

CITY OF BARDSTOWN, KENTUCKY

Audited Financial Statements

For the Year Ended June 30, 2011



Percy and Gray, PSC

Certified Public Accountants

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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, 2011, 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

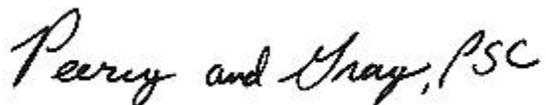
In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2012, on our consideration of the City of Bardstown, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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

To the City Council
City of Bardstown, Kentucky
January 9, 2012

with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

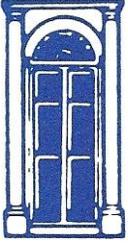
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 14 and 47 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



January 9, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS



OLD KENTUCKY HOME
DOORWAY

City of Bardstow

WILLIAM S. SHECKLES, MAYOR
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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, 2011

The Management Discussion and Analysis of the financial performance of the City of Bardstown provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please review the MDA in conjunction with the auditor's transmittal letter and the City of Bardstown Audited Financial Statements. Should any reader of these statements have questions or desire additional information, please contact Mike Abell at mabell@bardstowncable.net.

Financial Highlights

- As of June 30, 2011, the City's net assets (assets minus liabilities) totaled \$71,009,000.
- Net assets include capital assets, net of related debt, of \$56,992,000, \$7,688,000 in restricted resources (restricted to specific projects by law, regulation, or contractual agreement), and unrestricted resources of \$6,329,000.
- City liabilities on June 30, 2011 totaled \$17,655,000, of which \$10,116,000 is long term and \$7,539,000 is current, including FY 12 bond payments of \$1,650,000, accounts payable, internal balances, deferred revenue, and other liabilities.
- There was significant capital asset and long-term debt activity during the fiscal year. The City refinanced \$17,000,000 in outstanding utility bond debt as new General Obligation Debt due to the availability of lower interest rates. In connection with that, Moody's assigned an Aa3 rating to the City. The City, in connection with that refinancing, was able to use prior debt service reserves to pay down on the outstanding bonds, thus lowering the total outstanding debt to \$14,030,000. During the year, the City also obtained approval of three Kentucky Infrastructure Authority loans totaling \$7,280,000 for a major water plant project, a major water main extension, and a sewer force main project. No loan draws were made in FY 2011, though there were significant expenditures made on two of the projects, using unrestricted reserves in order to delay the loan draws and thus the incurrence of interest costs.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2011
January 9, 2012

- The City paid \$1,644,000 toward that bonded debt, as scheduled, this fiscal year, leaving a year-end balance due of \$12,365,000. The debt is being paid from combined utility system revenues.
- The unassigned (formerly called unreserved) fund balance for the General Fund, as of June 30, was \$115,000, a significant decrease from prior years. The decrease was anticipated as the City used the prior fund balance to finance the local share of a major Streetscape project.
- The national recession continues to affect the City, though not as severely as elsewhere. Property tax revenue was flat, but Occupational License fee collections did increase from last year's level as the local economy experienced some recovery.
- The City's Indirect Cost Allocation Plan was unchanged in FY 2011. 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.

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

Assets	FY 09	FY 10	FY 11
Capital Assets			
Governmental Activities	8,593,000	8,181,000	10,114,000
Business-type Activities	66,298,000	66,711,000	62,426,000
Total Capital Assets	<u>74,891,000</u>	<u>74,892,000</u>	<u>72,540,000</u>
Current & Other Assets			
Governmental Activities	3,790,000	4,665,000	4,773,000
Business-type Activities	10,060,000	9,562,000	11,350,000
Total Current & Other Assets	<u>13,850,000</u>	<u>14,227,000</u>	<u>16,123,000</u>
Total Assets			
Governmental Activities	12,383,000	12,846,000	14,887,000
Business-type Activities	76,358,000	76,273,000	73,776,000
Total Assets	<u>88,741,000</u>	<u>89,119,000</u>	<u>88,663,000</u>

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2011
January 9, 2012

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

Liabilities	FY 09	FY 10	FY 11
Current & Other Liabilities			
Governmental Activities	2,108,000	3,011,000	2,743,000
Business-type Activities	6,285,000	5,870,000	4,796,000
Total Current & Other Liabilities	8,393,000	8,881,000	7,539,000
Long-term Liabilities			
Governmental Activities	-	-	-
Business-type Activities	16,681,000	14,929,000	10,116,000
Total Long-term Liabilities	16,681,000	14,929,000	10,116,000
Total Liabilities			
Governmental Activities	2,108,000	3,011,000	2,743,000
Business-type Activities	22,966,000	20,799,000	14,912,000
Total Liabilities	25,074,000	23,810,000	17,655,000
Net Assets			
Governmental Activities	10,275,000	9,835,000	12,145,000
Business-type Activities	53,393,000	55,474,000	58,864,000
Total Net Assets	63,668,000	65,309,000	71,009,000
Net Assets, Details			
Invested in Capital Assets			
Governmental Activities	8,145,000	7,796,000	10,115,000
Business-type Activities	40,701,000	42,285,000	46,877,000
Total Capital Assets (net of debt)	48,846,000	50,081,000	56,992,000
Restricted Net Assets			
Governmental Activities	1,148,000	1,307,000	1,112,000
Business-type Activities	9,537,000	9,383,000	6,576,000
Total Restricted Net Assets	10,685,000	10,690,000	7,688,000
Unrestricted Net Assets			
Governmental Activities	982,000	732,000	918,000
Business-type Activities	3,155,000	3,806,000	5,411,000
Total Unrestricted Net Assets	4,137,000	4,538,000	6,329,000

Parity coverage for the General Obligation Bonds, being paid from Combined Utilities Fund revenues, and remains above the required coverage of 1.4 as Table 2 demonstrates.

Management's Discussion and Analysis
 Annual Financial Statements
 For The Fiscal Year Ended June 30, 2011
 January 9, 2012

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

	2009	2010	2011
Net Income	\$2,275,000	\$3,500,041	\$5,723,006
Less Contributed Capital Assets	(328,000)	(10,745)	(191,644)
Add Back:			
Depreciation	2,479,000	2,523,641	2,580,704
Interest Expense	966,000	886,804	594,403
Transfers Out	1,453,000	1,565,966	1,930,467
Total Revenues Available for Debt Service	<u>\$ 6,845,000</u>	<u>\$ 8,465,707</u>	<u>\$ 10,636,936</u>
Annual Parity Debt Service in years presented	\$2,598,470	\$2,598,470	\$1,899,563
Coverage	2.63	3.26	5.60

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 2011 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 the deficit. The change in the occupational license fee, effective 1-1-2012, will help to address the General Fund needs.

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, \$1,972,587, includes an unassigned balance of only \$115,118 as the prior accumulated fund balance was used to fund the local share of the major Streetscape project. The remainder of the fund balance is restricted, assigned, or nonspendable.
- The Statement of Revenues and Expenditures shows that the General Fund expenditures exceeded revenues by nearly \$1.9 million for the third year in a row. Much 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, and especially in June of 2011, have significantly addressed the General Fund's structural deficit. The July 2011 decision to change the Net Profit & Occupational License Fee ordinance effective 1-1-2012 will have the most impact on the structural deficit. The City formerly exempted the first \$15,000 in profits and earnings from the fee and further exempted profits or earnings in excess of \$75,000. The exemption has been removed and earnings and profits up to \$100,000 will be subject to the fees effective 1-1-2012.

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, \$5,411,000 in unrestricted net assets, an increase from 2010's \$3,806,000. This equals 20%% of the FY 2011 Utility Operating Fund expenses, better than the desired 16.7%, or two months coverage of operating expenses. This enhances the City's ability to fund much needed capital projects. The required reserve funds (Depreciation, 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 for the Utility Operating Fund of \$4,440,000, a significant increase over the FY 10 figure of \$3,421,000.

The Statement of Cash Flows – Proprietary Funds reports Cash and Cash Equivalents of \$4,676,000 as of June 30, an increase of \$300,000 over the FY 2010 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, 2011
January 9, 2012

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

	FY 09			FY 10			FY 11		
	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.
General Government	\$ 1,020,462	\$ 145,077	\$ 875,385	\$ 1,076,907	\$ 184,584	\$ 892,323	\$ 951,697	\$ 49,202	\$ 902,495
Finance	673,728	28,461	645,267	656,560	48,315	608,245	705,089	29,516	675,573
Public Safety	2,568,817	555,479	2,013,338	2,726,932	570,884	2,156,048	2,767,102	610,521	2,156,581
Fire	997,128	178,722	818,406	987,320	153,377	833,943	858,549	215,941	642,608
Recreation	510,301	186,234	324,067	516,220	179,810	336,410	498,056	188,312	309,744
Risk Management	76,389	-	76,389	78,905	-	78,905	68,907	-	68,907
Prevention Center	119,288	156,527	(37,239)	184,491	163,626	20,865	188,522	194,724	(6,202)
Streets	722,589	272,859	449,730	670,173	219,532	450,641	650,947	2,334,176	(1,683,229)
Cemetery	19,817	45,125	(25,308)	22,340	47,580	(25,240)	27,954	36,325	(8,371)
	\$ 6,708,519	\$ 1,568,484	\$ 5,140,035	\$ 6,919,848	\$ 1,567,708	\$ 5,352,140	\$ 6,716,823	\$ 3,658,717	\$ 3,058,106

Governmental Activities, General Revenues

Property Taxes	1,963,233	2,052,728	2,068,368
Restaurant Tax	328,717	417,212	405,271
Business License Fees	778,047	679,998	803,807
Interest & Invest. Earnings	46,177	23,780	17,932
Misc.	103,003	172,970	141,839
Total Gen. Revenues	3,219,177	3,346,688	3,437,217
Transfers-Net	1,767,412	1,565,966	1,930,467
Change in Net Assets	(153,446)	(439,486)	2,309,578
Net Assets, Beginning of Year	10,427,968	10,274,522	9,835,036
Net Assets, End of Year	\$ 10,274,522	\$ 9,835,036	\$ 12,144,614

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2011
January 9, 2012

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

Activity	FY 09			FY 10			FY 11		
	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue
Electric	\$ 12,610,925	\$ 11,408,223	\$ 1,202,702	\$ 13,225,370	\$ 11,402,491	\$ 1,822,879	\$ 14,569,335	\$ 12,670,680	\$ 1,898,655
Water	3,954,379	3,964,897	(10,518)	4,066,317	3,964,347	101,970	4,798,983	3,909,517	889,466
Sewer	2,280,936	2,244,241	36,695	3,067,439	2,372,526	694,913	3,184,641	2,533,133	651,508
Cable TV	4,494,510	4,701,996	(207,486)	4,723,452	5,056,590	(333,138)	5,037,196	5,355,658	(318,462)
Internet	1,644,281	551,720	1,092,561	1,842,522	708,238	1,134,284	1,411,010	1,189,856	221,154
Garbage	1,443,479	1,411,175	32,304	1,357,545	1,357,927	(382)	2,005,736	907,874	1,097,862
Interest Exp	-	966,428	(966,428)	-	886,804	(886,804)		594,403	(594,403)
Totals	\$ 26,428,510	\$ 25,248,680	\$ 1,179,830	\$ 28,282,645	\$ 25,748,923	\$ 2,533,722	\$ 31,006,901	\$ 27,161,121	\$ 3,845,780

General Revenues, Business-type Activities

Interest & Invest. Earnings	426,590	221,586	97,407
Grants & Contributions	328,376	755,745	1,241,644
System Development Charges	111,750	127,833	127,306
Other	8,710	8,110	8,110
Less Net Transfers	<u>(1,767,412)</u>	<u>(1,565,966)</u>	<u>(1,930,467)</u>
Change in Net Assets	287,844	2,081,030	3,389,780
Net Assets, Beginning	<u>53,105,365</u>	<u>53,393,209</u>	<u>55,474,239</u>
Net Assets, Ending	<u>\$ 53,393,209</u>	<u>\$ 55,474,239</u>	<u>\$ 58,864,019</u>

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 2011. 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 2011, 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 most significant actions taken during FY 11 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 toward the Chaplin 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 use of Transportation Enhancement and other funds to renovate the downtown streetscape and water infrastructure was started in FY 2010 and completed in FY 2011. Unrestricted accumulated city reserves were used to pay the 20% local match required of the federal grants that funded the majority of the project.
4. The City refinanced all outstanding utility system debt, completing the transaction in July of 2010 and saving approximately \$200,000 per year for the next 10 years.

Management's Discussion and Analysis
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January 9, 2012

5. The near completion of a \$5,000,000 plus water plant improvement project with grants of \$1,550,000 and a 3% 20 year \$3,500,000 loan commitment from KIA. Local reserves were used to finance the project with the loan draw in FY 2012 to replenish those reserves.
6. 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. Significant progress on the latter project was made in FY 2011. Both projects should be completed in FY 2012 and the loan funds received in FY 2012. Construction financing is being provided from the city's reserves.
7. The change to the Net Profits and Occupational License Fee ordinance, approved in late FY 2011 with an effective date of 1-1-2012 will lessen the General Fund's structural deficit.

BASIC FINANCIAL STATEMENTS

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current Assets:			
Cash and cash equivalents	\$ 542,008	\$ 4,675,761	\$ 5,217,769
Investments	699,000	0	699,000
Accrued interest	49,780	35,721	85,501
Receivables, net	512,839	2,121,441	2,634,280
Internal balances	2,441,465	0	2,441,465
Inventory	26,739	991,609	1,018,348
Prepaid items	8,689	16,585	25,274
Total Current Assets	4,280,520	7,841,117	12,121,637
Noncurrent Assets:			
Restricted cash and investments	228,379	3,508,764	3,737,143
Land held for resale	264,101	0	264,101
Capital assets, net (Note 5)	10,114,581	62,425,712	72,540,293
Total Noncurrent Assets	10,607,061	65,934,476	76,541,537
Total Assets	14,887,581	73,775,593	88,663,174
Liabilities			
Current Liabilities:			
Accounts payable	2,203,475	105,400	2,308,875
Internal balances	87,677	2,353,788	2,441,465
Accrued taxes	23,846	17,549	41,395
Other liabilities	427,969	601,313	1,029,282
Deferred revenue	0	134,198	134,198
Bonds payable	0	1,583,432	1,583,432
Total Current Liabilities	2,742,967	4,795,680	7,538,647
Noncurrent liabilities (Note 6):			
Bonds payable	0	10,115,894	10,115,894
Total Noncurrent Liabilities	0	10,115,894	10,115,894
Total Liabilities	\$ 2,742,967	\$ 14,911,574	\$ 17,654,541

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Net Assets			
Invested in capital assets, net of related debt	\$ 10,114,581	\$ 46,877,261	\$ 56,991,842
Restricted for:			
Infrastructure	0	154,149	154,149
Inventory, prepaids and land held for resale	895,986	0	895,986
Revenue bond reserves	0	2,741,665	2,741,665
Construction fund	0	3,031,748	3,031,748
Special projects	216,168	648,671	864,839
Unrestricted	917,879	5,410,525	6,328,404
Total Net Assets	<u>\$ 12,144,614</u>	<u>\$ 58,864,019</u>	<u>\$ 71,008,633</u>

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
June 30, 2011

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	
Governmental Activities							
General government	\$ (951,697)	\$ 0	\$ 11,916	\$ 37,286	\$ (902,495)	\$ 0	\$ (902,495)
Finance	(705,089)	29,516	0	0	(675,573)	0	(675,573)
Public safety	(2,767,102)	221,605	388,916	0	(2,156,581)	0	(2,156,581)
Fire	(858,549)	136,273	79,668	0	(642,608)	0	(642,608)
Recreation	(498,056)	85,506	102,806	0	(309,744)	0	(309,744)
Risk management	(68,907)	0	0	0	(68,907)	0	(68,907)
Community Center	(188,522)	0	194,724	0	6,202	0	6,202
Streets	(650,947)	1,760	358,343	1,974,073	1,683,229	0	1,683,229
Cemetery	(27,954)	36,325	0	0	8,371	0	8,371
Total Governmental Activities	(6,716,823)	510,985	1,136,373	2,011,359	(3,058,106)	0	(3,058,106)
Business-Type Activities:							
Electric	(12,670,680)	14,569,335	0	0	0	1,898,655	1,898,655
Water	(3,909,517)	4,798,983	22,101	1,050,000	0	1,961,567	1,961,567
Sewer system	(2,533,133)	3,184,641	169,543	0	0	821,051	821,051
Cable TV	(5,355,658)	5,037,196	0	0	0	(318,462)	(318,462)
Garbage	(1,189,856)	1,411,010	0	0	0	221,154	221,154
Internet	(907,874)	2,005,736	0	0	0	1,097,862	1,097,862
Interest expense	(594,403)	0	0	0	0	(594,403)	(594,403)
Total Business-Type Activities	(27,161,121)	31,006,901	191,644	1,050,000	0	5,087,424	5,087,424
Total Government	\$ (33,877,944)	\$ 31,517,886	\$ 1,328,017	\$ 3,061,359	\$ (3,058,106)	\$ 5,087,424	\$ 2,029,318

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)
June 30, 2011

	Net (Expenses) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
General Revenues:			
Taxes:			
Property taxes	\$ 2,068,368	\$ 0	\$ 2,068,368
Business and occupational licenses	803,807	0	803,807
Restaurant tax	405,271	0	405,271
Interest and investment earnings	17,932	97,407	115,339
System Development Charges	0	127,306	127,306
Other	141,839	8,110	149,949
Transfers	1,930,467	(1,930,467)	0
	5,367,684	(1,697,644)	3,670,040
Change in Net Assets	2,309,578	3,389,780	5,699,358
Net Assets - Beginning	9,835,036	55,474,239	65,309,275
Net Assets - Ending	\$ 12,144,614	\$ 58,864,019	\$ 71,008,633

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2011

	General	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 302,370	\$ 138,241	\$ 440,611
Investments	0	699,000	699,000
Restricted investments	0	228,379	228,379
Accrued interest receivable	0	49,780	49,780
Accounts receivable	511,183	0	511,183
Inventory	26,739	0	26,739
Land held for resale	264,101	0	264,101
Internal balances	2,405,971	35,494	2,441,465
Prepaid items	0	8,689	8,689
	<u>3,510,364</u>	<u>1,159,583</u>	<u>4,669,947</u>
Liabilities			
Accounts payable	2,141,408	16,460	2,157,868
Accrued payroll	427,969	0	427,969
Payroll taxes payable	23,846	0	23,846
Internal balances	0	87,677	87,677
	<u>2,593,223</u>	<u>104,137</u>	<u>2,697,360</u>
Fund Balances			
Nonspendable	802,023	93,963	895,986
Restricted			
Roads	0	33,840	33,840
Cemetery	0	124,882	124,882
Assigned			
Land Acquisition and Industrial Dev.	0	538,053	538,053
Public safety	0	56,519	56,519
Cemetery	0	208,189	208,189
Unassigned	115,118	0	115,118
	<u>917,141</u>	<u>1,055,446</u>	<u>1,972,587</u>
Total Fund Balances	<u>917,141</u>	<u>1,055,446</u>	<u>1,972,587</u>
Total Liabilities and Fund Balances	<u>\$ 3,510,364</u>	<u>\$ 1,159,583</u>	<u>\$ 4,669,947</u>

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2011

	<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	\$ 1,972,587
Allocation of internal service fund balances	57,446
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	<u>10,114,581</u>
Net Assets of Governmental Activities	<u>\$ 12,144,614</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, 2011

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,193,806	\$ 0	\$ 3,193,806
Business licenses	31,616	0	31,616
Fines and forfeitures	52,024	0	52,024
Intergovernmental	2,620,122	527,610	3,147,732
Charges for services	254,182	256,803	510,985
Interest	7,529	10,403	17,932
Other	93,187	48,652	141,839
Total Revenues	6,252,466	843,468	7,095,934
Expenditures			
Current:			
General government	872,230	14,368	886,598
Finance	708,717	0	708,717
Public safety	1,933,736	654,441	2,588,177
Fire	863,294	0	863,294
Recreation	441,507	0	441,507
Risk management	66,861	0	66,861
Community Center	189,639	0	189,639
Streets	300,809	0	300,809
Cemetery	0	25,713	25,713
Capital outlay	2,991,930	0	2,991,930
Total Expenditures	8,368,723	694,522	9,063,245
Excess (Deficiency) of Revenues Over Expenditures	(2,116,257)	148,946	(1,967,311)
Other Financing Sources (Uses):			
Transfers in	2,959,283	196,400	3,155,683
Transfers out	(961,628)	(263,588)	(1,225,216)
Total Other Financing Sources (Uses)	1,997,655	(67,188)	1,930,467
Net Change in Fund Balance	(118,602)	81,758	(36,844)
Fund Balances, Beginning of Year	1,035,743	973,688	2,009,431
Fund Balances, End of Year	\$ 917,141	\$ 1,055,446	\$ 1,972,587

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, 2011

	Total Governmental Funds
Net Change in Fund Balances-Total Governmental Funds	\$ (36,844)
Amounts reported for governmental activities in the statement of activities are different because :	
Depreciation expense reported in statement of activities	(673,418)
Capital outlay reported in governmental expenditures	2,991,930
Change in net assets - self insurance fund	27,910
Change in Net Assets of Governmental Activities	\$ 2,309,578

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2011

	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	\$ 4,675,761	\$ 0	\$ 0	\$ 4,675,761	\$ 101,397
Accrued interest	0	0	35,721	35,721	0
Receivables (net of allowance for doubtful accounts, \$129,171)	2,121,441	0	0	2,121,441	1,656
Prepaid expenses	16,585	0	0	16,585	0
Inventory-parts and supplies	991,609	0	0	991,609	0
Total Current Assets	7,805,396	0	35,721	7,841,117	103,053
Noncurrent Assets:					
Restricted Assets:					
Cash	0	8,007	154,149	162,156	0
Investments	0	0	3,346,608	3,346,608	0
Total Restricted Assets	0	8,007	3,500,757	3,508,764	0
Capital Assets:					
Land	1,012,993	0	0	1,012,993	0
Construction in Progress	0	0	3,849,125	3,849,125	0
Distribution systems	70,445,268	0	0	70,445,268	0
Plant and buildings	18,578,419	0	0	18,578,419	0
Vehicles and Equipment	5,661,059	0	0	5,661,059	0
Less accumulated depreciation	(37,121,152)	0	0	(37,121,152)	0
Capital Assets, Net of Accumulated Depreciation	58,576,587	0	3,849,125	62,425,712	0
Total Noncurrent Assets	58,576,587	8,007	7,349,882	65,934,476	0
Total Assets	\$ 66,381,983	\$ 8,007	\$ 7,385,603	\$ 73,775,593	\$ 103,053

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS (CONTINUED)
June 30, 2011

	Business-Type Activities			Governmental Activities	
	Enterprise Funds			Internal Service Fund	
	Utility Operating Fund	Debt Service Reserve	Total Non-Major Enterprise Funds	Total Enterprise Funds	Self- Insurance Fund
Liabilities					
Current Liabilities:					
Accounts payable	\$ 105,400	\$ 0	\$ 0	\$ 105,400	\$ 45,607
Accrued taxes	17,549	0	0	17,549	0
Internal balances	1,536,411	0	817,377	2,353,788	0
Customer deposits	371,909	0	0	371,909	0
Accrued payroll	229,404	0	0	229,404	0
Deferred revenue	134,198	0	0	134,198	0
Bonds, notes, and loans payable	0	1,583,432	0	1,583,432	0
Total Current Liabilities	2,394,871	1,583,432	817,377	4,795,680	45,607
Noncurrent Liabilities:					
Bonds, notes, and loans payable	0	10,715,000	0	10,715,000	0
Unamortized issuance costs	0	(199,259)	0	(199,259)	0
Unamortized deferred refunding costs	0	(399,847)	0	(399,847)	0
Total Noncurrent Liabilities	0	10,115,894	0	10,115,894	0
Total Liabilities	2,394,871	11,699,326	817,377	14,911,574	45,607
Net Assets					
Invested in capital assets, net of related debt	58,576,587	(11,699,326)	0	46,877,261	0
Restricted for:					
Bond reserves	0	8,007	2,733,658	2,741,665	0
System capacity reserve	0	0	154,149	154,149	0
Construction Fund	0	0	3,031,748	3,031,748	0
Other purposes	0	0	648,671	648,671	57,446
Unrestricted	5,410,525	0	0	5,410,525	0
Total Net Assets	63,987,112	(11,691,319)	6,568,226	58,864,019	57,446
Total Liabilities and Net Assets	\$ 66,381,983	\$ 8,007	\$ 7,385,603	\$ 73,775,593	\$ 103,053

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, 2011

	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
Operating Revenues:					
Charges for services	\$ 29,254,823	\$ 0	\$ 0	\$ 29,254,823	\$ 905,599
Utility surcharge	1,390	0	0	1,390	0
Connection fees	164,390	0	0	164,390	0
Intergovernmental	630,461	0	1,050,000	1,680,461	0
System development charges	0	0	127,306	127,306	0
Contract services	400,401	0	0	400,401	0
Penalties	360,004	0	0	360,004	0
Miscellaneous	195,432	0	0	195,432	0
Total Operating Revenues	31,006,901	0	1,177,306	32,184,207	905,599
Operating Expenses:					
Purchases for resale	14,699,081	0	0	14,699,081	0
Personal services	4,306,477	0	0	4,306,477	0
Contractual services	1,027,466	0	15	1,027,481	0
Materials and supplies	1,455,309	0	0	1,455,309	0
Maintenance and repairs	693,994	0	0	693,994	0
Other expenses	1,803,672	0	0	1,803,672	877,761
Depreciation	2,580,704	0	0	2,580,704	0
Total Operating Expenses	26,566,703	0	15	26,566,718	877,761
Income (Loss) from Operations	4,440,198	0	1,177,291	5,617,489	27,838
Nonoperating Revenues (Expenses):					
Investment earnings	50,595	1,509	45,303	97,407	72
Lease revenue	8,110	0	0	8,110	0
Interest expense	0	(594,403)	0	(594,403)	0
Total Nonoperating Revenues (Expenses)	58,705	(592,894)	45,303	(488,886)	72
Income (Loss) Before Contributions and Transfers	4,498,903	(592,894)	1,222,594	5,128,603	27,910
Capital contributions	191,644	0	0	191,644	0
Transfers in	1,082,066	1,925,691	916,236	3,923,993	0
Transfers out	(4,557,653)	0	(1,296,807)	(5,854,460)	0
Change in Net Assets	1,214,960	1,332,797	842,023	3,389,780	27,910
Net Assets, Beginning of Year	62,772,152	(13,024,116)	5,726,203	55,474,239	29,536
Net Assets, End of Year	\$ 63,987,112	\$ (11,691,319)	\$ 6,568,226	\$ 58,864,019	\$ 57,446

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, 2011

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 31,082,290	\$ 909,852
Cash received from grants	1,680,461	0
Cash payments to suppliers for good and services	(20,579,523)	(1,002,875)
Cash payments to employees for services	(4,359,167)	0
Other operating cash receipts	893,635	0
	<u>8,717,696</u>	<u>(93,023)</u>
Net Cash Provided by Operating Activities		
Cash Flows From NonCapital Financing Activities		
Transfers to other funds	(1,930,467)	0
	<u>(1,930,467)</u>	<u>0</u>
Net Cash Used by Noncapital Financing Activities		
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(5,307,008)	0
Proceeds from bond issue	13,297,758	0
Principal paid on capital debt	(18,279,287)	0
Interest paid on capital debt	(594,403)	0
Contributed capital	191,644	0
Other receipts	8,110	0
	<u>(10,683,186)</u>	<u>0</u>
Net Cash Used by Capital and Related Financing Activities		
Cash Flows From Investing Activities		
Proceeds from disposition and acquisition of investments	4,119,170	0
Interest and dividends	97,407	72
	<u>4,216,577</u>	<u>72</u>
Net Cash Provided by Investing Activities		
Net Increase in Cash and Cash Equivalents	320,620	(92,951)
Cash and Cash Equivalents, Beginning of Year	<u>4,355,141</u>	<u>194,348</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,675,761</u>	<u>\$ 101,397</u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2011

	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	\$ 5,617,489	\$ 27,838
Adjustments to reconcile operating income from operations to net cash provided by operating activities:		
Depreciation	2,580,703	0
Change in assets and liabilities:		
Decrease in receivables, net	1,381,142	4,253
Decrease in inventory	44,347	0
Decrease in accounts and other payables	(944,333)	(125,114)
Increase in customer deposits	4,717	0
Increase in deferred revenues	86,321	0
Decrease in accrued payroll	(52,690)	0
Net Cash Provided by Operating Activities	\$ 8,717,696	\$ (93,023)

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011

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, 2011

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 2011 include both operating transfers and increases to restricted funds. A total of \$1,118,892 was allocated to the General Fund from the Combined Utility Operating Fund to cover administrative costs, using an indirect cost allocation. During fiscal year 2011, the Combined Utility Operating Fund also transferred \$1,903,691 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, 2011

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, 2011.

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.

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, 2011

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Restricted Assets (Continued)

The City is required to make monthly transfers from the Utility Operating Fund into the Debt Service Reserve Fund, which then makes the principal and interest payments for the outstanding bonds. These funds are held in reserve until all outstanding bonds are retired.

A city ordinance requires 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, 2011

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, 2011

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. 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, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable. Nonspendable includes amounts that must be maintained intact legally or contractually.

Spendable amounts include the following:

Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed-amounts constrained for a specific purpose by the City using its highest level of decision-making authority. For resources considered committed, the City issues an ordinance that can only be changed with another corresponding ordinance

Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the general fund, amounts constrained, by intent, to be used for a specific purpose by the City official given authority to assign amounts. For the resources considered assigned, the City has designated the Chief Financial Officer to carry out the intent of the City Council.

Unassigned-for the general fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other governmental funds, the amount expended in excess of resources that are nonspendable, restricted, committed or assigned.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted are available. Once restricted funds are spent then committed, assigned and unassigned funds are spent in that order.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 2011 fiscal year was \$.189 per \$100 of assessed valuation for real estate and \$.189 for personal property.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Primary Government			Balance 6/30/11
	Balance 7/1/10	Additions/ Completions	Retirements/ Adjustments	
Governmental activities:				
Capital assets not depreciated				
Land	\$ 521,278			\$ 521,278
Capital assets depreciated				
Buildings and improvements	3,534,821			3,534,821
Improvements other than buildings	2,246,774	8,250		2,255,024
Vehicles	1,894,463	130,633		2,025,096
Equipment	2,735,857	15,634		2,751,491
Infrastructure	13,125,259	2,837,413		15,962,672
Total assets depreciated at historical cost	23,537,174	2,991,930		26,529,104
Buildings and improvements	(1,525,688)	(89,063)		(1,614,751)
Improvements other than buildings	(2,105,527)	(23,572)		(2,129,099)
Vehicles	(1,687,049)	(90,349)		(1,777,398)
Equipment	(1,743,675)	(148,153)		(1,891,828)
Infrastructure	(9,200,444)	(322,281)		(9,522,725)
Total accumulated depreciation	(16,262,383)	(673,418)		(16,935,801)
Depreciable capital assets, net	7,274,791	2,318,512		9,593,303
Governmental activities capital assets, net	\$ 7,796,069	\$ 2,318,512		\$ 10,114,581

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

Note 5 – Capital Assets (Continued)

	Primary Government			Balance 6/30/11
	Balance 7/1/10	Additions/ Completions	Retirements/ Adjustments	
Business-type activities:				
Capital assets not depreciated				
Land	\$ 995,712	17,281		\$ 1,012,993
Construction in Progress	733,252	3,762,271	646,398	3,849,125
	\$ 1,728,964	3,779,552	646,398	\$ 4,862,118
Capital assets depreciated				
Plant facilities	16,581,429	53,647		16,635,076
Other improvements	1,939,218	4,125		1,943,343
Vehicles	1,299,974	50,225		1,350,199
Equipment	3,856,429	454,431		4,310,860
Infrastructure	68,833,842	1,611,426		70,445,268
Total assets depreciable at historical cost	92,510,892	2,173,854		94,684,746
Plant facilities	(9,589,714)	(442,921)		(10,032,635)
Other improvements	(937,028)	(84,046)		(1,021,074)
Vehicles	(1,095,701)	(50,984)		(1,146,685)
Equipment	(2,059,551)	(318,945)		(2,378,496)
Infrastructure	(20,858,455)	(1,683,807)		(22,542,262)
Total accumulated depreciation:	(34,540,449)	(2,580,703)		(37,121,152)
Depreciable capital assets, net	57,970,443	(406,849)		57,563,594
Business-type activities capital assets, net	\$ 59,699,407	\$ 3,372,703	\$ 646,398	\$ 62,425,712

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Streets	\$	354,046
Protection to persons and property		187,018
General government		67,611
Recreation		59,898
Cemetery		2,241
Risk Management		2,604
		<hr/>
Total governmental depreciation expense	\$	<u>673,418</u>

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

Electric	\$	326,377
Water		1,002,093
Sewer system		834,259
Cable TV		302,863
Garbage		29,723
Internet		85,388
		<hr/>
Total business-type depreciation expense	\$	<u>2,580,703</u>

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 6 – Long-Term Liabilities

The City of Bardstown, Kentucky issued General Obligation Bonds, Series 2011, dated July 7, 2011 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 was 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.

Principal and interest requirements to retire the City's long-term obligations are as follows:

	Revenue Bonds	
	Principal	Interest
Business-Type Activities		
2012	\$ 1,650,000	\$ 249,563
2013	1,670,000	232,962
2014	1,045,000	218,081
2015	1,060,000	200,950
2016	1,085,000	179,500
2017-2021	5,855,000	452,745
Total Business-Type Activities	\$ 12,365,000	\$ 1,533,801

Changes during fiscal year 2011 and balances as of June 30, 2011, including the current portions, of the City were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Bonds and notes payable:					
Series 1997	2,345,000		(2,345,000)		
Series 2001	14,625,000		(14,625,000)		
Series 2010		14,030,000	(1,665,000)	12,365,000	1,650,000
	16,970,000	14,030,000	(18,635,000)	12,365,000	1,650,000
Less:					
Unamortized issuance costs	256,076	243,539	(278,216)	221,399	22,140
Deferred amount on refunding	33,069	488,703	(77,497)	444,275	44,428
Total bonds and notes payable	16,680,855	13,297,758	(18,279,287)	11,699,326	1,583,432
Business-type activities					
Long-term liabilities	\$ 16,680,855	\$ 13,297,758	\$ (18,279,287)	\$ 11,699,326	\$ 1,583,432

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 7 – Pensions and Other Post Employment Benefits

The City has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The City’s contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member’s account, and 1% will go to the KRS insurance fund. The City’s contribution rate for hazardous employees was 33.25 percent.

The City’s contributions for the fiscal years ending June 30 are as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous-duty</u>
2011	642,907	444,477
2010	595,619	442,581
2009	522,981	397,672

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 7 – Pensions and Other Post Employment Benefits

CERS also provides postretirement health care coverage. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>	<u>% Paid by Member Through Payroll Deduction</u>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

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.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011, the audits of these grants and programs were complete through 2010 and the City's compliance with applicable requirements has been established. The City's compliance with applicable requirements for 2011 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.

Coverage by KLCIS consists of \$2,000,000 in general liability insurance with \$5,000 deductible. Coverage for property risk is \$39,559,605 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.

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

Note 9 – Risk Management (Continued)

Changes in the fund’s claims liability amounts are:

	2010	2011
Balance at Beginning of Year	134,931	170,721
Current year claims	1,154,052	633,089
Claims paid	(1,118,262)	(758,203)
Balance at End of Year	\$ 170,721	\$ 45,607

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 2011.

Organization	Contribution
Planning Commission	\$ 51,145
Nelson County Economic Development Agency	48,420
Nelson County Chamber of Commerce	6,000
Nelson County Airport	4,800
Bardstown Main Street	5,000
Bardstown Industrial Development	6,310

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.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 has three loan agreements at fiscal year end June 30, 2011 with the Kentucky Infrastructure Authority totaling \$7.28 million. These loans are for the financing of several water and sewer capital projects. There have been no draws taken from these loans as of June 30, 2011.

Note 13 – Change in Accounting Principle

The City of Bardstown, Kentucky has implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, which has altered the classifications of fund balances on the Balance Sheet-Governmental Funds.

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, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 3,091,000	\$ 3,091,000	\$ 3,193,806	\$ 102,806
Licenses and permits	9,000	9,000	31,616	22,616
Fines and forfeitures	45,100	45,100	52,024	6,924
Intergovernmental revenues	585,950	585,950	350,829	(235,121)
Charges for services	236,500	236,500	254,182	17,682
Interest	15,000	15,000	7,529	(7,471)
Other	15,000	15,000	93,187	78,187
Total Revenues	<u>3,997,550</u>	<u>3,997,550</u>	<u>3,983,173</u>	<u>(14,377)</u>
Expenditures:				
Current:				
General government	939,900	939,900	872,230	67,670
Finance	667,600	667,600	708,717	(41,117)
Public safety	1,939,000	1,939,000	1,933,736	5,264
Fire	1,020,700	1,020,700	863,294	157,406
Recreation	448,650	448,650	441,507	7,143
Risk management	84,000	84,000	66,861	17,139
Community Center	185,050	185,050	189,639	(4,589)
Streets	344,900	344,900	300,809	44,091
Capital outlay	236,000	236,000	254,815	(18,815)
Total Expenditures	<u>5,865,800</u>	<u>5,865,800</u>	<u>5,631,608</u>	<u>234,192</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,868,250)</u>	<u>(1,868,250)</u>	<u>(1,648,435)</u>	<u>219,815</u>
Other Financing Sources (Uses):				
Transfers in	2,024,428	2,024,428	2,491,461	467,033
Transfers out	(250,458)	(250,458)	(961,628)	(711,170)
Total Other Financing Sources (Uses)	<u>1,773,970</u>	<u>1,773,970</u>	<u>1,529,833</u>	<u>(244,137)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(94,280)	(94,280)	(118,602)	(24,322)
Fund Balances, Beginning of Year	<u>801,900</u>	<u>801,900</u>	<u>1,035,743</u>	<u>233,843</u>
Fund Balances, End of Year	<u>\$ 707,620</u>	<u>\$ 707,620</u>	<u>\$ 917,141</u>	<u>\$ 209,521</u>

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2011

Reconciliation of the General Fund

Total Revenues-Budgetary Basis	\$ 3,983,173
Capital Project budgeted for in Construction Fund	<u>2,269,293</u>
Total Revenues-Modified Accrual Basis	<u><u>6,252,466</u></u>
Total Expenditures-Budgetary Basis	5,631,608
Capital Project budgeted for in Construction Fund	<u>2,737,115</u>
Total Expenditures-Modified Accrual Basis	<u><u>8,368,723</u></u>
Total Other Financing Sources (Uses)-Budgetary Basis	1,529,833
Capital Project budgeted for in Construction Fund	<u>467,822</u>
Total Other Financing Sources (Uses)-Modified Accrual Basis	<u><u>\$ 1,997,655</u></u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Municipal Road Aid	Land Acquisition and Building	E911	Law Enforcement	Cemetery	Total Other Governmental Funds
Assets						
Cash and cash equivalents	\$ 72,276	\$ 18,677	\$ 23,794	\$ 185	\$ 23,309	\$ 138,241
Investments	0	450,000	0	49,000	200,000	699,000
Restricted Investments	31,564	71,933	0	0	124,882	228,379
Accrued receivables	28,927	1,272	17,978	118	1,485	49,780
Due from other funds	0	0	33,894	1,600	0	35,494
Prepaid items	0	0	8,689	0	0	8,689
Total Assets	132,767	541,882	84,355	50,903	349,676	1,159,583
Liabilities						
Accounts payable	0	0	16,460	0	0	16,460
Due to other funds	70,000	2,557	0	0	15,120	87,677
Total Liabilities	70,000	2,557	16,460	0	15,120	104,137
Fund Balances						
Nonspendable	28,927	1,272	60,561	1,718	1,485	93,963
Restricted						
Roads	33,840	0	0	0	0	33,840
Cemetery	0	0	0	0	124,882	124,882
Assigned						
Land Acquisition and Industrial Developme	0	538,053	0	0	0	538,053
Public safety	0	0	7,334	49,185	0	56,519
Cemetery	0	0	0	0	208,189	208,189
Total Fund Balances	62,767	539,325	67,895	50,903	334,556	1,055,446
Total Liabilities and Fund Balances	\$ 132,767	\$ 541,882	\$ 84,355	\$ 50,903	\$ 349,676	\$ 1,159,583

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Municipal Road Aid	Land Acquisition and Building	E911	Law Enforcement	Cemetery	Total Nonmajor Funds
Revenues						
Intergovernmental	\$ 236,414	\$ 0	\$ 291,196	\$ 0	\$ 0	\$ 527,610
Charges for services	0	0	220,478	0	36,325	256,803
Interest	396	5,481	0	741	3,785	10,403
Other	0	37,976	1	10,675	0	48,652
Total Revenues	236,810	43,457	511,675	11,416	40,110	843,468
Expenditures						
Current:						
General government	0	14,368	0	0	0	14,368
Public safety	0	0	651,377	3,064	0	654,441
Cemetery	0	0	0	0	25,713	25,713
Total Expenditures	0	14,368	651,377	3,064	25,713	694,522
Excess (Deficiency) of Revenues Over						
Expenditures	236,810	29,089	(139,702)	8,352	14,397	148,946
Other Financing Sources (Uses):						
Transfers in	0	0	196,400	0	0	196,400
Transfers out	(230,000)	(10,658)	0	(22,930)	0	(263,588)
Total Other Financing Sources (Uses)	(230,000)	(10,658)	196,400	(22,930)	0	(67,188)
Net Change in Fund Balances	6,810	18,431	56,698	(14,578)	14,397	81,758
Fund Balances, Beginning of Year	55,957	520,894	11,197	65,481	320,159	973,688
Fund Balances, End of Year	\$ 62,767	\$ 539,325	\$ 67,895	\$ 50,903	\$ 334,556	\$ 1,055,446

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET –
NON-MAJOR PROPRIETARY FUNDS
June 30, 2011

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement Fund	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Assets						
Current Assets:						
Accrued interest	\$ 702	\$ 34,602	\$ 0	\$ 0	\$ 417	\$ 35,721
Construction in Progress	0	0	3,849,125	0	0	3,849,125
Total Current Assets	<u>702</u>	<u>34,602</u>	<u>3,849,125</u>	<u>0</u>	<u>417</u>	<u>3,884,846</u>
Noncurrent Assets:						
Restricted Assets:						
Cash	0	0	0	154,149	0	154,149
Investments	509,972	2,533,382	0	0	303,254	3,346,608
Total Noncurrent Assets	<u>509,972</u>	<u>2,533,382</u>	<u>0</u>	<u>154,149</u>	<u>303,254</u>	<u>3,500,757</u>
Total Assets	<u><u>510,674</u></u>	<u><u>2,567,984</u></u>	<u><u>3,849,125</u></u>	<u><u>154,149</u></u>	<u><u>303,671</u></u>	<u><u>7,385,603</u></u>
Liabilities						
Current Liabilities:						
Due to other funds	0	0	817,377	0	0	817,377
Total Liabilities	<u>0</u>	<u>0</u>	<u>817,377</u>	<u>0</u>	<u>0</u>	<u>817,377</u>
Net Assets						
Restricted for:						
Bond reserves	165,674	2,567,984	0	0	0	2,733,658
System capacity reserve	0	0	0	154,149	0	154,149
Construction Fund	0	0	3,031,748	0	0	3,031,748
Other purposes	345,000	0	0	0	303,671	648,671
Total Net Assets	<u>510,674</u>	<u>2,567,984</u>	<u>3,031,748</u>	<u>154,149</u>	<u>303,671</u>	<u>6,568,226</u>
Total Liabilities and Net Assets	<u><u>\$ 510,674</u></u>	<u><u>\$ 2,567,984</u></u>	<u><u>\$ 3,849,125</u></u>	<u><u>\$ 154,149</u></u>	<u><u>\$ 303,671</u></u>	<u><u>\$ 7,385,603</u></u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
NET ASSETS – NON-MAJOR PROPRIETARY FUNDS
June 30, 2011

	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	\$ 1,050,000	\$ 0	\$ 0	\$ 1,050,000
System development charges	0	0	0	127,306	0	127,306
Total Operating Revenues	<u>0</u>	<u>0</u>	<u>1,050,000</u>	<u>127,306</u>	<u>0</u>	<u>1,177,306</u>
Operating Expenses:						
Contractual services	0	0	0	15	0	15
Total Operating Expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>15</u>	<u>0</u>	<u>15</u>
Income (Loss) from Operations	0	0	1,050,000	127,291	0	1,177,291
Nonoperating Revenues (Expenses):						
Investment earnings	8,174	35,991	0	0	1,138	45,303
Total Nonoperating Revenues (Expenses)	<u>8,174</u>	<u>35,991</u>	<u>0</u>	<u>0</u>	<u>1,138</u>	<u>45,303</u>
Income (Loss) Before Contributions and Transfers	8,174	35,991	1,050,000	127,291	1,138	1,222,594
Transfers in	0	0	916,236	0	0	916,236
Transfers out	0	(22,000)	(1,274,807)	0	0	(1,296,807)
Change in Net Assets	8,174	13,991	691,429	127,291	1,138	842,023
Net Assets, Beginning of Year	502,500	2,553,993	2,340,319	26,858	302,533	5,726,203
Net Assets, End of Year	<u>\$ 510,674</u>	<u>\$ 2,567,984</u>	<u>\$ 3,031,748</u>	<u>\$ 154,149</u>	<u>\$ 303,671</u>	<u>\$ 6,568,226</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS
June 30, 2011

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable TV</u>	<u>Garbage</u>	<u>Internet</u>	<u>Total Operating</u>
Operating Revenues:							
Charges for services	\$ 14,190,404	\$ 3,979,442	\$ 3,102,711	\$ 4,708,568	\$ 1,304,662	\$ 1,969,036	\$ 29,254,823
Utility surcharge	1,390	0	0	0	0	0	1,390
Connection fees	0	45,899	5,999	75,792	0	36,700	164,390
Contract services	217,343	0	33,021	147,951	2,086	0	400,401
Intergovernmental revenues	50,115	571,514	1,756	0	7,076	0	630,461
Penalties	101,886	110,879	34,779	96,539	15,921	0	360,004
Miscellaneous	8,197	91,249	6,375	8,346	81,265	0	195,432
Total Operating Revenues	<u>14,569,335</u>	<u>4,798,983</u>	<u>3,184,641</u>	<u>5,037,196</u>	<u>1,411,010</u>	<u>2,005,736</u>	<u>31,006,901</u>
Operating Expenses:							
Purchases for resale	11,469,457	0	0	3,229,624	0	0	14,699,081
Personal services	567,141	1,531,394	613,541	755,943	651,790	186,668	4,306,477
Contractual services	104,140	139,843	108,799	188,081	326,260	160,343	1,027,466
Materials and supplies	50,858	530,103	192,031	468,732	87,526	126,059	1,455,309
Maintenance and repairs	61,932	263,812	210,994	99,280	52,177	5,799	693,994
Other expenses	90,775	442,272	573,493	311,135	42,380	343,617	1,803,672
Depreciation	326,377	1,002,093	834,260	302,863	29,723	85,388	2,580,704
Total Operating Expenses	<u>12,670,680</u>	<u>3,909,517</u>	<u>2,533,118</u>	<u>5,355,658</u>	<u>1,189,856</u>	<u>907,874</u>	<u>26,566,703</u>
Income From Operations	<u>\$ 1,898,655</u>	<u>\$ 889,466</u>	<u>\$ 651,523</u>	<u>\$ (318,462)</u>	<u>\$ 221,154</u>	<u>\$ 1,097,862</u>	<u>\$ 4,440,198</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS (CONTINUED)
June 30, 2011

	<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	\$ 50,595	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 50,595
Lease revenue	0	8,110	0	0	0	0	8,110
Total Nonoperating Revenue	<u>50,595</u>	<u>8,110</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>58,705</u>
Income Before Contributions and Transfers	1,949,250	897,576	651,523	(318,462)	221,154	1,097,862	4,498,903
Capital contributions	0	22,101	169,543	0	0	0	191,644
Transfers in	0	213,202	88,864	780,000	0	0	1,082,066
Transfers out	<u>(1,045,424)</u>	<u>(1,064,209)</u>	<u>(1,246,710)</u>	<u>(279,555)</u>	<u>(51,756)</u>	<u>(869,999)</u>	<u>(4,557,653)</u>
Change in Net Assets	<u>\$ 903,826</u>	<u>\$ 68,670</u>	<u>\$ (336,780)</u>	<u>\$ 181,983</u>	<u>\$ 169,398</u>	<u>\$ 227,863</u>	1,214,960
Net Assets, Beginning of Year							<u>62,772,152</u>
Net Assets, End of Year							<u>\$ 63,987,112</u>

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

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 Stabilization Program-1	09N-036	\$ 8,172
(CFDA #14.228)		
Total U.S. Department Of Housing and Urban Development		<u>\$ 8,172</u>
<u>U.S. Department of The Interior</u>		
National Parks Service		
Passed-Through The Commonwealth's		
Tourism, 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	\$ 20,000
(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	4,892
(CFDA #15.929)		
Total U.S. Department of The Interior		<u>\$ 24,892</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	PO2-628-1000004790	\$ 1,909,467
(CFDA #20.205)		
Total U.S. Department of Transportation		<u>\$ 1,909,467</u>

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
June 30, 2011

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</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	\$ 124,949
Passed-Through University of Kentucky Research Foundation Cardiovascular Diseases Research Smoke-Free Nelson County Initiative (CFDA #93.837)	2010COM025	5,000
Total U.S. Department of Health and Human Services		<u>\$ 129,949</u>
<u>U.S. Department of Homeland Security</u>		
Passed-Through Commonwealth Office of Homeland Security Homeland Security Grant Program Mobile Data Computers (CFDA #97.067)	Unavailable	\$ 30,800
Passed-Through Commonwealth Office of Homeland Security Homeland Security Grant Program Mobile Data Computers (CFDA #97.067)	Unavailable	\$ 41,560
Total U.S. Department of Homeland Security		<u>\$ 72,360</u>
Small Business Administration Division of Procurement & Grants Management Downtown Streetscape (CFDA #59.059)	Unavailable	<u>\$ 100,000</u>
Total Cash Expenditures of Federal Awards		<u>\$ 2,244,840</u>

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
June 30, 2011

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.

Note 2 - Determination of Major Program

The Type A program for the City is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2011 or where deemed high risk. The Type A program was:

- Transportation Enhancement Recovery and Reinvestment (CFDA #20.205)

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2011.

**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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements for the year ended June 30, 2011, 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

January 9, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**



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**Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

Independent Auditor's Report

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Bardstown, Kentucky's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

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

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
January 9, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF BARDSTOWN, KENTUCKY
FINDINGS AND QUESTIONED COSTS
June 30, 2011

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 deficiencies 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.