15,508,000	13,850,000	14,227,000
<b>Total Assets</b>			
Governmental Activities	12,969,000	12,383,000	12,846,000
Business-type Activities	75,612,000	76,358,000	76,273,000
<b>Total Assets</b>	88,581,000	88,741,000	89,119,000

Management's Discussion and Analysis  
Annual Financial Statements  
For The Fiscal Year Ended June 30, 2010  
September 28, 2010

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

<b>Liabilities</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>
<b>Current &amp; Other Liabilities</b>			
Governmental Activities	2,491,000	2,108,000	3,011,000
Business-type Activities	4,182,000	6,285,000	5,870,000
<b>Total Current &amp; Other Liabilities</b>	6,673,000	8,393,000	8,881,000
<b>Long-term Liabilities</b>			
Governmental Activities	50,000	-	-
Business-type Activities	18,325,000	16,681,000	14,929,000
<b>Total Long-term Liabilities</b>	18,375,000	16,681,000	14,929,000
<b>Total Liabilities</b>			
Governmental Activities	2,541,000	2,108,000	3,011,000
Business-type Activities	22,507,000	22,966,000	20,799,000
<b>Total Liabilities</b>	25,048,000	25,074,000	23,810,000
<b>Net Assets</b>			
Governmental Activities	10,428,000	10,275,000	9,835,000
Business-type Activities	53,105,000	53,393,000	55,474,000
<b>Total Net Assets</b>	63,533,000	63,668,000	65,309,000
<b>Net Assets, Details</b>			
<b>Invested in Capital Assets</b>			
Governmental Activities	8,248,000	8,145,000	7,796,000
Business-type Activities	35,323,000	40,701,000	42,285,000
<b>Total Capital Assets (net of debt)</b>	43,571,000	48,846,000	50,081,000
<b>Restricted Net Assets</b>			
Governmental Activities	1,235,000	1,148,000	1,307,000
Business-type Activities	7,664,000	9,537,000	9,383,000
<b>Total Restricted Net Assets</b>	8,899,000	10,685,000	10,690,000
<b>Unrestricted Net Assets</b>			
Governmental Activities	945,000	982,000	732,000
Business-type Activities	8,518,000	3,155,000	3,806,000
<b>Total Unrestricted Net Assets</b>	9,463,000	4,137,000	4,538,000

Management's Discussion and Analysis  
Annual Financial Statements  
For The Fiscal Year Ended June 30, 2010  
September 28, 2010

**Table 2**  
**CITY OF BARDSTOWN, KENTUCKY**  
**COMBINED UTILITIES REVENUE BONDS**  
**HISTORICAL COVERAGE ANALYSIS**

	For Fiscal Year ending June 30,					
	2005	2006	2007	2008	2009	2010
Net Income	\$ 1,935,816	\$ 2,469,687	\$ 3,934,469	\$ 2,913,188	\$ 2,275,000	\$ 3,500,041
Less Contributed Capital Assets	(366,445)	(1,425,932)	(1,685,714)	(500,874)	(328,000)	(10,745)
Add Back:						
Depreciation	2,267,788	2,395,810	2,261,763	2,484,058	2,479,000	2,523,641
Interest Expense	1,195,808	1,137,025	1,082,479	1,025,912	966,000	886,804
Transfers Out	1,159,809	1,471,208	1,193,401	1,775,049	1,453,000	1,565,966
Total Revenues Available for Debt Service	\$ 6,192,776	\$ 6,047,798	\$ 6,786,398	\$ 7,697,333	\$ 6,845,000	\$ 8,465,707
Annual Parity Debt Service in years presented	\$ 2,598,470	\$ 2,598,470	\$ 2,598,470	\$ 2,598,470	\$ 2,598,470	\$ 2,598,470
<b>Coverage</b>	<b>2.38</b>	<b>2.33</b>	<b>2.61</b>	<b>2.96</b>	<b>2.63</b>	<b>3.26</b>

## 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, the City's short-term and long-term assets and liabilities, and how the City's net assets changed during the 2010 fiscal year. The revenues and expenditures of the past year are summarized.

Governmental service (General Fund) costs continue to exceed tax revenue. Transfers from the business-type activities of the City fund this deficit. Since there is a growing need to improve the infrastructure of the business activities of the City (utilities), the size of the transfer is of concern and requires that the City closely monitor all costs, but especially General Fund costs. 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, \$2,009,431, includes \$303,939 in land and inventory, and \$973,688 restricted to specific services or projects, including street maintenance, cemetery operations and maintenance, and special law enforcement projects. The balance, \$731,804, is unrestricted and equals 12.2% of FY 2010's General Fund Expenditures. Ideally, that percentage should be closer to 17% or enough to fund operations for two months. The unreserved or unrestricted fund balance decreased 25% from 2009's \$982,000 to 2010's \$732,000.

Management's Discussion and Analysis  
Annual Financial Statements  
For The Fiscal Year Ended June 30, 2010  
September 28, 2010

- The Statement of Revenues and Expenditures shows that the General Fund expenditures exceeded revenues by nearly \$1.8 million for the second year in a row. Approximately \$1 million of that amount represents the utility departments' share of general city overhead (indirect costs) and is properly funded by transfers from the utility departments. An additional \$500,000 was transferred from the combined utility fund to the General Fund to pay for general governmental services.

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 noting that actions taken in the past few years have partially addressed the General Fund's structural deficit, but more must be done in the future. The current national economic conditions have negatively affected the General Fund more so than the Utility Fund. Further effort is needed to reduce the General Fund's dependence on utility fund transfers. The need to replace and upgrade the infrastructure of the various utilities will make it more and more difficult to transfer utility funds to the General Fund in the future.

## **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 Statement of Net Assets shows, for the Utility Operating Fund, \$3,806,000 in unrestricted net assets, an increase from 2009's \$3,155,000. This equals 15.3% of the FY 2010 Utility Operating Fund expenses, just slightly less than the desired 16.7%, or two months coverage of operating expenses. The required reserve funds (Depreciation, Debt Service, Operations and Maintenance, and Bond Sinking Fund) are fully funded.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds shows Income from Operations of \$3,421,000, a significant increase over the FY 09 figure of \$2,146,000.

The Statement of Cash Flows – Proprietary Funds reports Cash and Cash Equivalents of \$4,355,000 as of June 30, an increase of \$2,200,000 over the FY 2009 figure.

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. The City allocates general overhead expenses to all departments. The accounting of the Utility Departments' share of those expenses is recorded as the "Transfer to Gen" line on Table 3. However, 1/3 of that transfer from the utility operations is to cover the costs of governmental services not funded by General Fund revenues.

Management's Discussion and Analysis  
Annual Financial Statements  
For The Fiscal Year Ended June 30, 2010  
September 28, 2010

**Table 3: Governmental Activities, Program Expenses, by Function (Department), Three-year Comparison**

	FY 08			FY 09			FY 10		
	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.
General Government	\$ 1,286,903	\$ 359,530	\$ 927,373	\$ 1,020,462	\$ 145,077	\$ 875,385	\$ 1,076,907	\$ 184,584	\$ 892,323
Finance	655,136	28,777	626,359	673,728	28,461	645,267	656,560	48,315	608,245
Public Safety	2,483,682	737,330	1,746,352	2,568,817	555,479	2,013,338	2,726,932	570,884	2,156,048
Fire	864,330	166,597	697,733	997,128	178,722	818,406	987,320	153,377	833,943
Recreation	492,360	189,349	303,011	510,301	186,234	324,067	516,220	179,810	336,410
Risk Management	73,031	-	73,031	76,389	-	76,389	78,905	-	78,905
Prevention Center	173,447	162,127	11,320	119,288	156,527	(37,239)	184,491	163,626	20,865
Streets	665,826	480,554	185,272	722,589	272,859	449,730	670,173	219,532	450,641
Cemetery	23,898	44,335	(20,437)	19,817	45,125	(25,308)	22,340	47,580	(25,240)
	<b>\$ 6,718,613</b>	<b>\$ 2,168,599</b>	<b>\$ 4,550,014</b>	<b>\$ 6,708,519</b>	<b>\$ 1,568,484</b>	<b>\$ 5,140,035</b>	<b>\$ 6,919,848</b>	<b>\$ 1,567,708</b>	<b>\$ 5,352,140</b>

**Governmental Activities, General Revenues**

Property Taxes	1,878,801	1,963,233	2,052,728
Restaurant Tax	347,766	328,717	417,212
Business License Fees	743,121	778,047	679,998
Interest & Invest. Earnings	90,194	46,177	23,780
Misc.	109,746	103,003	172,970
<b>Total Gen. Revenues</b>	<b>3,169,628</b>	<b>3,219,177</b>	<b>3,346,688</b>
<b>Transfers-Net</b>	<b>1,775,049</b>	<b>1,767,412</b>	<b>1,565,966</b>
Change in Net Assets	394,663	(153,446)	(439,486)
Net Assets, Beginning of Year	10,033,305	10,427,968	10,274,522
Net Assets, End of Year	<b>\$ 10,427,968</b>	<b>\$ 10,274,522</b>	<b>\$ 9,835,036</b>

Management's Discussion and Analysis  
Annual Financial Statements  
For The Fiscal Year Ended June 30, 2010  
September 28, 2010

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

Activity	FY08			FY09			FY10		
	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue
Electric	12,370,126	9,573,329	<b>2,796,797</b>	12,610,925	11,408,223	<b>1,202,702</b>	13,225,370	11,402,491	<b>1,822,879</b>
Water	3,724,215	3,555,700	<b>168,515</b>	3,954,379	3,964,897	<b>(10,518)</b>	4,066,317	3,964,347	<b>101,970</b>
Sewer	2,377,587	1,998,178	<b>379,409</b>	2,280,936	2,244,241	<b>36,695</b>	3,067,439	2,372,526	<b>694,913</b>
Cable TV	3,928,919	3,952,710	<b>(23,791)</b>	4,494,510	4,701,996	<b>(207,486)</b>	4,723,452	5,056,590	<b>(333,138)</b>
Internet	1,438,998	498,143	<b>940,855</b>	1,644,281	551,720	<b>1,092,561</b>	1,842,522	708,238	<b>1,134,284</b>
Garbage	1,244,791	1,195,608	<b>49,183</b>	1,443,479	1,411,175	<b>32,304</b>	1,357,545	1,357,927	<b>(382)</b>
Interest Exp	-	1,025,912	<b>(1,025,912)</b>	-	966,428	<b>(966,428)</b>	-	886,804	<b>(886,804)</b>
<b>Totals</b>	<b>25,084,636</b>	<b>21,799,580</b>	<b>3,285,056</b>	<b>26,428,510</b>	<b>25,248,680</b>	<b>1,179,830</b>	<b>28,282,645</b>	<b>25,748,923</b>	<b>2,533,722</b>

**General Revenues, Business-type Activities**

Interest & Invest. Earnings	748,367	426,590	221,586
Grants & Contributions	500,874	328,376	755,745
System Development Charges	146,939	111,750	127,833
Other	7,000	8,710	8,110
Less Net Transfers	<u>(1,775,049)</u>	<u>(1,767,412)</u>	<u>(1,565,966)</u>
Change in Net Assets	2,913,187	287,844	2,081,030
<b>Net Assets, Beginning</b>	<b><u>50,192,178</u></b>	<b><u>53,105,365</u></b>	<b><u>53,393,209</u></b>
<b>Net Assets, Ending</b>	<b><u>\$ 53,105,365</u></b>	<b><u>\$ 53,393,209</u></b>	<b><u>\$ 55,474,239</u></b>

## **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 and expenses decreased slightly in FY 2010. Sewer rates and revenues increased as the City is addressing major system maintenance and improvements. Cable and Internet revenues continue to grow and the rate of increase in cable expenses will taper off after FY 2010, as the expansion of the service area nears completion and there is less need for contact installers. Two matters that will increase costs in Cable are the programming fees and the need to convert to digital. The rate increases adopted effective for FY 2010 for Electric, Water, Sewer, and Garbage have made each service more self-supporting, though a new study of rates for water and sewer is to be done to address long term needs. Garbage revenue from charges was actually about equal to the FY 2009 figure. However, a large grant was received in FY '09 and thus total revenue was higher that year.

### **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 last completed a water and sewer rate study in late FY 05. A new study is underway to address increasing regulatory demands for infrastructure improvements. 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 10 that will affect the City in the future include:

1. Further progress by the Cities of Bardstown and 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. Significant expansion of the area served by the city's cable-internet system, including expansion into the Fairfield area and the use of "fiber to the home" technology in the Nelsonville area. The latter approach will allow less densely populated areas of the County to be served in the future. Design for the Chaplin area was nearly complete on June 30.
3. The increased employment opportunities offered by the Flowers Food and Sykes facilities will continue to lessen the impact of other industry reductions and contribute both new utility and tax revenue to the City.

Management's Discussion and Analysis  
Annual Financial Statements  
For The Fiscal Year Ended June 30, 2010  
September 28, 2010

4. The use of Transportation Enhancement and other funds to renovate the downtown streetscape and water infrastructure was started in FY 2010 and will be completed in FY 2011, demanding very little local tax and utility revenue but resulting in much needed improvements.
5. The City initiated the refinancing of all outstanding utility system debt, completing the transaction in July of 2010 and saving approximately \$200,000 per year for the next 10 years.
6. The initiation of a \$5,000,000 water plant improvement project with grant commitments of \$1,550,000 and a 3% 20 year \$3,500,000 loan commitment from KIA.
7. The receipt of 3% and 2% 20 year loan commitments to fund a \$1,800,000 water main extension to the Nelson County Industrial Park tank and \$1,800,000 sewer force main project along Bloomfield Road and from the Pottershop Road lift station to the treatment plant.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF BARDSTOWN, KENTUCKY**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
June 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 1,375,273	\$ 2,971,040	\$ 4,346,313
Investments	667,483	2,000,000	2,667,483
Accrued interest	52,761	14,591	67,352
Receivables, net	251,484	2,401,171	2,652,655
Due from other governments	36,537	16,221	52,758
Internal balances	2,232,808	1,107,067	3,339,875
Inventory	39,838	1,035,956	1,075,794
Prepaid items	8,689	15,839	24,528
<b>Total Current Assets</b>	<b>4,664,873</b>	<b>9,561,885</b>	<b>14,226,758</b>
<b>Noncurrent Assets:</b>			
Restricted cash and investments	120,791	7,012,035	7,132,826
Land held for resale	264,101	0	264,101
Capital assets, net (Note 5)	7,796,069	59,699,407	67,495,476
<b>Total Noncurrent Assets</b>	<b>8,180,961</b>	<b>66,711,442</b>	<b>74,892,403</b>
<b>Total Assets</b>	<b>12,845,834</b>	<b>76,273,327</b>	<b>89,119,161</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable	2,482,345	114,026	2,596,371
Internal balances	54,411	3,285,464	3,339,875
Accrued taxes	18,267	21,580	39,847
Other liabilities	455,775	649,286	1,105,061
Deferred revenue	0	47,877	47,877
Bonds payable	0	1,752,218	1,752,218
<b>Total Current Liabilities</b>	<b>3,010,798</b>	<b>5,870,451</b>	<b>8,881,249</b>
<b>Noncurrent liabilities (Note 6):</b>			
Bonds payable	0	14,928,637	14,928,637
<b>Total Noncurrent Liabilities</b>	<b>0</b>	<b>14,928,637</b>	<b>14,928,637</b>
<b>Total Liabilities</b>	<b>\$ 3,010,798</b>	<b>\$ 20,799,088</b>	<b>\$ 23,809,886</b>

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

**CITY OF BARDSTOWN, KENTUCKY**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS (CONTINUED)**  
June 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 7,796,069	\$ 42,285,300	\$ 50,081,369
Restricted for:			
Infrastructure	0	26,858	26,858
Inventory and land held for resale	303,939	0	303,939
Revenue bond reserves	0	6,383,232	6,383,232
Construction fund	0	2,340,319	2,340,319
Special projects	1,003,224	632,533	1,635,757
Unrestricted	731,804	3,805,997	4,537,801
Total Net Assets	<u>\$ 9,835,036</u>	<u>\$ 55,474,239</u>	<u>\$ 65,309,275</u>

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

**CITY OF BARDSTOWN, KENTUCKY**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
June 30, 2010

Programs Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Governmental Activities</b>							
General government	\$ (1,076,907)	\$ 50	\$ 15,820	\$ 168,714	\$ (892,323)	\$ 0	\$ (892,323)
Finance	(656,560)	30,045	0	18,270	(608,245)	0	(608,245)
Public safety	(2,726,932)	239,797	243,046	88,041	(2,156,048)	0	(2,156,048)
Fire	(987,320)	102,407	50,970	0	(833,943)	0	(833,943)
Recreation	(516,220)	77,060	102,750	0	(336,410)	0	(336,410)
Risk management	(78,905)	0	0	0	(78,905)	0	(78,905)
Community Center	(184,491)	0	163,626	0	(20,865)	0	(20,865)
Streets	(670,173)	4,370	215,162	0	(450,641)	0	(450,641)
Cemetery	(22,340)	47,580	0	0	25,240	0	25,240
<b>Total Governmental Activities</b>	<b>(6,919,848)</b>	<b>501,309</b>	<b>791,374</b>	<b>275,025</b>	<b>(5,352,140)</b>	<b>0</b>	<b>(5,352,140)</b>
<b>Business-Type Activities:</b>							
Electric	(11,402,491)	13,225,370	0	0	0	1,822,879	1,822,879
Water	(3,964,347)	4,066,317	6,370	500,000	0	608,340	608,340
Sewer system	(2,372,526)	3,067,439	4,375	245,000	0	944,288	944,288
Cable TV	(5,056,590)	4,723,452	0	0	0	(333,138)	(333,138)
Garbage	(1,357,927)	1,357,545	0	0	0	(382)	(382)
Internet	(708,238)	1,842,522	0	0	0	1,134,284	1,134,284
Interest expense	(886,804)	0	0	0	0	(886,804)	(886,804)
<b>Total Business-Type Activities</b>	<b>(25,748,923)</b>	<b>28,282,645</b>	<b>10,745</b>	<b>745,000</b>	<b>0</b>	<b>3,289,467</b>	<b>3,289,467</b>
<b>Total Government</b>	<b>\$ (32,668,771)</b>	<b>\$ 28,783,954</b>	<b>\$ 802,119</b>	<b>\$ 1,020,025</b>	<b>\$ (5,352,140)</b>	<b>\$ 3,289,467</b>	<b>\$ (2,062,673)</b>

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

**CITY OF BARDSTOWN, KENTUCKY**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)**  
June 30, 2010

	Net (Expenses) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
General Revenues:			
Taxes:			
Property taxes	\$ 2,052,728	\$ 0	\$ 2,052,728
Business and occupational licenses	679,998	0	679,998
Restaurant tax	417,212	0	417,212
Interest and investment earnings	23,780	221,586	245,366
System Development Charges	0	127,833	127,833
Other	172,970	8,110	181,080
Transfers	1,565,966	(1,565,966)	0
	<u>4,912,654</u>	<u>(1,208,437)</u>	<u>3,704,217</u>
Change in Net Assets	(439,486)	2,081,030	1,641,544
Net Assets - Beginning	<u>10,274,522</u>	<u>53,393,209</u>	<u>63,667,731</u>
Net Assets - Ending	<u>\$ 9,835,036</u>	<u>\$ 55,474,239</u>	<u>\$ 65,309,275</u>

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

**CITY OF BARDSTOWN, KENTUCKY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
June 30, 2010

	General	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 995,959	\$ 184,966	\$ 1,180,925
Investments	0	667,483	667,483
Restricted cash	1,937	0	1,937
Restricted investments	0	118,854	118,854
Accrued interest receivable	0	52,761	52,761
Accounts receivable	245,575	0	245,575
Due from other governments	36,537	0	36,537
Inventory	39,838	0	39,838
Land held for resale	264,101	0	264,101
Internal balances	2,215,352	17,456	2,232,808
Prepaid items	0	8,689	8,689
	<u>3,799,299</u>	<u>1,050,209</u>	<u>4,849,508</u>
<b>Liabilities</b>			
Accounts payable	2,289,514	22,110	2,311,624
Accrued payroll	455,775	0	455,775
Payroll taxes payable	18,267	0	18,267
Internal balances	0	54,411	54,411
	<u>2,763,556</u>	<u>76,521</u>	<u>2,840,077</u>
<b>Fund Balances</b>			
Reserved for:			
Inventory and land held for resale	303,939	0	303,939
Special projects	0	973,688	973,688
Unreserved, reported in:			
General fund	731,804	0	731,804
	<u>1,035,743</u>	<u>973,688</u>	<u>2,009,431</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,799,299</u>	<u>\$ 1,050,209</u>	<u>\$ 4,849,508</u>

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

**CITY OF BARDSTOWN, KENTUCKY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)**  
June 30, 2010

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the statement of net assets are different because :	
Total Fund Balances - Total Governmental Funds	\$ 2,009,431
Allocation of internal service fund balances	29,536
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	<u>7,796,069</u>
Net Assets of Governmental Activities	<u>\$ 9,835,036</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, 2010

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,050,735	\$ 0	\$ 3,050,735
Business licenses	57,220	0	57,220
Fines and forfeitures	41,983	0	41,983
Intergovernmental	705,069	361,330	1,066,399
Charges for services	214,785	286,524	501,309
Interest	4,240	19,540	23,780
Other	89,632	83,338	172,970
Total Revenues	<u>4,163,664</u>	<u>750,732</u>	<u>4,914,396</u>
Expenditures			
Current:			
General government	1,014,271	901	1,015,172
Finance	654,538	0	654,538
Public safety	1,974,001	650,795	2,624,796
Fire	926,461	0	926,461
Recreation	461,666	0	461,666
Risk management	78,298	0	78,298
Community Center	186,782	0	186,782
Streets	328,006	0	328,006
Cemetery	0	20,100	20,100
Capital outlay	280,883	4,100	284,983
Debt service	50,199	0	50,199
Total Expenditures	<u>5,955,105</u>	<u>675,896</u>	<u>6,631,001</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,791,441)</u>	<u>74,836</u>	<u>(1,716,605)</u>
Other Financing Sources (Uses):			
Transfers in	1,903,838	222,000	2,125,838
Transfers out	(357,872)	(202,000)	(559,872)
Total Other Financing Sources (Uses)	<u>1,545,966</u>	<u>20,000</u>	<u>1,565,966</u>
Net Change in Fund Balance	(245,475)	94,836	(150,639)
Fund Balances, Beginning of Year	<u>1,281,218</u>	<u>878,852</u>	<u>2,160,070</u>
Fund Balances, End of Year	<u>\$ 1,035,743</u>	<u>\$ 973,688</u>	<u>\$ 2,009,431</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 (CONTINUED)**  
Fiscal Year Ended June 30, 2010

	<u>Total Governmental Funds</u>
Net Change in Fund Balances-Total Governmental Funds	\$ (150,639)
Amounts reported for governmental activities in the statement of activities are different because :	
Depreciation expense reported in statement of activities	(683,874)
Capital outlay reported in governmental expenditures	284,983
Principal payments on long-term debt reported as governmental expenditures	50,000
Change in net assets - self insurance fund	<u>60,044</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (439,486)</u></u>

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

**CITY OF BARDSTOWN, KENTUCKY**  
**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS**  
June 30, 2010

	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	\$ 2,971,040	\$ 0	\$ 0	\$ 2,971,040	\$ 194,348
Investments	2,000,000	0	0	2,000,000	0
Accrued interest	12,062	0	2,529	14,591	0
Receivables (net of allowance for doubtful accounts, \$129,171)	1,872,842	25,829	502,500	2,401,171	5,909
Prepaid expenses	15,839	0	0	15,839	0
Due from other governments	16,221	0	0	16,221	0
Internal balances	0	0	1,107,067	1,107,067	0
Inventory-parts and supplies	1,035,956	0	0	1,035,956	0
<b>Total Current Assets</b>	<b>7,923,960</b>	<b>25,829</b>	<b>1,612,096</b>	<b>9,561,885</b>	<b>200,257</b>
Noncurrent Assets:					
Restricted Assets:					
Cash	0	1,032,440	351,661	1,384,101	0
Investments	0	2,598,470	3,029,464	5,627,934	0
<b>Total Restricted Assets</b>	<b>0</b>	<b>3,630,910</b>	<b>3,381,125</b>	<b>7,012,035</b>	<b>0</b>
Capital Assets:					
Land	995,712	0	0	995,712	0
Construction in Progress	0	0	733,252	733,252	0
Distribution systems	68,833,842	0	0	68,833,842	0
Plant and buildings	18,509,544	0	0	18,509,544	0
Equipment	5,167,506	0	0	5,167,506	0
Less accumulated depreciation	(34,540,449)	0	0	(34,540,449)	0
<b>Capital Assets, Net of Accumulated Depreciation</b>	<b>58,966,155</b>	<b>0</b>	<b>733,252</b>	<b>59,699,407</b>	<b>0</b>
<b>Total Noncurrent Assets</b>	<b>58,966,155</b>	<b>3,630,910</b>	<b>4,114,377</b>	<b>66,711,442</b>	<b>0</b>
<b>Total Assets</b>	<b>\$ 66,890,115</b>	<b>\$ 3,656,739</b>	<b>\$ 5,726,473</b>	<b>\$ 76,273,327</b>	<b>\$ 200,257</b>

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

**CITY OF BARDSTOWN, KENTUCKY**  
**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS (CONTINUED)**  
June 30, 2010

	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
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 114,026	\$ 0	\$ 0	\$ 114,026	\$ 170,721
Accrued taxes	21,580	0	0	21,580	0
Internal balances	3,285,194	0	270	3,285,464	0
Customer deposits	367,192	0	0	367,192	0
Accrued payroll	282,094	0	0	282,094	0
Deferred revenue	47,877	0	0	47,877	0
Bonds, notes, and loans payable	0	1,752,218	0	1,752,218	0
<b>Total Current Liabilities</b>	<b>4,117,963</b>	<b>1,752,218</b>	<b>270</b>	<b>5,870,451</b>	<b>170,721</b>
<b>Noncurrent Liabilities:</b>					
Bonds, notes, and loans payable	0	15,175,000	0	15,175,000	0
Unamortized issuance costs	0	(226,767)	0	(226,767)	0
Unamortized deferred refunding costs	0	(19,596)	0	(19,596)	0
<b>Total Noncurrent Liabilities</b>	<b>0</b>	<b>14,928,637</b>	<b>0</b>	<b>14,928,637</b>	<b>0</b>
	<b>4,117,963</b>	<b>16,680,855</b>	<b>270</b>	<b>20,799,088</b>	<b>170,721</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	58,966,155	(16,680,855)	0	42,285,300	0
<b>Restricted for:</b>					
Bond reserves	0	3,656,739	2,726,493	6,383,232	0
System capacity reserve	0	0	26,858	26,858	0
Construction Fund	0	0	2,340,319	2,340,319	0
Other purposes	0	0	632,533	632,533	29,536
<b>Unrestricted</b>	<b>3,805,997</b>	<b>0</b>	<b>0</b>	<b>3,805,997</b>	<b>0</b>
<b>Total Net Assets</b>	<b>62,772,152</b>	<b>(13,024,116)</b>	<b>5,726,203</b>	<b>55,474,239</b>	<b>29,536</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 66,890,115</b>	<b>\$ 3,656,739</b>	<b>\$ 5,726,473</b>	<b>\$ 76,273,327</b>	<b>\$ 200,257</b>

*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, 2010

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	Utility Operating Fund	Debt Service Reserve	Total Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Operating Revenues:					
Charges for services	\$ 27,058,716	\$ 0	\$ 0	\$ 27,058,716	\$ 1,417,965
Utility surcharge	1,763	0	0	1,763	0
Connection fees	193,780	0	0	193,780	0
Intergovernmental	0	0	745,000	745,000	0
System development charges	0	0	127,833	127,833	0
Contract services	430,543	0	0	430,543	0
Penalties	298,231	0	0	298,231	0
Miscellaneous	299,612	0	0	299,612	0
<b>Total Operating Revenues</b>	<b>28,282,645</b>	<b>0</b>	<b>872,833</b>	<b>29,155,478</b>	<b>1,417,965</b>
Operating Expenses:					
Purchases for resale	12,898,133	0	0	12,898,133	0
Personal services	4,428,024	0	0	4,428,024	0
Contractual services	977,039	0	0	977,039	0
Materials and supplies	1,326,462	0	0	1,326,462	0
Maintenance and repairs	626,628	0	0	626,628	0
Other expenses	2,082,192	0	0	2,082,192	1,358,125
Depreciation	2,523,641	0	0	2,523,641	0
<b>Total Operating Expenses</b>	<b>24,862,119</b>	<b>0</b>	<b>0</b>	<b>24,862,119</b>	<b>1,358,125</b>
<b>Income (Loss) from Operations</b>	<b>3,420,526</b>	<b>0</b>	<b>872,833</b>	<b>4,293,359</b>	<b>59,840</b>
Nonoperating Revenues (Expenses):					
Investment earnings	71,405	84,956	65,225	221,586	204
Lease revenue	8,110	0	0	8,110	0
Interest expense	0	(886,804)	0	(886,804)	0
<b>Total Nonoperating Revenues (Expenses)</b>	<b>79,515</b>	<b>(801,848)</b>	<b>65,225</b>	<b>(657,108)</b>	<b>204</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>3,500,041</b>	<b>(801,848)</b>	<b>938,058</b>	<b>3,636,251</b>	<b>60,044</b>
Capital contributions	10,745	0	0	10,745	0
Transfers in	1,865,643	2,476,664	758,051	5,100,358	0
Transfers out	(4,785,651)	0	(1,880,673)	(6,666,324)	0
<b>Change in Net Assets</b>	<b>590,778</b>	<b>1,674,816</b>	<b>(184,564)</b>	<b>2,081,030</b>	<b>60,044</b>
Net Assets, Beginning of Year	62,181,374	(14,698,932)	5,910,767	53,393,209	(30,508)
<b>Net Assets, End of Year</b>	<b>\$ 62,772,152</b>	<b>\$ (13,024,116)</b>	<b>\$ 5,726,203</b>	<b>\$ 55,474,239</b>	<b>\$ 29,536</b>

*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, 2010

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 30,580,145	\$ 1,449,302
Cash payments to suppliers for good and services	(18,551,918)	(1,322,335)
Cash payments to employees for services	(4,353,267)	0
Other operating cash receipts	373,078	0
	8,048,038	126,967
Cash Flows From NonCapital Financing Activities		
Transfers to other funds	(1,565,966)	0
	(1,565,966)	0
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(3,196,480)	0
Principal paid on capital debt	(1,644,222)	0
Interest paid on capital debt	(886,804)	0
Contributed capital	10,745	0
Other receipts	8,110	0
	(5,708,651)	0
Cash Flows From Investing Activities		
Proceeds from disposition and acquisition of investments	1,214,397	0
Interest and dividends	221,586	204
	1,435,983	204
Net Increase in Cash and Cash Equivalents	2,209,404	127,171
Cash and Cash Equivalents, Beginning of Year	2,145,737	67,177
Cash and Cash Equivalents, End of Year	\$ 4,355,141	\$ 194,348

*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, 2010

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	\$ 4,293,359	\$ 59,840
Adjustments to reconcile operating income from operations to net cash provided by operating activities:		
Depreciation	2,523,639	0
Change in assets and liabilities:		
Decrease in receivables, net	1,729,092	31,337
Decrease in inventory	24,603	0
Decrease in accounts and other payables	(666,065)	35,790
Increase in customer deposits	73,466	0
Decrease in deferred revenues	(4,813)	0
Increase in accrued payroll	74,757	0
Net Cash Provided by Operating Activities	\$ 8,048,038	\$ 126,967

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

# CITY OF BARDSTOWN, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### *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. 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, 2010

### *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, 2010

### *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 2010 include both operating transfers and increases to restricted funds. A total of \$1,135,225 was allocated to the General Fund from the Combined Utility Operating Fund to cover administrative costs, using an indirect cost allocation. During fiscal year 2010, the Combined Utility Operating Fund also transferred \$2,476,664 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 the premiums charged to individual departments and the employees for insurance coverage. The employees pay a set amount each month. The departments' premiums are based on claims paid and administrative fees charged by third party administrators. The City's utilities also recognize as operating revenue tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise (utility) funds include the cost of sales and services, personnel, administrative expenses, and depreciation on capital assets. Operating expenses of the Internal Service (Self-insurance) fund include medical claims and third party administrative fees. All revenues and expenses not meeting the above definitions 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.

# CITY OF BARDSTOWN, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### *Note 1 – Summary of Significant Accounting Policies (Continued)*

#### Deposits and Investments(Continued)

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.

#### 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, 2010.

#### 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 Fund accounts for the proceeds of grants, loans, proceeds of revenue bond issues and related funds that are restricted for use on construction projects.

# CITY OF BARDSTOWN, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### *Note 1 – Summary of Significant Accounting Policies (Continued)*

#### Assets, Liabilities and Net Assets or Equity (Continued)

##### Restricted Assets (Continued)

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.

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.

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 \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at cost. 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, 2010

*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

The City stopped granting sick leave hours in 2004. However, those with accumulated sick leave retained the hours accumulated. Unused sick leave is only paid to those employees who retire from City service who have more than 240 hours of accumulated sick leave and who have not used more than 480 hours of sick leave during the ten year period immediately preceding the date of retirement. Management has determined that these restrictions will result in actual payments that are immaterial to total assets in the fund financial statements.

The City replaced the granting of 96 sick leave hours per year with the granting of 60 Personal Leave hours per year. Accumulated Personal Leave is paid to the employee upon termination of service with proper notice. Earned vacation hours must be used within one year of the earning thereof and is also paid to the employee upon termination of service with proper notice. The liability for these compensated absences is recorded as a current liability in the government-wide statements. Liabilities are calculated using the employee's current rate of pay and the total hours of accumulated leave

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.

# CITY OF BARDSTOWN, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### *Note 1 – Summary of Significant Accounting Policies (Continued)*

#### Assets, Liabilities and Net Assets or Equity (Continued)

##### 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.

##### 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, 2010 include the following balances:

Materials and supplies inventories	39,838
Land development for resale	264,101
Street improvements	55,957
Cemetery maintenance	320,159
Capital projects	520,894
Public safety projects	76,678

##### 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

# CITY OF BARDSTOWN, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### ***Note 1 – Summary of Significant Accounting Policies (Continued)***

#### **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.

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***

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, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**CITY OF BARDSTOWN, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**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 2010 fiscal year was \$.190 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, 2010, was as follows:

	Primary Government			Balance 6/30/10
	Balance 7/1/09	Additions/ Completions	Retirements/ Adjustments	
Governmental activities:				
Capital assets not depreciated				
Land	\$ 521,278	0	0	\$ 521,278
Capital assets depreciated				
Buildings and improvements	3,521,189	13,632	0	3,534,821
Improvements other than buildings	2,210,460	36,314	0	2,246,774
Vehicles	1,876,946	57,083	(39,566)	1,894,463
Equipment	2,657,858	108,114	(30,115)	2,735,857
Infrastructure	13,055,419	69,840	0	13,125,259
Total assets depreciated at historical cost	23,321,872	284,983	(69,681)	23,537,174
Buildings and improvements	(1,430,391)	(95,297)	0	(1,525,688)
Improvements other than buildings	(2,083,239)	(22,288)	0	(2,105,527)
Vehicles	(1,612,262)	(114,353)	39,566	(1,687,049)
Equipment	(1,639,454)	(134,336)	30,115	(1,743,675)
Infrastructure	(8,882,844)	(317,600)	0	(9,200,444)
Total accumulated depreciation	(15,648,190)	(683,874)	69,681	(16,262,383)
Depreciable capital assets, net	7,673,682	(398,891)		7,274,791
Governmental activities capital assets, net	\$ 8,194,960	\$ (398,891)		\$ 7,796,069

**CITY OF BARDSTOWN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

**Note 5 – Capital Assets (Continued)**

	Primary Government			
	Balance 7/1/09	Additions/ Completions	Retirements/ Adjustments	Balance 6/30/10
Business-type activities:				
Capital assets not depreciated				
Land	\$ 995,712	0	0	\$ 995,712
Construction in Progress	0	733,252	0	733,252
	\$ 995,712	733,252	0	\$ 1,728,964
Capital assets depreciated				
Plant facilities	16,581,429	0	0	16,581,429
Other improvements	1,904,567	23,548	0	1,928,115
Vehicles	1,330,931	12,500	(35,140)	1,308,291
Equipment	3,224,933	634,282	0	3,859,215
Infrastructure	67,040,944	1,792,898	0	68,833,842
Total assets depreciable at historical cost	90,082,804	2,463,228	(35,140)	92,510,892
Plant facilities	(9,147,764)	(441,950)	0	(9,589,714)
Other improvements	(854,560)	(82,468)	0	(937,028)
Vehicles	(1,085,351)	(45,490)	35,140	(1,095,701)
Equipment	(1,753,156)	(306,395)		(2,059,551)
Infrastructure	(19,211,119)	(1,647,336)	0	(20,858,455)
Total accumulated depreciation:	(32,051,950)	(2,523,639)	35,140	(34,540,449)
Depreciable capital assets, net	58,030,854	(60,411)	0	57,970,443
Business-type activities capital assets, net	\$ 59,026,566	\$ 672,841	\$ 0	\$ 59,699,407

**CITY OF BARDSTOWN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

**Note 5 – Capital Assets (Continued)**

Depreciation expense was charged to governmental functions as follows:

Streets	\$ 350,572
Protection to persons and property	190,416
General government	76,967
Recreation	61,759
Cemetery	2,241
Community Center	111
Risk Management	<u>1,808</u>
Total governmental depreciation expense	<u>\$ 683,874</u>

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

Electric	\$ 316,459
Water	1,005,173
Sewer system	800,605
Cable TV	307,898
Garbage	29,888
Internet	<u>63,616</u>
Total business-type depreciation expense	<u>\$ 2,523,639</u>

**CITY OF BARDSTOWN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

**Note 6 – Long-Term Liabilities**

Changes during fiscal year 2010 and balances as of June 30, 2010, including the current portions, of the City were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b>GOVERNMENTAL ACTIVITIES:</b>					
Other liabilities:					
Capital leases	\$ 50,000	\$ 0	\$ (50,000)	\$ 0	\$ 0
Total other liabilities	<u>50,000</u>	<u>0</u>	<u>(50,000)</u>	<u>0</u>	<u>0</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Bonds and notes payable:					
Series 1997	2,595,000	0	(250,000)	2,345,000	745,000
Series 2001	15,630,000	0	(1,005,000)	14,625,000	1,050,000
Series 2003	445,000	0	(445,000)	0	0
	<u>18,670,000</u>	<u>0</u>	<u>(1,700,000)</u>	<u>16,970,000</u>	<u>1,795,000</u>
Less:					
Unamortized issuance costs	290,577	0	(34,501)	256,076	29,309
Deferred amount on refunding	54,346	0	(21,277)	33,069	13,473
Total bonds and notes payable	<u>18,325,077</u>	<u>0</u>	<u>(1,644,222)</u>	<u>16,680,855</u>	<u>1,752,218</u>
Business-type activities					
Long-term liabilities	<u>\$ 18,325,077</u>	<u>\$ 0</u>	<u>\$ (1,644,222)</u>	<u>\$ 16,680,855</u>	<u>\$ 1,752,218</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, 2010

***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 and businesses 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:

	Revenue Bonds	
	Principal	Interest
Business-Type Activities		
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	1,250,000	462,650
2016-2020	7,220,000	1,346,588
2021	1,670,000	41,750
Total Business-Type Activities	<u>\$ 16,970,000</u>	<u>\$ 4,391,271</u>

**CITY OF BARDSTOWN, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**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	0	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		0	

**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, 2010. Contribution rates for the fiscal year ended June 30, 2010, were as follows:

	<u>Employee</u>	<u>Employer</u>
Nonhazardous	5.00%	16.16%
Hazardous-duty	8.00%	32.97%

**CITY OF BARDSTOWN, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

***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>
2010	595,619	442,581
2009	522,981	397,672
2008	580,611	416,532

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, 2010, the audits of these grants and programs were complete through 2009 and the City’s compliance with applicable requirements has been established. The City’s compliance with applicable requirements for 2010 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, 2010

### *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 \$35,122,926 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>2009</u>	<u>2010</u>
Balance at Beginning of Year	101,275	134,931
Current year claims	915,086	1,154,052
Claims paid	<u>(881,430)</u>	<u>(1,118,262)</u>
Balance at End of Year	<u>\$ 134,931</u>	<u>\$ 170,721</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 2010.

# CITY OF BARDSTOWN, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2010

### *Note 10 – Related Organizations (Continued)*

<b>Organization</b>	<b>Contribution</b>
Planning Commission	\$ 41,325
Nelson County Economic Development Agency	48,420
Nelson County Chamber of Commerce	6,000
Nelson County Airport	4,800
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.

### *Note 12 – Subsequent Event*

The City of Bardstown, Kentucky issued General Obligation Bonds, Series 2010, dated July 7, 2010 in the amount of \$14,030,000. Semiannual interest payments at a variable rate from 1.0% to 3.2% are due on December and June 1 of each year. Principal is due annually on December 1. The bonds mature in 2020. The purpose of this bond issue is to refund the City's outstanding Combined Utilities Revenue Bonds, Series 1997 and advanced refunding of the City's outstanding Combined Utilities Revenue Bonds, Series 2001.

## **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, 2010

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 2,982,000	\$ 2,982,000	\$ 3,050,735	\$ 68,735
Licenses and permits	6,000	6,000	57,220	51,220
Fines and forfeitures	54,000	54,000	41,983	(12,017)
Intergovernmental revenues	627,220	1,342,786	705,069	(637,717)
Charges for services	230,500	230,500	214,785	(15,715)
Interest	15,000	15,000	4,240	(10,760)
Other	25,225	25,225	89,632	64,407
Total Revenues	<u>3,939,945</u>	<u>4,655,511</u>	<u>4,163,664</u>	<u>(491,847)</u>
Expenditures:				
Current:				
General government	855,025	1,435,402	1,014,271	421,131
Finance	652,729	652,729	654,538	(1,809)
Public safety	1,935,635	1,935,635	1,974,001	(38,366)
Fire	1,031,996	1,031,996	926,461	105,535
Recreation	459,446	459,446	461,666	(2,220)
Risk management	77,080	77,080	78,298	(1,218)
Community Center	209,300	209,300	186,782	22,518
Streets	366,777	366,777	328,006	38,771
Capital outlay	424,940	560,129	280,883	279,246
Debt service:				
Principal	0	0	50,000	(50,000)
Interest	0	0	199	(199)
Total Expenditures	<u>6,012,928</u>	<u>6,728,494</u>	<u>5,955,105</u>	<u>773,389</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,072,983)</u>	<u>(2,072,983)</u>	<u>(1,791,441)</u>	<u>281,542</u>
Other Financing Sources (Uses):				
Transfers in	2,043,834	2,043,834	1,903,838	(139,996)
Transfers out	0	0	(357,872)	(357,872)
Total Other Financing Sources (Uses)	<u>2,043,834</u>	<u>2,043,834</u>	<u>1,545,966</u>	<u>(497,868)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(29,149)	(29,149)	(245,475)	(216,326)
Fund Balances, Beginning of Year	<u>30,000</u>	<u>30,000</u>	<u>1,281,218</u>	<u>1,251,218</u>
Fund Balances, End of Year	<u>\$ 851</u>	<u>\$ 851</u>	<u>\$ 1,035,743</u>	<u>\$ 1,034,892</u>

**CITY OF BARDSTOWN, KENTUCKY**  
**COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**  
 June 30, 2010

	Municipal Road Aid	Land Acquisition and Building	E911	Law Enforcement	Cemetery	Total Other Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 44,097	\$ 63,606	\$ 40,190	\$ 14,712	\$ 22,361	\$ 184,966
Investments	0	435,483	0	50,000	182,000	667,483
Restricted Investments	0	0	0	0	118,854	118,854
Accrued receivables	11,956	4,685	31,882	433	3,805	52,761
Due from other funds	0	17,120	0	336	0	17,456
Prepaid items	0	0	8,689	0	0	8,689
<b>Total Assets</b>	<b>56,053</b>	<b>520,894</b>	<b>80,761</b>	<b>65,481</b>	<b>327,020</b>	<b>1,050,209</b>
<b>Liabilities</b>						
Accounts payable	0	0	22,110	0	0	22,110
Due to other funds	96	0	47,454	0	6,861	54,411
<b>Total Liabilities</b>	<b>96</b>	<b>0</b>	<b>69,564</b>	<b>0</b>	<b>6,861</b>	<b>76,521</b>
<b>Fund Balances</b>						
Reserved for:						
Special projects	55,957	520,894	11,197	65,481	320,159	973,688
<b>Total Liabilities and Fund Balances</b>	<b>\$ 56,053</b>	<b>\$ 520,894</b>	<b>\$ 80,761</b>	<b>\$ 65,481</b>	<b>\$ 327,020</b>	<b>\$ 1,050,209</b>

**CITY OF BARDSTOWN, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – NON-MAJOR GOVERNMENTAL FUNDS**  
June 30, 2010

	Municipal Road Aid	Land Acquisition and Building	E911	Law Enforcement	Cemetery	Total Nonmajor Funds
<b>Revenues</b>						
Intergovernmental	\$ 208,330	\$ 0	\$ 153,000	\$ 0	\$ 0	\$ 361,330
Charges for services	0	0	238,944	0	47,580	286,524
Interest	1,068	10,438	1,084	633	6,317	19,540
Other	0	60,928	22	22,388	0	83,338
<b>Total Revenues</b>	<b>209,398</b>	<b>71,366</b>	<b>393,050</b>	<b>23,021</b>	<b>53,897</b>	<b>750,732</b>
<b>Expenditures</b>						
<b>Current:</b>						
General government	118	783	0	0	0	901
Public safety	0	0	638,451	12,344	0	650,795
Cemetery	0	0	0	0	20,100	20,100
Capital outlay	0	0	4,100	0	0	4,100
<b>Total Expenditures</b>	<b>118</b>	<b>783</b>	<b>642,551</b>	<b>12,344</b>	<b>20,100</b>	<b>675,896</b>
<b>Excess (Deficiency) of Revenues Over</b>						
<b>Expenditures</b>	<b>209,280</b>	<b>70,583</b>	<b>(249,501)</b>	<b>10,677</b>	<b>33,797</b>	<b>74,836</b>
<b>Other Financing Sources (Uses):</b>						
Transfers in	0	0	222,000	0	0	222,000
Transfers out	(202,000)	0	0	0	0	(202,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(202,000)</b>	<b>0</b>	<b>222,000</b>	<b>0</b>	<b>0</b>	<b>20,000</b>
<b>Net Change in Fund Balances</b>	<b>7,280</b>	<b>70,583</b>	<b>(27,501)</b>	<b>10,677</b>	<b>33,797</b>	<b>94,836</b>
<b>Fund Balances, Beginning of Year</b>	<b>48,677</b>	<b>450,311</b>	<b>38,698</b>	<b>54,804</b>	<b>286,362</b>	<b>878,852</b>
<b>Fund Balances, End of Year</b>	<b>\$ 55,957</b>	<b>\$ 520,894</b>	<b>\$ 11,197</b>	<b>\$ 65,481</b>	<b>\$ 320,159</b>	<b>\$ 973,688</b>

**CITY OF BARDSTOWN, KENTUCKY**  
**COMBINING BALANCE SHEET –**  
**NON-MAJOR PROPRIETARY FUNDS**  
June 30, 2010

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement Fund	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
<b>Assets</b>						
<b>Current Assets:</b>						
Accrued interest	\$ 0	\$ 2,529	\$ 0	\$ 0	\$ 0	\$ 2,529
Receivables	2,500	0	500,000	0	0	502,500
Construction in Progress	0	0	733,252	0	0	733,252
Due from other funds	0	0	1,107,067	0	0	1,107,067
<b>Total Current Assets</b>	<u>2,500</u>	<u>2,529</u>	<u>2,340,319</u>	<u>0</u>	<u>0</u>	<u>2,345,348</u>
<b>Noncurrent Assets:</b>						
<b>Restricted Assets:</b>						
Cash	0	22,000	0	27,128	302,533	351,661
Investments	500,000	2,529,464	0	0	0	3,029,464
<b>Total Noncurrent Assets</b>	<u>500,000</u>	<u>2,551,464</u>	<u>0</u>	<u>27,128</u>	<u>302,533</u>	<u>3,381,125</u>
<b>Total Assets</b>	<u>502,500</u>	<u>2,553,993</u>	<u>2,340,319</u>	<u>27,128</u>	<u>302,533</u>	<u>5,726,473</u>
<b>Liabilities</b>						
<b>Current Liabilities:</b>						
Due to other funds	0	0	0	270	0	270
<b>Total Liabilities</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>270</u>	<u>0</u>	<u>270</u>
<b>Net Assets</b>						
<b>Restricted for:</b>						
Bond reserves	172,500	2,553,993	0	0	0	2,726,493
System capacity reserve	0	0	0	26,858	0	26,858
Construction Fund	0	0	2,340,319	0	0	2,340,319
Other purposes	330,000	0	0	0	302,533	632,533
<b>Total Net Assets</b>	<u>502,500</u>	<u>2,553,993</u>	<u>2,340,319</u>	<u>26,858</u>	<u>302,533</u>	<u>5,726,203</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 502,500</u>	<u>\$ 2,553,993</u>	<u>\$ 2,340,319</u>	<u>\$ 27,128</u>	<u>\$ 302,533</u>	<u>\$ 5,726,473</u>

**CITY OF BARDSTOWN, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**NET ASSETS – NON-MAJOR PROPRIETARY FUNDS**  
June 30, 2010

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Operating Revenues:						
Intergovernmental	\$ 0	\$ 0	\$ 745,000	\$ 0	\$ 0	\$ 745,000
System development charges	0	0	0	127,833	0	127,833
Total Operating Revenues	<u>0</u>	<u>0</u>	<u>745,000</u>	<u>127,833</u>	<u>0</u>	<u>872,833</u>
Operating Expenses:						
Contractual services	0	0	0	0	0	0
Total Operating Expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Income (Loss) from Operations	0	0	745,000	127,833	0	872,833
Nonoperating Revenues (Expenses):						
Investment earnings	2,500	53,605	0	3,621	5,499	65,225
Total Nonoperating Revenues (Expenses)	<u>2,500</u>	<u>53,605</u>	<u>0</u>	<u>3,621</u>	<u>5,499</u>	<u>65,225</u>
Income (Loss) Before Contributions and Transfers	2,500	53,605	745,000	131,454	5,499	938,058
Transfers in	0	0	723,051	0	35,000	758,051
Transfers out	(9,479)	(109,051)	(1,148,143)	(614,000)	0	(1,880,673)
Change in Net Assets	(6,979)	(55,446)	319,908	(482,546)	40,499	(184,564)
Net Assets, Beginning of Year	509,479	2,609,439	2,020,411	509,404	262,034	5,910,767
Net Assets, End of Year	<u>\$ 502,500</u>	<u>\$ 2,553,993</u>	<u>\$ 2,340,319</u>	<u>\$ 26,858</u>	<u>\$ 302,533</u>	<u>\$ 5,726,203</u>

**CITY OF BARDSTOWN, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS**  
June 30, 2010

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable TV</u>	<u>Garbage</u>	<u>Internet</u>	<u>Total Operating</u>
<b>Operating Revenues:</b>							
Charges for services	\$ 12,762,373	\$ 3,868,531	\$ 2,946,858	\$ 4,397,114	\$ 1,286,452	\$ 1,797,388	\$ 27,058,716
Utility surcharge	1,763	0	0	0	0	0	1,763
Connection fees	0	48,118	28,325	73,261	0	44,076	193,780
Contract services	283,327	0	2,963	143,246	1,007	0	430,543
Penalties	93,324	61,338	35,197	92,316	16,056	0	298,231
Miscellaneous	84,583	88,330	54,096	17,515	54,030	1,058	299,612
<b>Total Operating Revenues</b>	<u>13,225,370</u>	<u>4,066,317</u>	<u>3,067,439</u>	<u>4,723,452</u>	<u>1,357,545</u>	<u>1,842,522</u>	<u>28,282,645</u>
<b>Operating Expenses:</b>							
Purchases for resale	10,001,519	0	0	2,896,614	0	0	12,898,133
Personal services	579,063	1,568,670	639,748	757,468	715,358	167,717	4,428,024
Contractual services	87,614	93,697	164,604	216,919	324,238	89,967	977,039
Materials and supplies	41,019	508,118	149,983	453,088	82,505	91,749	1,326,462
Maintenance and repairs	107,420	236,377	124,809	97,311	47,776	12,935	626,628
Other expenses	268,353	552,312	491,625	327,292	158,162	284,448	2,082,192
Depreciation	317,503	1,005,173	801,757	307,898	29,888	61,422	2,523,641
<b>Total Operating Expenses</b>	<u>11,402,491</u>	<u>3,964,347</u>	<u>2,372,526</u>	<u>5,056,590</u>	<u>1,357,927</u>	<u>708,238</u>	<u>24,862,119</u>
<b>Income From Operations</b>	<u>\$ 1,822,879</u>	<u>\$ 101,970</u>	<u>\$ 694,913</u>	<u>\$ (333,138)</u>	<u>\$ (382)</u>	<u>\$ 1,134,284</u>	<u>\$ 3,420,526</u>

**CITY OF BARDSTOWN, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS (CONTINUED)**  
June 30, 2010

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable TV</u>	<u>Garbage</u>	<u>Internet</u>	<u>Total Operating</u>
Nonoperating Revenues:							
Interest and investment revenue	\$ 71,405	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 71,405
Lease revenue	0	8,110	0	0	0	0	8,110
	<u>71,405</u>	<u>8,110</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>79,515</u>
Total Nonoperating Revenue							
Income Before Contributions and Transfers	1,894,284	110,080	694,913	(333,138)	(382)	1,134,284	3,500,041
Capital contributions	0	6,370	4,375	0	0	0	10,745
Transfers in	0	358,086	790,057	717,500	0	0	1,865,643
Transfers out	(910,613)	(1,229,919)	(1,479,521)	(304,943)	(54,338)	(806,317)	(4,785,651)
	<u>983,671</u>	<u>(755,383)</u>	<u>9,824</u>	<u>79,419</u>	<u>(54,720)</u>	<u>327,967</u>	590,778
Change in Net Assets							
Net Assets, Beginning of Year							<u>62,181,374</u>
Net Assets, End of Year							<u>\$ 62,772,152</u>

**CITY OF BARDSTOWN, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
June 30, 2010

Federal Grantor	Pass-Through	
Program Title	Grantor's Number	Expenditures
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department Of Housing and Urban Development</u>		
Passed-Through Commonwealth Department for Local Government:		
Community Development Block Grants		
State's Program and Non-Entitlement Grants in Hawaii		
Neighborhood Stabiliation Program-1	09N-036	\$ 170,577
(CFDA #14.228)		
Total U.S. Department Of Housing and Urban Development		<u>\$ 170,577</u>
<u>U.S. Department of The Interior</u>		
National Parks Service		
Passed-Through The Commonwealth's		
Tourisim, Arts and Heritage Cabinet -		
Kentucky Heritage Council		
Historic Preservation Fund Grants-in-Aid		
Surveys for 35 Properties and NR Nominations		
for 30 Properties-Staff Support and Local CLG		
CLG Administration	21-09-21823	\$ 9,968
(CFDA #15.904)		
Passed-Through The University of Kentucky		
Research Foundation		
Save America's Treasurers		
Rural Heritage Development		
Initiative Design Guidelines	21-08-AP-4116	13,862
(CFDA #15.929)		
Total U.S. Department of The Interior		<u>\$ 23,830</u>
<u>U.S. Department Of Justice</u>		
Direct Programs:		
Public Safety Partnership and		
Community Policing Grants - ARRA		
Secure Our Schools	2009CKWX0687	\$ 28,777
(CFDA #16.737)		
Recovery Act - Edward Byrne Memorial		
Competitive Grant Program - ARRA		
FY 2009 Recovery Act Justice		
Assistance Grant	2009-SB-B9-2178	18,270
(CFDA #16.808)		
Total U.S. Department Of Justice		<u>\$ 47,047</u>

**CITY OF BARDSTOWN, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
June 30, 2010

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>		
Federal Highway Administration Passed-Through Commonwealth Transportation Cabinet Highway Planning and Construction - ARRA Transportation Enhancement Funds Phase I & II Streetscape Project (CFDA #20.205)	PO2-628-1000004790	\$ 629,533
Total U.S. Department of Transportation		<u>\$ 629,533</u>
<u>U.S. Department of Education</u>		
Passed-Through Commonwealth Justice and Public Safety Cabinet Safe and Drug-Free Schools and Communities - State Grants Communicare - Substance Abuse Services (CFDA #84.186)	CHMP-2009- COMMUNICAR-00179	\$ 3,027
Total U.S. Department of Education		<u>\$ 3,027</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-Through Foundation for a Healthy Kentucky Drug-Free Communities Support Program and Grants PATH Coalition's Drug-Free Community Support Project (CFDA #93.276)	5H79SP012390-07	\$ 125,000
Passed-Through University of Kentucky Research Foundation Cardiovascular Diseases Research Smoke-Free Nelson County Initiative (CFDA #93.837)	2010COM025	2,500
Total U.S. Department of Health and Human Services		<u>\$ 127,500</u>



**CITY OF BARDSTOWN, KENTUCKY**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2010

*Note 1 - Basis of Schedule*

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the city of Bardstown, Kentucky and is presented on a cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 28, 2010. 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, 2010, 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*

September 28, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**



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**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of Bardstown, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Bardstown, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Bardstown, Kentucky's management. Our responsibility is to express an opinion on the City of Bardstown, Kentucky's compliance based on our audit.

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

In our opinion, the City of Bardstown, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

*Perry and Gray, PSC*  
September 28, 2010

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CITY OF BARDSTOWN, KENTUCKY**  
**FINDINGS AND QUESTIONED COSTS**  
June 30, 2010

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City Bardstown, Kentucky.
2. There were no reportable conditions relating to the internal control of the audit of the financial statements that are reported in the Independent Auditor's Report.
3. There were no instances of noncompliance material to the financial statements of the City of Bardstown, Kentucky that were disclosed during the audit.
4. There were no significant deficiencies relating to the audit of the major federal awards programs that were reported in the Independent Auditor's Report.
5. The auditors' report on compliance for the audit of the major federal awards programs for the City of Bardstown, Kentucky expresses an unqualified opinion.
6. There were no audit findings of noncompliance relative to the major federal awards programs for the City of Bardstown, Kentucky reported in Part C of this schedule.
7. The programs tested as major programs were: Transportation Enhancement Recovery and Reinvestment (CFDA # 20.205)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The City of Bardstown, Kentucky was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

None

**D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no findings or questioned costs in the prior year audit.