

CITY OF BARDSTOWN, KENTUCKY

Audited Financial Statements

For the Year Ended June 30, 2014



Peercy 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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the City Council
City of Bardstown, Kentucky
September 26, 2014

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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5–14 and 48–49 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bardstown, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, and the procedures performed as described above, the combining and individual nonmajor fund financial are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2014, 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

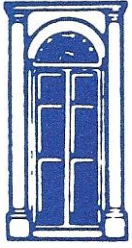
To the City Council
City of Bardstown, Kentucky
September 26, 2014

opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Bardstown, Kentucky's internal control over financial reporting and compliance.

Perry and Gray, PSC

September 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS



OLD KENTUCKY HOME
DOORWAY

City of Bardstow

WILLIAM S. SHECKLES, MAYOR
220 N. 5TH ST.
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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, 2014

The Management Discussion and Analysis (MD&A) of the financial performance of the City of Bardstow provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please review the MD&A in conjunction with the auditor's transmittal letter and the City of Bardstow Audited Financial Statements. Should anyone have questions or desire additional information, please contact Mike Abell at mabell@bardstowncable.net.

Financial Highlights

- As of June 30, 2014, the City's Net Position (assets minus liabilities) totaled \$78,348,000.
- Net Position includes Capital Assets, net of related debt, of \$61,195,000, \$4,752,000 in restricted resources (restricted to specific projects by law, regulation, or contractual agreement), and unrestricted resources of \$12,401,000, primarily in the Utility Fund.
- City Liabilities on June 30, 2014 totaled \$18,237,000, of which \$13,309,000 is long term and \$4,928,000 is current, including FY 15 bond and KIA loan payments, accounts payable, internal balances, deferred revenue, and other liabilities.
- The City completed the last of 4 major capital utility projects in FY 14, the automation of the water meter reading process, a project that cost approximately \$1,800,000, 2/3 of which was funded from utility reserves.
- The City paid \$1,045,000 toward its bonded debt in FY 14 as scheduled, leaving a year-end balance of \$8,000,000. The debt is being paid from combined utility system revenues, though it is general obligation debt that refinanced earlier revenue bonds. These bonds will be paid off in 7 more years.
- The City also paid on the 3 KIA loans it had received for major water and sewer projects, leaving a year-end balance of approximately \$6,900,000 on these 20 year loans.

Management's Discussion and Analysis
 Annual Financial Statements
 For The Fiscal Year Ended June 30, 2014
 September 26, 2014

- The only General Fund debt is for the County funded equipment/mapping upgrade for Dispatch, which is currently funded 60/40 by the County/City.
- The Unrestricted Net Position is \$1,460,000 in the General Fund and \$10,940,000 in the Combined Utilities Fund, which do have major capital projects to undertake in the near future.
- The national recession continues to affect the City, though not as severely as elsewhere. Property tax revenue was flat for the second year in a row, but Occupational License Fee collections did increase from last year's level.
- The City's Indirect Cost Allocation Plan was unchanged in FY 2014. 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 12	FY 13	FY 14
Capital Assets			
Governmental Activities	\$ 9,237,000	\$ 9,481,000	\$ 9,613,000
Business-type Activities	65,014,000	65,790,000	66,216,000
Total Capital Assets	<u>74,251,000</u>	<u>75,271,000</u>	<u>75,829,000</u>
Current & Other Assets			
Governmental Activities	5,482,000	5,545,000	2,829,000
Business-type Activities	9,225,000	18,676,000	18,061,000
Total Current & Other Assets	<u>14,707,000</u>	<u>24,221,000</u>	<u>20,890,000</u>
Total Assets			
Governmental Activities	14,719,000	15,026,000	12,442,000
Business-type Activities	74,239,000	84,466,000	84,277,000
Total Assets	<u>\$ 88,958,000</u>	<u>\$ 99,492,000</u>	<u>\$ 96,719,000</u>

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2014
September 26, 2014

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

Liabilities	FY 12	FY 13	FY 14
Current & Other Liabilities			
Governmental Activities	\$ 3,338,000	\$ 3,288,000	\$ 651,000
Business-type Activities	4,864,000	7,428,000	4,277,000
Total Current & Other Liabilities	8,202,000	10,716,000	4,928,000
Long-term Liabilities			
Governmental Activities		149,000	226,000
Business-type Activities	8,513,000	12,675,000	13,083,000
Total Long-term Liabilities	8,513,000	12,824,000	13,309,000
Total Liabilities			
Governmental Activities	3,338,000	3,437,000	877,000
Business-type Activities	13,377,000	20,103,000	17,360,000
Total Liabilities	16,715,000	23,540,000	18,237,000
Net Position			
Governmental Activities	11,380,000	11,589,000	11,566,000
Business-type Activities	60,863,000	64,363,000	66,782,000
Total Net Position	72,243,000	75,952,000	78,348,000
Net Position, Details			
Invested in Capital Assets			
Governmental Activities	9,237,000	9,279,000	9,334,000
Business-type Activities	53,945,000	52,046,000	51,861,000
Total Capital Assets (net of debt)	63,182,000	61,325,000	61,195,000
Restricted Net Assets			
Governmental Activities	1,047,000	1,003,000	772,000
Business-type Activities	6,718,000	6,831,000	3,980,000
Total Restricted Net Assets	7,765,000	7,834,000	4,752,000
Unrestricted Net Assets			
Governmental Activities	1,096,000	1,307,000	1,460,000
Business-type Activities	200,000	5,486,000	10,941,000
Total Unrestricted Net Assets	\$ 1,296,000	\$ 6,793,000	\$ 12,401,000

Parity coverage for the General Obligation Bonds, paid from Combined Utilities Fund revenues, 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, 2014
September 26, 2014

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

	2012	2013	2014
Net Income	\$3,749,589	\$5,037,100	\$4,265,645
Less Contributed Capital Assets	(142,220)	(1,210,479)	(81,365)
Add Back:			
Depreciation	2,769,711	3,017,345	3,058,120
Interest Expense	316,130	395,856	443,641
Transfers Out	1,434,806	1,140,796	1,403,203
Total Revenues Available for Debt Service	\$ 8,128,016	\$ 8,380,618	\$ 9,089,244
Annual Parity Debt Service in years presented	\$1,899,563	\$1,783,883	\$1,723,314
Coverage	4.28	4.70	5.27

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 Position 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 Position changed during the fiscal year. The revenues and expenditures of the past year are summarized. Governmental service (General Fund) costs today still exceed tax revenue. Dividends from the business-type activities of the City fund that shortfall. The change in the occupational license fee, effective 1-1-2012, helped to address the General Fund needs, however the demands for additional police, fire, and street funding has consumed nearly \$600,000 of that new revenue.

Governmental Fund Statements

The next two financial statements report only on governmental services:

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

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

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

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

- The June 30 Fund Balance, \$2,158,123, includes an Unassigned Balance of \$653,594, an increase over the 6-30-13 figure. 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 \$1.46 million. 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. A smaller amount is funded from a dividend taken from the utility departments.

The Budgetary Comparison Schedules - Major Funds reports on the City's compliance with budget adoption and execution requirements. The City operated within its adopted budget, with one minor exception in the General Fund and an exception in the E-911 fund related to the County's purchase of equipment for the fund as a loan.

Management concludes its comments on the Major Governmental Fund Statements by noting that actions taken in the past few years, and especially in July of 2011, significantly addressed the General Fund's structural deficit. That decision to change the Net Profit & Occupational License Fee Ordinance effective 1-1-2012 is having the most impact on the structural deficit. However, the increased funding for Police, Fire, and Streets is causing that deficit to grow again.

Proprietary Fund Statements

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

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

The Statement of Net Position shows, for the Utility Operating Fund, \$10,941,153 in Unrestricted Net Assets, well in excess of the desired 16.7% of operating revenues, or two months coverage of operating expenses. This enhances the City's ability to fund much needed utility capital projects which are in the short-term future. 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 Position - Proprietary Funds shows Income from Operations for the Utility Operating Fund of \$4,026,236, an increase from the prior year.

The Statement of Cash Flows – Proprietary Funds reports Cash and Cash Equivalents of \$10,534,220 as of June 30, a significant increase as payments on the refunded bond issue decreased from 2013 to 2014 and as the City sets aside unrestricted funds for the upcoming major capital projects.

The Governmental Activities–Internal Service Fund, included in 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, had 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 its 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, etc.) and by transfers from the business-type activities, primarily to cover indirect costs attributable to the business activities.

Governmental Activities

Table 3 shows a 3-year history of Expenses, Program and Grant revenues, and finally Net Expenses for each governmental program. These net expenses should be funded from tax revenues and investment income, but as the table shows, a portion is still funded via a transfer from the Combined Utilities Fund. 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, a part of that transfer from the utility operations is to cover the costs of governmental services not funded by General Fund revenues. The change to the Occupational License Fee ordinance enabled the city to reduce this particular transfer in FY 12 and to significantly reduce it in FY 13. However, increased funding of police, fire, and street needs is resulting in the need for a growing transfer.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2014
September 26, 2014

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

	FY 12			FY 13			FY 14		
	Expenses	Total P. Rev	Net Exp.	Expenses	Total P. Rev	Net Exp.	Expenses	Total P. Rev	Net Exp.
General Government	\$ 926,162	\$ 96,510	\$ 829,652	\$ 811,557	\$ 7,360	\$ 804,197	\$ 835,771	\$ 18,401	\$ 817,370
Finance	738,341	66,786	671,555	813,920	89,538	724,382	826,958	89,362	737,596
Public Safety	3,499,260	811,601	2,687,659	3,426,019	863,939	2,562,080	3,460,742	787,446	2,673,296
Fire	966,761	79,952	886,809	908,819	178,743	730,076	1,022,373	139,641	882,732
Recreation	505,661	196,134	309,527	514,722	201,758	312,964	575,859	218,403	357,456
Risk Management	71,509	508	71,001	63,670	-	63,670	139,260	-	139,260
Prevention Center	183,572	144,648	38,924	182,815	212,633	(29,818)	74,713	40,500	34,213
Streets	913,673	245,601	668,072	699,525	438,953	260,572	806,629	302,050	504,579
Cemetery	25,019	61,025	(36,006)	36,478	51,575	(15,097)	56,570	46,550	10,020
	\$ 7,829,958	\$ 1,702,765	\$ 6,127,193	\$ 7,457,525	\$ 2,044,499	\$ 5,413,026	\$ 7,798,875	\$ 1,642,353	\$ 6,156,522

Governmental Activities, General Revenues

Property Taxes	2,042,221	2,109,859	2,191,997
Restaurant Tax	411,229	507,218	444,347
Business License Fees	1,233,019	1,783,749	1,947,381
Interest & Invest. Earnings	14,454	11,131	8,765
Misc.	186,030	123,614	178,612
Total Gen. Revenues	3,886,953	4,535,571	4,771,102
Transfers-Net	1,475,991	1,140,796	1,362,018
Change in Net Position	(764,249)	263,341	(23,402)
Net Position, Beginning of Year	12,144,614	11,380,365	11,589,616
Net Position-Restated		(54,090)	
Net Position, End of Year	\$ 11,380,365	\$ 11,589,616	\$ 11,566,214

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2014
September 26, 2014

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

Activity	FY 12			FY 13			FY 14		
	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue
Electric	\$ 14,367,044	\$ 13,727,174	\$ 639,870	\$ 14,902,382	\$ 13,564,560	\$ 1,337,822	\$ 16,523,360	\$ 14,730,126	\$ 1,793,234
Water	4,355,734	4,004,575	351,159	4,481,792	4,334,052	147,740	4,719,896	4,466,732	253,164
Sewer	3,605,880	2,623,743	982,137	3,717,336	2,630,996	1,086,340	4,117,720	3,074,418	1,043,302
Cable TV	5,594,326	5,622,324	(27,998)	5,694,241	6,256,244	(562,003)	6,054,102	6,892,051	(837,949)
Internet	2,253,634	880,601	1,373,033	2,418,004	898,546	1,519,458	2,454,896	1,005,339	1,449,557
Garbage	1,452,638	1,312,839	139,799	1,481,676	1,325,792	155,884	1,580,445	1,255,903	324,542
Interest Exp		316,130	(316,130)		395,856	(395,856)		443,641	(443,641)
Totals	\$31,629,256	\$28,487,386	\$ 3,141,870	\$32,695,431	\$29,406,046	\$ 3,289,385	\$35,450,419	\$31,868,210	\$ 3,582,209

General Revenues, Business-type Activities

Interest & Invest. Earnings	64,015	67,170	14,900
Grants & Contributions	142,220	1,210,479	81,365
System Development Charges	72,244	64,985	134,230
Other	13,110	9,225	9,300
Less Net Transfers	<u>(1,434,806)</u>	<u>(1,140,796)</u>	<u>(1,403,203)</u>
Change in Net Position	1,998,653	3,500,448	2,418,801
Net Position, Beginning	<u>58,864,019</u>	<u>60,862,672</u>	<u>64,363,120</u>
Net Position, Ending	<u>\$60,862,672</u>	<u>\$64,363,120</u>	<u>\$66,781,921</u>

Business-type Activities

Table 4 presents a 3-year history of program revenues and expenses for the Business-type Activities, the utility services. Both revenues and expenses increased by about 8.4%. Cable costs increased primarily due to the programming fees charged by the providers of cable content and electric cost increases represent the cost of power purchased for our customers. Both increases are beyond the city's control and must be passed on to the consumers if the City is to operate the electric and cable services in the black and fund improvements.

Summary and Pending Actions

The City's finances are sound and the actions taken to lessen the dependence on business activity revenue to provide governmental services has produced positive results. The City is also working to structure its utility rates so that new customers pay for the increased infrastructure needed to serve them. The most significant actions taken during FY 14 that will affect the City in the future include:

1. The Bloomfield sewer project was completed and Bloomfield became a user and customer of the Bardstown Sewer Department.
2. Significant expansion of the area served by the city's cable-internet system, including use of the "fiber to the home" technology to serve more rural areas much sooner than previously thought.
3. The completion of the automated water meter reading project. This will reduce future payroll by 3 positions and provide additional data on water usage and leaks.

BASIC FINANCIAL STATEMENTS

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2014

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,313,469	\$ 10,534,220	\$ 11,847,689
Investments	628,838	0	628,838
Receivables, net	337,984	2,200,342	2,538,326
Inventory	16,292	1,333,585	1,349,877
Prepaid items	21,713	13,054	34,767
Total Current Assets	2,318,296	14,081,201	16,399,497
Noncurrent Assets:			
Restricted cash and investments	247,014	3,979,213	4,226,227
Land held for resale	264,101	0	264,101
Capital assets, net (Note 5)	9,613,621	66,215,789	75,829,410
Total Noncurrent Assets	10,124,736	70,195,002	80,319,738
Total Assets	12,443,032	84,276,203	96,719,235

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET POSITION (CONTINUED)
June 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities:			
Accounts payable	\$ 447,356	\$ 2,402,246	\$ 2,849,602
Accrued taxes	8,554	10,097	18,651
Other liabilities	141,020	594,029	735,049
Loans payable	54,000	277,778	331,778
Bonds payable	0	993,433	993,433
Total Current Liabilities	650,930	4,277,583	4,928,513
Noncurrent liabilities (Note 6):			
Loans payable	225,888	6,542,428	6,768,316
Bonds payable	0	6,540,595	6,540,595
Total Noncurrent Liabilities	225,888	13,083,023	13,308,911
Total Liabilities	\$ 876,818	\$ 17,360,606	\$ 18,237,424
Deferred Inflows of Resources			
Deferred revenue	0	133,676	133,676
Total Deferred Inflows of Resources	0	133,676	133,676
Net Position			
Net investment in capital assets	\$ 9,333,733	\$ 51,861,555	\$ 61,195,288
Restricted for:			
Infrastructure	0	427,389	427,389
Inventory, prepaids and land held for resale	550,398	0	550,398
Debt service	0	2,750,253	2,750,253
Special projects	221,818	801,571	1,023,389
Unrestricted	1,460,265	10,941,153	12,401,418
Total Net Position	\$ 11,566,214	\$ 66,781,921	\$ 78,348,135

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
June 30, 2014

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	\$ (835,771)	\$ 0	\$ 18,401	\$ 0	\$ (817,370)	\$ 0	\$ (817,370)
Finance	(826,958)	89,362	0	0	(737,596)	0	(737,596)
Public safety	(3,460,742)	364,191	423,255	0	(2,673,296)	0	(2,673,296)
Fire	(1,022,373)	80,000	59,641	0	(882,732)	0	(882,732)
Recreation	(575,859)	90,575	127,828	0	(357,456)	0	(357,456)
Risk management	(139,260)	0	0	0	(139,260)	0	(139,260)
Community Center	(74,713)	0	40,500	0	(34,213)	0	(34,213)
Streets	(806,629)	6,369	295,681		(504,579)	0	(504,579)
Cemetery	(56,570)	46,550	0	0	(10,020)	0	(10,020)
Total Governmental Activities	(7,798,875)	677,047	965,306	0	(6,156,522)	0	(6,156,522)
Business-Type Activities:							
Electric	(14,730,126)	16,523,360	0	0	0	1,793,234	1,793,234
Water	(4,466,732)	4,719,896	16,785	0	0	269,949	269,949
Sewer system	(3,074,418)	4,117,720	64,580	0	0	1,107,882	1,107,882
Cable TV	(6,892,051)	6,054,102	0	0	0	(837,949)	(837,949)
Garbage	(1,255,903)	1,580,445	0	0	0	324,542	324,542
Internet	(1,005,339)	2,454,896	0	0	0	1,449,557	1,449,557
Interest expense	(443,641)	0	0	0	0	(443,641)	(443,641)
Total Business-Type Activities	(31,868,210)	35,450,419	81,365	0	0	3,663,574	3,663,574
Total Government	\$ (39,667,085)	\$ 36,127,466	\$ 1,046,671	\$ 0	\$ (6,156,522)	\$ 3,663,574	\$ (2,492,948)

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)
June 30, 2014

	<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Primary Government</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
General Revenues:			
Taxes:			
Property taxes	\$ 2,191,997	\$ 0	\$ 2,191,997
Business and occupational licenses	1,947,381	0	1,947,381
Restaurant tax	444,347	0	444,347
Interest and investment earnings	8,765	14,900	23,665
System Development Charges	0	134,230	134,230
Other	178,612	9,300	187,912
Transfers	1,362,018	(1,403,203)	(41,185)
	<u>6,133,120</u>	<u>(1,244,773)</u>	<u>4,888,347</u>
Change in Net Position	(23,402)	2,418,801	2,395,399
Net Position - Beginning	<u>11,589,616</u>	<u>64,363,120</u>	<u>75,952,736</u>
Net Position - Ending	<u><u>\$ 11,566,214</u></u>	<u><u>\$ 66,781,921</u></u>	<u><u>\$ 78,348,135</u></u>

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2014

	General	E911 Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,117,012	\$ 82,485	\$ 42,426	\$ 1,241,923
Investments	0	0	628,838	628,838
Restricted cash	0	0	12,056	12,056
Restricted investments	0	0	234,958	234,958
Accounts receivable	209,396	14,592	24,304	248,292
Inventory	16,292	0	0	16,292
Land held for resale	264,101	0	0	264,101
Prepaid items	10,826	10,887	0	21,713
Total Assets	1,617,627	107,964	942,582	2,668,173
Liabilities				
Accounts payable	343,090	14,855	2,531	360,476
Accrued payroll	112,912	28,108	0	141,020
Payroll taxes payable	7,416	1,138	0	8,554
Total Liabilities	463,418	44,101	2,531	510,050
Fund Balances				
Nonspendable	500,615	25,479	24,304	550,398
Restricted				
Roads	0	0	468	468
Cemetery	0	0	146,992	146,992
Assigned				
Land Acquisition and Industrial Dev	0	0	495,522	495,522
Public safety	0	38,384	45,368	83,752
Cemetery	0	0	227,397	227,397
Unassigned	653,594	0	0	653,594
Total Fund Balances	1,154,209	63,863	940,051	2,158,123
Total Liabilities and Fund Balances	\$ 1,617,627	\$ 107,964	\$ 942,582	\$ 2,668,173

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2014

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the statement of net assets are different because :	
Total Fund Balances - Total Governmental Funds	\$ 2,158,123
Allocation of internal service fund balances	74,358
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	9,613,621
Long-term debt, including bonds and capital leases, are not due and payable in the current period and therefore are not reported in the funds	<u>(279,888)</u>
Net Position of Governmental Activities	<u><u>\$ 11,566,214</u></u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General	E911 Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 4,458,735	\$ 0	\$ 0	\$ 4,458,735
Business licenses	74,115	0	0	74,115
Fines and forfeitures	50,875	0	0	50,875
Intergovernmental	378,316	298,104	288,886	965,306
Charges for services	271,880	358,617	46,550	677,047
Interest	6,613	9	2,143	8,765
Other	169,730	176	8,706	178,612
Total Revenues	5,410,264	656,906	346,285	6,413,455
Expenditures				
Current:				
General government	771,094	0	17,380	788,474
Finance	813,486	0	0	813,486
Public safety	2,440,655	841,622	24,444	3,306,721
Fire	995,395	0	0	995,395
Recreation	541,994	0	0	541,994
Risk management	139,385	0	0	139,385
Community Center	74,964	0	0	74,964
Streets	391,215	0	0	391,215
Cemetery	0	0	54,329	54,329
Capital outlay	704,287	126,937	0	831,224
Debt Payments	0	49,500	0	49,500
Total Expenditures	6,872,475	1,018,059	96,153	7,986,687
Excess (Deficiency) of Revenues				
Expenditures Before Other				
Sources (Uses)	(1,462,211)	(361,153)	250,132	(1,573,232)
Other Financing Sources (Uses):				
Proceeds from loan	0	126,937	0	126,937
Transfers in	2,061,099	198,708	0	2,259,807
Transfers out	(518,068)	0	(379,721)	(897,789)
Total Other Financing Sources (Uses)	1,543,031	325,645	(379,721)	1,488,955
Net Change in Fund Balance	80,820	(35,508)	(129,589)	(84,277)
Fund Balances, Beginning of Year	1,073,389	99,371	1,069,640	2,242,400
Fund Balances, End of Year	\$ 1,154,209	\$ 63,863	\$ 940,051	\$ 2,158,123

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, 2014

	<u>Total Governmental Funds</u>
Net Change in Fund Balances-Total Governmental Funds	\$ (84,277)
Amounts reported for governmental activities in the statement of activities are different because :	
Depreciation expense reported in statement of activities	(699,184)
Capital outlay reported in governmental expenditures	831,224
Proceeds from Debt	(126,937)
Principal payments on long-term debt reported as governmental expenditures	49,500
Change in net position - self insurance fund	<u>6,272</u>
Change in Net Position of Governmental Activities	<u><u>\$ (23,402)</u></u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
June 30, 2014

	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	\$ 10,534,220	\$ 0	\$ 0	\$ 10,534,220	\$ 71,546
Receivables (net of allowance for doubtful accounts, \$129,171)	2,200,342	0	0	2,200,342	89,692
Prepaid expenses	13,054	0	0	13,054	0
Inventory-parts and supplies	1,333,585	0	0	1,333,585	0
Total Current Assets	14,081,201	0	0	14,081,201	161,238
Noncurrent Assets:					
Restricted Assets:					
Cash	0	8,160	92,249	100,409	0
Investments	0	0	3,878,804	3,878,804	0
Total Restricted Assets	0	8,160	3,971,053	3,979,213	0
Capital Assets:					
Land	1,050,215	0	0	1,050,215	0
Distribution systems	83,125,003	0	0	83,125,003	0
Plant and buildings	18,577,437	0	0	18,577,437	0
Vehicles and Equipment	7,922,285	0	0	7,922,285	0
Less accumulated depreciation	(44,459,151)	0	0	(44,459,151)	0
Capital Assets, Net of Accumulated Depreciation	66,215,789	0	0	66,215,789	0
Total Noncurrent Assets	66,215,789	8,160	3,971,053	70,195,002	0
Total Assets	\$ 80,296,990	\$ 8,160	\$ 3,971,053	\$ 84,276,203	\$ 161,238

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
June 30, 2014

	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	\$ 2,402,246	\$ 0	\$ 0	\$ 2,402,246	\$ 86,880
Accrued payroll taxes	10,097	0	0	10,097	0
Customer deposits	440,382	0	0	440,382	0
Accrued payroll	153,647	0	0	153,647	0
Bonds, notes, and loans payable	277,778	993,433	0	1,271,211	0
Total Current Liabilities	3,284,150	993,433	0	4,277,583	86,880
Noncurrent Liabilities:					
Bonds, notes, and loans payable	6,542,428	6,940,000	0	13,482,428	0
Unamortized issuance costs	0	(132,839)	0	(132,839)	0
Unamortized deferred refunding costs	0	(266,566)	0	(266,566)	0
Total Noncurrent Liabilities	6,542,428	6,540,595	0	13,083,023	0
Total Liabilities	9,826,578	7,534,028	0	17,360,606	86,880
Deferred Inflows of Resources					
Deferred revenue	133,676	0	0	133,676	0
Total Deferred Inflows of Resources	133,676	0	0	133,676	0
Net Position					
Net investment in capital assets	59,395,583	(7,534,028)	0	51,861,555	0
Restricted for:					
Debt service	0	8,160	2,742,093	2,750,253	0
System capacity reserve	0	0	427,389	427,389	0
Other purposes	0	0	801,571	801,571	74,358
Unrestricted	10,941,153	0	0	10,941,153	0
Total Net Position	70,336,736	(7,525,868)	3,971,053	66,781,921	74,358
Total Liabilities and Net Position	\$ 80,296,990	\$ 8,160	\$ 3,971,053	\$ 84,276,203	\$ 161,238

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-Type Activities				Governmental
	Enterprise Funds				Activities
	Utility Operating Fund	Debt Service Reserve	Total Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Operating Revenues:					
Charges for services	\$ 34,257,455	\$ 0	\$ 0	\$ 34,257,455	\$ 1,384,341
Utility surcharge	49,270	0	0	49,270	0
Connection fees	145,355	0	0	145,355	0
Intergovernmental	63,200	0	0	63,200	0
System development charges	0	0	134,230	134,230	0
Contract services	411,182	0	0	411,182	0
Penalties	360,343	0	0	360,343	0
Miscellaneous	163,615	0	0	163,615	0
Total Operating Revenues	35,450,420	0	134,230	35,584,650	1,384,341
Operating Expenses:					
Purchases for resale	17,292,290	0	0	17,292,290	0
Personal services	4,593,373	0	0	4,593,373	0
Contractual services	1,277,245	65	320	1,277,630	0
Materials and supplies	1,936,171	0	0	1,936,171	0
Maintenance and repairs	887,701	0	0	887,701	0
Other expenses	2,379,284	0	0	2,379,284	1,419,324
Depreciation	3,058,120	0	0	3,058,120	0
Total Operating Expenses	31,424,184	65	320	31,424,569	1,419,324
Income (Loss) from Operations	4,026,236	(65)	133,910	4,160,081	(34,983)
Nonoperating Revenues (Expenses):					
Investment earnings	13,186	8	1,706	14,900	70
Lease revenue	9,300	0	0	9,300	0
Interest expense	(158,992)	(284,649)	0	(443,641)	0
Total Nonoperating Revenues (Expenses)	(136,506)	(284,641)	1,706	(419,441)	70
Income (Loss) Before Contributions and Transfers	3,889,730	(284,706)	135,616	3,740,640	(34,913)
Capital contributions	81,365	0	0	81,365	0
Transfers in	3,986,984	1,263,081	48,250	5,298,315	41,185
Transfers out	(3,665,720)	0	(3,035,798)	(6,701,518)	0
Change in Net Position	4,292,359	978,375	(2,851,932)	2,418,803	6,272
Net Position, Beginning of Year	66,044,378	(8,504,243)	6,822,985	64,363,120	68,086
Net Position, End of Year	\$ 70,336,737	\$ (7,525,868)	\$ 3,971,053	\$ 66,781,923	\$ 74,358

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, 2014

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 34,414,539	\$ 1,395,626
Cash received from grants	63,200	0
Cash payments to suppliers for good and services	(23,601,233)	(1,444,332)
Cash payments to employees for services	(4,667,072)	0
Other operating cash receipts	1,263,312	0
	<u>7,472,746</u>	<u>(48,706)</u>
Cash Flows From NonCapital Financing Activities		
Transfers from other funds	0	41,185
Transfers to other funds	(1,403,203)	0
	<u>(1,403,203)</u>	<u>41,185</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(3,484,021)	0
Proceeds from debt	1,800,000	0
Principal paid on capital debt	(1,189,344)	0
Interest paid on capital debt	(443,641)	0
Contributed capital	81,365	0
Other receipts	11,592	0
	<u>(3,224,049)</u>	<u>0</u>
Cash Flows From Investing Activities		
Proceeds from disposition and acquisition of investments	(186,123)	0
Interest and dividends	14,900	70
	<u>(171,223)</u>	<u>70</u>
Net Increase in Cash and Cash Equivalents	2,674,271	(7,451)
Cash and Cash Equivalents, Beginning of Year	<u>7,859,949</u>	<u>78,997</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,534,220</u>	<u>\$ 71,546</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, 2014

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Reconciliation of Income from Operations to Net Cash		
Provided by Operating Activities:		
Income from operations	\$ 4,160,080	\$ (34,983)
Adjustments to reconcile operating income from operations to net cash provided by operating activities:		
Depreciation	3,055,830	0
Change in assets and liabilities:		
Decrease in receivables, net	3,325,707	11,285
(Increase) in inventory	150,519	0
Decrease in accounts and other payables	(3,163,788)	(25,008)
Increase in customer deposits	(682)	0
Increase in deferred revenues	18,779	0
Decrease in accrued payroll	(73,699)	0
Net Cash Provided by Operating Activities	<u>\$ 7,472,746</u>	<u>\$ (48,706)</u>

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 (CONTINUED)
June 30, 2014

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 funds:

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 E 911 Fund is a joint city-county venture. See footnote number 11 for more information on this 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.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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.

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.

Transfers during fiscal year 2014 include both operating transfers and increases to restricted funds. A total of \$1,163,630 was allocated to the General Fund from the Combined Utility Operating Fund to cover administrative costs, using an indirect cost allocation. During fiscal year 2014, the Combined Utility Operating Fund also transferred \$1,263,081 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.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the City are certificates of deposits, which are reported at cost since the redemption terms do not consider market rates. State statutes (KRS 66.480) authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds that meet prescribed ratings, repurchase agreements, and the State Treasurer's Investment Pool.

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, 2014.

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.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Restricted Assets (Continued)

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.

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 per the schedule on the following page 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 (CONTINUED)
June 30, 2014

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>Capitalization Threshold</u>	<u>Useful Life</u>
Land Improvements	\$ 25,000	10-20 years
Building Improvements	\$ 25,000	10-20 years
Machinery & Equipment	\$ 10,000	3-20 years
Vehicles, Passenger	\$ 10,000	3-7 years
Vehicles, Heavy Trucks	\$ 10,000	7-20 years
Construction Equipment	\$ 10,000	7-10 years
Technical Equipment	\$ 10,000	5-7 years
Software	\$ 10,000	2-5 years
Infrastructure	\$ 25,000	10-50 years

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 (CONTINUED)
June 30, 2014

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 (CONTINUED)
June 30, 2014

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, 2014, deposits in one bank account were not covered by FDIC insurance or a properly executed collateral security agreement by \$1,018.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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 2014 fiscal year was \$.183 per \$100 of assessed valuation for real estate and \$.183 for personal property.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Primary Government			
	Balance 7/1/13	Additions/ Completions	Retirements/ Adjustments	Balance 6/30/14
Governmental activities:				
Capital assets not depreciated				
Land	\$ 595,878			\$ 595,878
Capital assets depreciated				
Buildings and improvements	2,667,519			2,667,519
Improvements other than buildings	1,203,215			1,203,215
Vehicles	1,646,803	161,876	(93,302)	1,715,377
Equipment	1,927,392	294,768		2,222,160
Infrastructure	16,559,092	374,580		16,933,672
Total assets depreciated at historical cost	24,004,021	831,224	(93,302)	24,741,943
Buildings and improvements	(1,310,862)	(66,730)		(1,377,592)
Improvements other than buildings	(1,128,454)	(18,022)		(1,146,476)
Vehicles	(1,388,094)	(97,962)	93,302	(1,392,754)
Equipment	(1,064,325)	(148,594)		(1,212,919)
Infrastructure	(10,226,583)	(367,876)		(10,594,459)
Total accumulated depreciation	(15,118,318)	(699,184)	93,302	(15,724,200)
Depreciable capital assets, net	8,885,703	132,040		9,017,743
Governmental activities capital assets, net	<u>\$ 9,481,581</u>	<u>\$ 132,040</u>		<u>\$ 9,613,621</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 5 – Capital Assets (Continued)

	Primary Government			Balance 6/30/14
	Balance 7/1/13	Additions/ Completions	Retirements/ Adjustments	
Business-type activities:				
Capital assets not depreciated				
Land	\$ 1,050,015	200		\$ 1,050,215
Construction in Progress	532,750		(532,750)	-
	1,582,765	200	(532,750)	1,050,215
Capital assets depreciated				
Plant facilities	16,632,276			16,632,276
Other improvements	1,917,541	27,620		1,945,161
Vehicles	1,277,872	129,986	(171,080)	1,236,778
Equipment	4,706,307	2,045,363	(66,163)	6,685,507
Infrastructure	81,311,401	1,813,602		83,125,003
Total assets depreciable at historical cost	105,845,397	4,016,571	(237,243)	109,624,725
Plant facilities	(10,905,689)	(411,940)		(11,317,629)
Other improvements	(1,150,002)	(69,904)		(1,219,906)
Vehicles	(954,101)	(75,872)	168,788	(861,185)
Equipment	(2,354,017)	(452,550)	66,163	(2,740,404)
Infrastructure	(26,274,463)	(2,045,564)		(28,320,027)
Total accumulated depreciation:	(41,638,272)	(3,055,830)	234,951	(44,459,151)
Depreciable capital assets, net	64,207,125	960,741	(2,292)	65,165,574
Business-type activities capital assets, net	\$ 65,789,890	\$ 960,941	\$ (535,042)	\$ 66,215,789

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Streets	\$ 416,292
Protection to persons and property	183,884
General government	62,149
Recreation	34,618
Cemetery	<u>2,241</u>
Total governmental depreciation expense	<u><u>\$ 699,184</u></u>

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

Electric	\$ 373,349
Water	1,213,563
Sewer system	896,350
Cable TV	403,353
Garbage	52,004
Internet	<u>117,211</u>
Total business-type depreciation expense	<u><u>\$ 3,055,830</u></u>

Note 6 – Long-Term Liabilities

- A. Nelson County Fiscal Court agreed to pay some expenditures on behalf of the E911 Fund as a non-interest bearing loan, to be repaid to the Fiscal Court \$4,500 a month by the E911 Fund until the total is completely paid. The E911 Fund is a joint venture with the City of Bardstown and Nelson County Fiscal Court. Future principal requirements are:

	<u>Loan Payable</u> <u>Principal</u>
Governmental -Type Activities	
2015	\$ 54,000
2016	54,000
2017	54,000
2018	54,000
2019	54,000
2020	<u>9,888</u>
	<u><u>\$ 279,888</u></u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 6 – Long-Term Liabilities (Continued)

B. The City of Bardstown, Kentucky issued General Obligation Bonds, Series 2010, dated July 7, 2010 in the amount of \$14,030,000. Semiannual interest payments at a variable rate from 1.0% to 3.2% are due on December and June 1 of each year. Principal is due annually on December 1. The bonds mature in 2020. The purpose of this bond issue 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. The balance of the loan as of June 30, 2014 was \$8,000,000. Future principal and interest requirements are:

	Revenue Bonds	
	Principal	Interest
Business-Type Activities		
2015	\$ 1,060,000	\$ 200,950
2016	1,085,000	179,500
2017	1,105,000	155,390
2018	1,140,000	126,455
2019	1,165,000	93,305
2020-2021	2,445,000	77,595
Total	\$ 8,000,000	\$ 833,195

C. The City of Bardstown, Kentucky has a loan agreement with the Kentucky Infrastructure Authority for \$1,800,000. This loan is for the financing of a sewer capital project, with an interest rate of 2.0% per year. This 20 year agreement requires principal and interest payments due in June and December. The balance of the loan as of June 30, 2014 was \$1,688,431. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2015	\$ 76,251	\$ 33,389
2016	77,784	31,857
2017	79,347	30,293
2018	80,942	28,698
2019	82,569	27,071
2020-2024	438,414	109,785
2025-2029	484,284	63,917
2030-2033	368,840	14,901
Total	\$ 1,688,431	\$ 339,911

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 6 – Long-Term Liabilities (Continued)

D. The City of Bardstown, Kentucky has a loan agreement with the Kentucky Infrastructure Authority for \$3,500,000. This loan is for the financing of a water capital project, with an interest rate of 3.0% per year. This 20 year agreement requires principal and interest payments due monthly. The balance of the loan as of June 30, 2014 was \$3,337,256. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2015	\$ 134,655	\$ 98,276
2016	138,750	94,181
2017	142,971	89,960
2018	147,319	85,612
2019	151,800	81,131
2020-2024	831,131	333,524
2025-2029	965,456	199,200
2030-2033	825,174	48,317
Total	\$ 3,337,256	\$ 1,030,201

E. The City of Bardstown, Kentucky has a loan agreement with the Kentucky Infrastructure Authority for \$1,800,000. This loan is for the financing of a water capital project, with an interest rate of 3.0% per year. This 20 year agreement requires principal and interest payments due monthly. The balance of the loan as of June 30, 2014 was \$1,794,518. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2015	\$ 66,872	\$ 52,921
2016	68,906	50,887
2017	71,002	48,791
2018	73,162	46,632
2019	75,387	44,406
2020-2024	412,756	186,210
2025-2029	479,464	119,502
2030-2034	546,969	42,013
	\$ 1,794,518	\$ 591,362

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 6 – Long-Term Liabilities (Continued)

Changes during fiscal year 2014 and balances as of June 30, 2014, including the current portions, of the debt were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
GOVERNMENTAL ACTIVITIES:					
Other liabilities:					
Loan payable	\$ 202,451	\$ 126,937	\$ (49,500)	\$ 279,888	\$ 54,000
Total other liabilities	<u>202,451</u>	<u>126,937</u>	<u>(49,500)</u>	<u>279,888</u>	<u>54,000</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Loan Payables	5,231,117	1,800,000	(210,911)	6,820,206	277,778
General Obligation Bonds, Series 2010	9,045,000		(1,045,000)	8,000,000	1,060,000
	<u>14,276,117</u>	<u>1,800,000</u>	<u>(1,255,911)</u>	<u>14,820,206</u>	<u>1,337,778</u>
Less:					
Unamortized issuance costs	177,119		(22,140)	154,979	22,140
Deferred amount on refunding	355,420		(44,427)	310,993	44,427
Total bonds and notes payable	<u>13,743,578</u>	<u>1,800,000</u>	<u>(1,189,344)</u>	<u>14,354,234</u>	<u>1,271,211</u>
Business-type activities					
Long-term liabilities	<u>\$ 13,743,578</u>	<u>\$ 1,800,000</u>	<u>\$ (1,189,344)</u>	<u>\$ 14,354,234</u>	<u>\$ 1,271,211</u>

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 18.89 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 35.70 percent.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

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

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous-duty</u>
2014	\$ 767,467	\$ 593,084
2013	\$ 780,182	\$ 577,500
2012	\$ 764,331	\$ 544,514

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.

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 Member</u>	
<u>% Paid by Insurance Fund</u>	<u>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.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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

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.

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, 2014, the audits of these grants and programs were complete through 2012 and the City's compliance with applicable requirements has been established. The City's compliance with applicable requirements for 2014 will be established at a future date.

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

Note 9 – Risk Management

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

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Note 9 – Risk Management (Continued)

Coverage by KLCIS consists of \$5,000,000 in general liability insurance with \$5,000 deductible. Coverage for property risk is \$50,124,802 per occurrence with deductible of \$1,000, per occurrence on all perils. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in recent years.

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

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

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

Changes in the fund’s claims liability amounts are:

	2013	2014
Year	\$ 57,416	\$ 70,703
Current year claims	1,044,909	1,435,501
Claims paid	(1,031,622)	(1,419,324)
Balance at End of Year	\$ 70,703	\$ 86,880

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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 2014.

Organization	Contribution
Planning Commission	\$ 44,556
Nelson County Economic Development Agency	58,498
Nelson County Chamber of Commerce	6,000
Nelson County Airport	4,800
Bardstown Main Street	5,000
Bardstown Industrial Development	26,300

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

Note 11 – Joint Venture

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

Note 12 – Subsequent Events

Management has evaluated subsequent events through September 26, 2014, the date which the financial statements were available to be issued. No other subsequent events have occurred.

OTHER INFORMATION

CITY OF BARDSTOWN, KENTUCKY
BUDGETARY COMPARISON INFORMATION
OTHER INFORMATION-MODIFIED ACCRUAL BASIS
For The Fiscal Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 4,390,000	\$ 4,390,000	\$ 4,458,735	\$ 68,735
Licenses and permits	20,000	20,000	74,115	54,115
Fines and forfeitures	48,000	48,000	50,875	2,875
Intergovernmental revenues	359,500	359,500	378,316	18,816
Charges for services	154,500	154,500	271,880	117,380
Interest	5,000	5,000	6,613	1,613
Other	219,500	219,500	169,730	(49,770)
Total Revenues	<u>5,196,500</u>	<u>5,196,500</u>	<u>5,410,264</u>	<u>213,764</u>
Expenditures:				
Current:				
General government	760,900	760,900	771,094	(10,194)
Finance	762,550	762,550	813,486	(50,936)
Public safety	2,312,200	2,329,200	2,440,655	(111,455)
Fire	966,450	991,450	995,395	(3,945)
Recreation	483,450	598,450	541,994	56,456
Risk management	60,140	60,140	139,385	(79,245)
Community Center	115,500	115,500	74,964	40,536
Streets	396,400	396,400	391,215	5,185
Capital outlay	855,350	855,350	704,287	151,063
Total Expenditures	<u>6,712,940</u>	<u>6,869,940</u>	<u>6,872,475</u>	<u>(2,535)</u>
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	<u>(1,516,440)</u>	<u>(1,673,440)</u>	<u>(1,462,211)</u>	<u>211,229</u>
Other Financing Sources (Uses):				
Transfers in	2,021,950	2,178,950	2,061,099	(117,851)
Transfers out	(402,488)	(402,488)	(518,068)	(115,580)
Total Other Financing Sources (Uses)	<u>1,619,462</u>	<u>1,776,462</u>	<u>1,543,031</u>	<u>(233,431)</u>
Net Change in Fund Balance	103,022	103,022	80,820	(22,202)
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>1,073,389</u>	<u>1,073,389</u>
Fund Balances, End of Year	<u>\$ 103,022</u>	<u>\$ 103,022</u>	<u>\$ 1,154,209</u>	<u>\$ 1,051,187</u>

Expenditures in the General Fund exceeded budgeted amounts by \$2,535.
This was funded by Transfers In from the Land Acquisition Fund.

CITY OF BARDSTOWN, KENTUCKY
BUDGETARY COMPARISON INFORMATION
OTHER INFORMATION-MODIFIED ACCRUAL BASIS (CONTINUED)
For The Fiscal Year Ended June 30, 2014

	E 911 FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues	\$298,104	\$ 298,104	\$298,104	\$ -
Charges for services	384,924	384,924	358,617	(26,307)
Interest	0	0	9	9
Other	240	240	176	(64)
Total Revenues	<u>683,268</u>	<u>683,268</u>	<u>656,906</u>	<u>(26,362)</u>
Expenditures:				
Current:				
Public safety	827,976	827,976	841,622	(13,646)
Capital outlay	0	0	126,937	(126,937)
Debt Payments	54,000	54,000	49,500	4,500
	<u>881,976</u>	<u>881,976</u>	<u>1,018,059</u>	<u>(136,083)</u>
Excess (Deficiency) of Revenues Over Expenditures				
Before Other Financing Sources (Uses)	<u>(198,708)</u>	<u>(198,708)</u>	<u>(361,153)</u>	<u>(162,445)</u>
Other Financing Sources (Uses):				
Proceeds from loan	0	0	126,937	126,937
Transfers in	198,708	198,708	198,708	0
Total Other Financing Sources (Uses)	<u>198,708</u>	<u>198,708</u>	<u>325,645</u>	<u>126,937</u>
Net Change in Fund Balance	0	0	(35,508)	(35,508)
Fund Balances, Beginning of Year	<u>110,000</u>	<u>110,000</u>	<u>99,371</u>	<u>(10,629)</u>
Fund Balances, End of Year	<u><u>110,000</u></u>	<u><u>110,000</u></u>	<u><u>\$ 63,863</u></u>	<u><u>\$ (46,137)</u></u>

Expenditures in the E-911 Fund exceeded budgeted amounts by \$136,083.
This was funded mostly by a loan from Nelson County Fiscal Court.

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	Municipal Road Aid	Land Acquisition and Building	Law Enforcement	Cemetery	Total Other Governmental Funds
Assets					
Cash and cash equivalents	\$ 468	\$ 34,774	\$ 5,364	\$ 1,820	\$ 42,426
Investments	0	360,726	40,004	228,108	628,838
Restricted Cash	0	0	0	12,056	12,056
Restricted Investments	0	100,022	0	134,936	234,958
Accrued receivables	24,304	0	0	0	24,304
Total Assets	24,772	495,522	45,368	376,920	942,582
Liabilities					
Accounts payable	0	0	0	2,531	2,531
Total Liabilities	0	0	0	2,531	2,531
Fund Balances					
Nonspendable	24,304	0	0	0	24,304
Restricted					
Roads	468	0	0	0	468
Cemetery	0	0	0	146,992	146,992
Assigned					
Land Acquisition and Industrial Dev.	0	495,522	0	0	495,522
Public safety	0	0	45,368	0	45,368
Cemetery	0	0	0	227,397	227,397
Total Fund Balances	24,772	495,522	45,368	374,389	940,051
Total Liabilities and Fund Balances	\$ 24,772	\$ 495,522	\$ 45,368	\$ 376,920	\$ 942,582

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
For The Fiscal Year Ended June 30, 2014

	Municipal Road Aid	Land Acquisition and Building	Law Enforcement	Cemetery	Total Nonmajor Funds
Revenues					
Intergovernmental	\$ 288,886	\$ 0	\$ 0	\$ 0	\$ 288,886
Charges for services	0	0	0	46,550	46,550
Interest	269	1,422	116	336	2,143
Other	0	0	4,760	3,946	8,706
Total Revenues	289,155	1,422	4,876	50,832	346,285
Expenditures					
Current:					
General government	0	17,380	0	0	17,380
Public safety	0	0	24,444	0	24,444
Cemetery	0	0	0	54,329	54,329
Total Expenditures	0	17,380	24,444	54,329	96,153
Excess (Deficiency) of Revenues Over Expenditures	289,155	(15,958)	(19,568)	(3,497)	250,132
Other Financing Uses:					
Transfers out	(367,628)	0	0	(12,093)	(379,721)
Total Other Financing Uses	(367,628)	0	0	(12,093)	(379,721)
Net Change in Fund Balances	(78,473)	(15,958)	(19,568)	(15,590)	(129,589)
Fund Balances, Beginning of Year	103,245	511,480	64,936	389,979	1,069,640
Fund Balances, End of Year	\$ 24,772	\$ 495,522	\$ 45,368	\$ 374,389	\$ 940,051

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET –
NON-MAJOR PROPRIETARY FUNDS
June 30, 2014

	Depreciation Reserve	Operating and Maintenance Reserve	Water and Wastewater Enhancement Fund	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Assets					
Noncurrent Assets:					
Restricted Assets:					
Cash	0	0	57,249	35,000	92,249
Investments	528,415	2,603,678	370,140	376,571	3,878,804
Total Noncurrent Assets	528,415	2,603,678	427,389	411,571	3,971,053
Total Assets	528,415	2,603,678	427,389	411,571	3,971,053
Net Position					
Restricted for:					
Bond reserves	138,415	2,603,678	0	0	2,742,093
System capacity reserve	0	0	427,389	0	427,389
Other purposes	390,000	0	0	411,571	801,571
Total Net Position	528,415	2,603,678	427,389	411,571	3,971,053
Total Liabilities and Net Position	\$ 528,415	\$ 2,603,678	\$ 427,389	\$ 411,571	\$ 3,971,053

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – NON-MAJOR PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2014

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Operating Revenues:						
System development charges	0	0	0	134,230	0	134,230
Total Operating Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>134,230</u>	<u>0</u>	<u>134,230</u>
Operating Expenses:						
Contractual services	185	0	0	0	135	320
Total Operating Expenses	<u>185</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>135</u>	<u>320</u>
Income (Loss) from Operations	(185)	0	0	134,230	(135)	133,910
Nonoperating Revenues (Expenses):						
Investment earnings	0	1,219	0	487	0	1,706
Total Nonoperating Revenues (Expenses)	<u>0</u>	<u>1,219</u>	<u>0</u>	<u>487</u>	<u>0</u>	<u>1,706</u>
Income (Loss) Before Contributions and Transfers	(185)	1,219	0	134,717	(135)	135,616
Transfers in	13,250	0	0	0	35,000	48,250
Transfers out	0	0	(3,035,798)	0	0	(3,035,798)
Change in Net Position	<u>13,065</u>	<u>1,219</u>	<u>(3,035,798)</u>	<u>134,717</u>	<u>34,865</u>	<u>(2,851,932)</u>
Net Position, Beginning of Year	<u>515,350</u>	<u>2,602,459</u>	<u>3,035,798</u>	<u>292,672</u>	<u>376,706</u>	<u>6,822,985</u>
Net Position, End of Year	<u>\$ 528,415</u>	<u>\$ 2,603,678</u>	<u>\$ 0</u>	<u>\$ 427,389</u>	<u>\$ 411,571</u>	<u>\$ 3,971,053</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – COMBINED UTILITIES OPERATING DEPARTMENTS
For The Fiscal Year Ended June 30, 2014

	<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	\$16,120,315	\$ 4,454,969	\$ 4,031,364	\$ 5,747,323	\$ 1,496,114	\$ 2,407,370	\$ 34,257,455
Utility surcharge	1,744	0	0	0	0	47,526	49,270
Connection fees	0	62,508	17,895	64,952	0	0	145,355
Contract services	248,972	5,583	26,879	129,748	0	0	411,182
Intergovernmental revenues	0	0	0	0	63,200	0	63,200
Penalties	100,514	100,202	38,153	105,752	15,722	0	360,343
Miscellaneous	51,815	96,634	3,429	6,327	5,409	0	163,614
Total Operating Revenues	16,523,360	4,719,896	4,117,720	6,054,102	1,580,445	2,454,896	35,450,419
Operating Expenses:							
Purchases for resale	13,153,057	0	0	4,139,233	0	0	17,292,290
Personal services	692,945	1,619,141	629,762	786,715	644,908	219,902	4,593,373
Contractual services	149,726	167,290	133,767	334,554	374,782	117,126	1,277,245
Materials and supplies	67,980	640,853	309,801	640,188	97,035	180,314	1,936,171
Maintenance and repairs	112,926	242,171	234,972	184,585	42,938	70,109	887,701
Other expenses	180,143	583,789	867,015	403,424	44,236	300,677	2,379,284
Depreciation	373,349	1,213,488	898,716	403,352	52,004	117,211	3,058,120
Total Operating Expenses	14,730,126	4,466,732	3,074,033	6,892,051	1,255,903	1,005,339	31,424,184
Income From Operations	\$ 1,793,234	\$ 253,164	\$ 1,043,687	\$ (837,949)	\$ 324,542	\$ 1,449,557	\$ 4,026,235

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – COMBINED UTILITIES OPERATING DEPARTMENTS (CONTINUED)
For The Fiscal Year Ended June 30, 2014

	<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 (Expenses):							
Interest and investment revenue	\$ 12,866	\$ 0	\$ 320	\$ 0	\$ 0	\$ 0	\$ 13,186
Lease revenue	0	9,300	0	0	0	0	9,300
Interest expense	0	(103,585)	(55,407)	0	0	0	(158,992)
Total Nonoperating Revenue (Expense):	<u>12,866</u>	<u>(94,285)</u>	<u>(55,087)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(136,506)</u>
Income Before Contributions and Transfers	1,806,100	158,879	988,600	(837,949)	324,542	1,449,557	3,889,729
Capital contributions	0	16,785	64,580	0	0	0	81,365
Transfers in	3,035,798	31,186	0	920,000	0	0	3,986,984
Transfers out	<u>(685,077)</u>	<u>(596,529)</u>	<u>(1,011,613)</u>	<u>(291,792)</u>	<u>(51,834)</u>	<u>(1,028,875)</u>	<u>(3,665,720)</u>
Change in Net Position	<u>\$ 4,156,821</u>	<u>\$ (389,679)</u>	<u>\$ 41,567</u>	<u>\$ (209,741)</u>	<u>\$ 272,708</u>	<u>\$ 420,682</u>	4,292,358
Net Position, Beginning of Year							<u>66,044,378</u>
Net Position, End of Year							<u>\$ 70,336,736</u>

**INDEPENDENT AUDITORS' 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**



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**Independent Auditors' 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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bardstown, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Bardstown, Kentucky's basic financial statements, and have issued our report thereon dated September 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Bardstown, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Bardstown, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Bardstown, Kentucky's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Bardstown, Kentucky's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Perry and Gray, PSC

September 26, 2014