

CITY OF BARDSTOWN, KENTUCKY

Audited Financial Statements

For the Year Ended June 30, 2016



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, 2016, 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 and the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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
November 22, 2016

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, 2016, 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 51 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. In our opinion, 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 November 22, 2016, on our consideration of the City of Bardstown, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an

To the City Council
City of Bardstown, Kentucky
November 22, 2016

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

November 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS



OLD KENTUCKY HOME
DOORWAY

City of Bardstowon

JOHN ROYALTY, MAYOR
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ART TREASURES IN
ST. JOSEPH CATHEDRAL

Management's Discussion and Analysis Annual Financial Statements For the Fiscal Year Ended June 30, 2016

The Management Discussion and Analysis of the financial performance of the City of Bardstowon provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please review the MD&A in conjunction with the auditors' transmittal letter and the City of Bardstowon Audited Financial Statements. Should anyone have questions or desire additional information, please contact Tracy Hudson at thudson@bardstowncable.net.

Financial Highlights

- As of June 30, 2016, the City's Net Position (assets minus liabilities) totaled \$69,733,000.
- This is the second year of the required implementation of GASB 68, Accounting and Financial Reporting for Pensions. There were significant changes to the financial statements due to the implementation of GASB 68. Due to the recording of the Net Pension Liability of \$12,674,295, Deferred Inflows of \$1,183,927, Deferred Outflows of \$1,306,754 and the additional accrued pension expense of \$1,300,908 in the Governmental Activities and \$1,133,414 in the Business-Type Activities, there is now a negative balance in the Unrestricted Net Position in the Governmental Activities of (\$6,590,000).
- The Net Pension Liability of \$12,674,295, due to the implementation of GASB 68, is the City's proportionate share of the net pension liability with the Kentucky Retirement Systems. See Note 7 of the financial statements for more information.
- Net Position includes Capital Assets, net of related debt, of \$65,185,000, \$4,705,000 in restricted resources (restricted to specific projects by law, regulation, or contractual agreement), and unrestricted resources of (\$157,000), of which \$6,433,000 is in the Utility Fund and the Governmental Funds now have a (\$6,590,000) due to the implementation of GASB 68.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2016
November 22, 2016

- City Liabilities on June 30, 2016 totaled \$30,491,000, of which \$24,305,000 is long term and \$6,186,000 is current, including FY 16 bond and KIA loan payments, accounts payable, internal balances, deferred revenue, net pension liability and other liabilities.
- The City paid \$1,085,000 toward its bonded debt in FY 16 as scheduled, leaving a year-end balance of \$5,855,000. 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 five more years.
- The City also paid \$285,440 on the 3 KIA loans it had received for major water and sewer projects, leaving a year-end balance of approximately \$6,257,000 on these 20 year loans.
- The Unrestricted Net Position is (\$6,590,000) in the Governmental Activities and \$6,433,000 in the Business-type Activities, which do have major capital projects to undertake in the near future. This decreased significantly due to the implementation of GASB 68.
- Property tax revenue and Occupational License Fee collections increased from last year's level.
- The City's Indirect Cost Allocation Plan was unchanged in FY 2016. 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 14	FY 15	FY 16
Capital Assets			
Governmental Activities	\$ 9,613,000	\$ 9,849,000	\$ 10,266,000
Business-type Activities	66,216,000	66,393,000	66,698,000
Total Capital Assets	<u>75,829,000</u>	<u>76,242,000</u>	<u>76,964,000</u>
Current & Other Assets			
Governmental Activities	2,829,000	3,698,000	3,425,000
Business-type Activities	18,061,000	19,512,000	19,835,000
Total Current & Other Assets	<u>20,890,000</u>	<u>23,210,000</u>	<u>23,260,000</u>
Total Assets			
Governmental Activities	12,442,000	13,547,000	13,691,000
Business-type Activities	84,277,000	85,905,000	86,533,000
Total Assets	<u>\$ 96,719,000</u>	<u>\$ 99,452,000</u>	<u>\$ 100,224,000</u>

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2016
November 22, 2016

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

Liabilities	FY 14	FY 15	FY 16
Current & Other Liabilities			
Governmental Activities	\$ 651,000	\$ 953,000	\$ 1,491,000
Business-type Activities	4,277,000	4,305,000	4,695,000
Total Current & Other Liabilities	4,928,000	5,258,000	6,186,000
Long-term Liabilities			
Governmental Activities	226,000	6,446,000	8,164,000
Business-type Activities	13,083,000	16,332,000	16,141,000
Total Long-term Liabilities	13,309,000	22,778,000	24,305,000
Total Liabilities			
Governmental Activities	877,000	7,399,000	9,655,000
Business-type Activities	17,360,000	20,637,000	20,836,000
Total Liabilities	18,237,000	28,036,000	30,491,000
Net Position			
Governmental Activities	11,566,000	6,148,000	4,036,000
Business-type Activities	66,782,000	65,269,000	65,697,000
Total Net Position	78,348,000	71,417,000	69,733,000
Net Position, Details			
Invested in Capital Assets			
Governmental Activities	9,334,000	9,583,000	10,266,000
Business-type Activities	51,861,000	53,310,000	54,919,000
Total Capital Assets (net of debt)	61,195,000	62,893,000	65,185,000
Restricted Net Assets			
Governmental Activities	772,000	668,000	360,000
Business-type Activities	3,980,000	4,199,000	4,345,000
Total Restricted Net Assets	4,752,000	4,867,000	4,705,000
Unrestricted Net Assets			
Governmental Activities	1,460,000	(4,102,000)	(6,590,000)
Business-type Activities	10,941,000	7,759,000	6,433,000
Total Unrestricted Net Assets	\$ 12,401,000	\$ 3,657,000	\$ (157,000)

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, 2016
 November 22, 2016

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

	2014	2015	2016
Net Income	\$4,265,645	\$4,560,304	\$2,887,788
Less Contributed Capital Assets	(81,365)	(386,940)	(277,685)
Add Back:			
Depreciation	3,058,120	3,164,665	3,371,469
Interest Expense	443,641	465,522	435,848
Transfers Out	1,403,203	1,654,627	2,023,860
Total Revenues Available for Debt Service	<u>\$ 9,089,244</u>	<u>\$ 9,458,178</u>	<u>\$ 8,441,280</u>
Annual Parity Debt Service in years presented	\$1,723,314	\$1,803,300	\$1,722,754
Coverage	5.27	5.24	4.90

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, \$1,164,194, includes an Unassigned Balance of \$139,373, a decrease of \$837,161 over the 6-30-15 figure. The remainder of the Fund Balance is restricted, assigned, or nonspendable.
- The affects of GASB 68 are not recorded on these financial statements.
- The Statement of Revenues and Expenditures shows that the General Fund expenditures exceeded revenues by \$3.01 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 and Comparison Schedule - Major Funds reports on the City's compliance with budget adoption and execution requirements. The City did not operate within its adopted budget,

and spent \$233,805 more than budgeted in the General Fund. This was funded by the prior year fund balance and the transfers from the Combined Utility Fund.

Management concludes its comments on the Major Governmental Fund Statements by noting that actions taken in the past few years significantly addressed the General Fund's structural deficit. That decision to change the Net Profit & Occupational License Fee Ordinance effective 1-1-2017 will have the most impact on the structural deficit and will provide with the increasing funding of police, fire, and streets.

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, \$6,433,000 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 \$2,482,974, a \$1,483,763 decrease from the prior year.

The Statement of Cash Flows – Proprietary Funds reports Cash and Cash Equivalents of \$10,686,531 as of June 30, an increase as payments on the refunded bond issue decreased from 2015 to 2016 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-Net" 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.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2016
November 22, 2016

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

	FY 14			FY 15			FY 16		
	Expenses	Total P. Rev	Net Exp.	Expenses	Total P. Rev	Net Exp.	Expenses	Total P. Rev	Net Exp.
General Government	\$ 835,771	\$ 18,401	\$ 817,370	\$ 1,311,602	\$ 35,777	\$ 1,275,825	\$ 1,098,246	\$ 111,641	\$ 986,605
Finance	826,958	89,362	737,596	870,963	89,231	781,732	932,744	88,919	843,825
Public Safety	3,460,742	787,446	2,673,296	3,758,968	796,581	2,962,387	4,848,149	443,543	4,404,606
Fire	1,022,373	139,641	882,732	995,637	137,740	857,897	1,814,691	66,275	1,748,416
Recreation	575,859	218,403	357,456	578,776	201,591	377,185	660,312	112,214	548,098
Risk Management	139,260	-	139,260	63,676	-	63,676	91,379	3,674	87,705
Prevention Center	74,713	40,500	34,213	-	19,500	(19,500)			
Streets	806,629	302,050	504,579	800,279	427,774	372,505	828,292	270,035	558,257
Cemetery	56,570	46,550	10,020	71,226	39,175	32,051	65,350	60,100	5,250
	\$ 7,798,875	\$ 1,642,353	\$ 6,156,522	\$ 8,451,127	\$ 1,747,369	\$ 6,703,758	\$ 10,339,163	\$ 1,156,401	\$ 9,182,762

Governmental Activities, General Revenues

Property Taxes	2,191,997	2,099,167	2,243,719
Restaurant Tax	444,347	517,685	517,019
Business License Fees	1,947,381	1,975,817	2,096,756
Interest & Invest. Earnings	8,765	3,279	1,563
Misc.	178,612	552,006	187,839
Total Gen. Revenues	4,771,102	5,147,954	5,046,896
Transfers-Net	1,362,018	1,654,627	2,023,860
Change in Net Position	(23,402)	98,823	(2,112,006)
Net Position, Beginning of Year	11,589,616	11,566,214	6,147,969
Net Position-Restated		(5,517,068)	
Net Position, End of Year	\$ 11,566,214	\$ 6,147,969	\$ 4,035,963

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2016
November 22, 2016

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

Activity	FY 14			FY 15			FY 16		
	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue
Electric	\$ 16,523,360	\$ 14,730,126	\$ 1,793,234	\$ 15,459,980	\$ 14,051,450	\$ 1,408,530	\$ 15,502,296	\$ 14,003,481	\$ 1,498,815
Water	4,719,896	4,466,732	253,164	4,664,749	4,643,029	21,720	4,678,438	5,094,070	(415,632)
Sewer	4,117,720	3,074,418	1,043,302	4,348,268	2,970,251	1,378,017	4,127,034	3,292,085	834,949
Cable TV	6,054,102	6,892,051	(837,949)	6,899,173	7,501,626	(602,453)	6,992,305	8,270,602	(1,278,297)
Internet	2,454,896	1,005,339	1,449,557	2,864,601	1,277,255	1,587,346	3,229,967	1,220,244	2,009,723
Garbage	1,580,445	1,255,903	324,542	1,516,703	1,343,125	173,578	1,560,331	1,726,914	(166,583)
Interest Exp		443,641	(443,641)		465,522	(465,522)		435,848	(435,848)
Totals	\$35,450,419	\$31,868,210	\$ 3,582,209	\$35,753,474	\$32,252,258	\$ 3,501,216	\$36,090,371	\$34,043,244	\$ 2,047,127

General Revenues, Business-type Activities

Interest & Invest. Earnings	14,900	16,527	8,534
Grants & Contributions	81,365	386,940	277,685
System Development Charges	134,230	180,800	108,070
Other	9,300	9,300	10,524
Less Net Transfers	(1,403,203)	(1,654,627)	(2,023,860)
Change in Net Position	2,418,801	2,440,156	428,080
Net Position, Beginning	64,363,120	66,781,921	65,268,611
Net Position-Restated		(3,953,466)	
Net Position, Ending	\$66,781,921	\$65,268,611	\$65,696,691

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 slightly. Cable costs increased primarily due to the programming fees charged by the providers of cable content. The increase is beyond the city's control and must be passed on to the consumers if the City is to operate the cable service in the black and fund improvements. Cable and internet costs are difficult to allocate separately and should be considered together when analyzing their activity.

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 should receive additional funds from the new Occupational Tax rate effective on 1/1/17. While they will only receive the increase for one quarter in fiscal year 2017, the following year should show an increase of approximately \$2.2 million.

The Joint City-County Emergency 911 Dispatch took over preparing their own payroll and accounting reporting on January 1, 2016. The City formerly provided this service for them. The operation is funded by the E-911 fees, with any shortfall to be paid 60% by the County and 40% by the City. The City signed a new 911 agreement, which took effect on 9/30/16. Under the terms of this agreement, the City will now pay the lesser amount of \$130,000 or 40% for the year.

The major issue facing the City is the potential payment of the Net Pension Liability amount of \$12,674,295. It is unclear at this time if payment of all or even some of this liability will be required.

BASIC FINANCIAL STATEMENTS

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,466,720	\$ 10,686,531	\$ 12,153,251
Investments	575,219	0	575,219
Receivables, net	178,037	2,280,540	2,458,577
Inventory	20,766	1,957,137	1,977,903
Prepaid items	0	20,439	20,439
Total Current Assets	<u>2,240,742</u>	<u>14,944,647</u>	<u>17,185,389</u>
Noncurrent Assets:			
Restricted cash and investments	158,392	4,345,672	4,504,064
Land held for resale	264,101	0	264,101
Capital assets, net (Note 5)	<u>10,266,446</u>	<u>66,697,282</u>	<u>76,963,728</u>
Total Noncurrent Assets	<u>10,688,939</u>	<u>71,042,954</u>	<u>81,731,893</u>
Deferred Outflows of Resources			
Deferred Outflows	<u>761,173</u>	<u>545,581</u>	<u>1,306,754</u>
Total Assets	<u>13,690,854</u>	<u>86,533,182</u>	<u>100,224,036</u>

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET POSITION (CONTINUED)
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities:			
Accounts payable	\$ 1,221,842	\$ 2,578,619	\$ 3,800,461
Accrued taxes	12,223	20,456	32,679
Other liabilities	256,704	764,166	1,020,870
Loans payable	0	293,320	293,320
Bonds payable	0	1,038,433	1,038,433
Total Current Liabilities	1,490,769	4,694,994	6,185,763
Noncurrent liabilities:			
Loans payable (Note 6)	0	5,963,668	5,963,668
Bonds payable (Note 6)	0	4,483,729	4,483,729
Net Pension Liability (Note 7)	7,270,165	5,404,130	12,674,295
Total Noncurrent Liabilities	7,270,165	15,851,527	23,121,692
Total Liabilities	\$ 8,760,934	\$ 20,546,521	\$ 29,307,455
Deferred Inflows of Resources			
Deferred revenue	893,957	289,970	1,183,927
Total Deferred Inflows of Resources	893,957	289,970	1,183,927
Net Position			
Net investment in capital assets	\$ 10,266,446	\$ 54,918,132	\$ 65,184,578
Restricted for:			
Infrastructure	0	717,314	717,314
Inventory and receivables	187,947	0	187,947
Debt service	0	2,715,173	2,715,173
Special projects	171,996	913,185	1,085,181
Unrestricted	(6,590,426)	6,432,887	(157,539)
Total Net Position	\$ 4,035,963	\$ 65,696,691	\$ 69,732,654

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
June 30, 2016

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	\$ (1,098,246)	\$ 0	\$ 111,641	\$ 0	\$ (986,605)	\$ 0	\$ (986,605)
Finance	(932,744)	88,919	0	0	(843,825)	0	(843,825)
Public safety	(4,848,149)	182,095	261,448	0	(4,404,606)	0	(4,404,606)
Fire	(1,814,691)	8,603	57,672	0	(1,748,416)	0	(1,748,416)
Recreation	(660,312)	110,418	1,796	0	(548,098)	0	(548,098)
Risk management	(91,379)	0	3,674	0	(87,705)	0	(87,705)
Streets	(828,292)	21,038	248,997	0	(558,257)	0	(558,257)
Cemetery	(65,350)	60,100	0	0	(5,250)	0	(5,250)
Total Governmental Activities	(10,339,163)	471,173	685,228	0	(9,182,762)	0	(9,182,762)
Business-Type Activities:							
Electric	(14,003,481)	15,502,296	0	0	0	1,498,815	1,498,815
Water	(5,094,070)	4,678,438	0	8,000	0	(407,632)	(407,632)
Sewer system	(3,292,085)	4,127,034	0	269,685	0	1,104,634	1,104,634
Cable TV	(8,270,602)	6,992,305	0	0	0	(1,278,297)	(1,278,297)
Garbage	(1,726,914)	1,560,331	0	0	0	(166,583)	(166,583)
Internet	(1,220,244)	3,229,967	0	0	0	2,009,723	2,009,723
Interest expense	(435,848)	0	0	0	0	(435,848)	(435,848)
Total Business-Type Activities	(34,043,244)	36,090,371	0	277,685	0	2,324,812	2,324,812
Total Government	\$ (44,382,407)	\$ 36,561,544	\$ 685,228	\$ 277,685	\$ (9,182,762)	\$ 2,324,812	\$ (6,857,950)

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)
June 30, 2016

	Net (Expenses) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
General Revenues:			
Taxes:			
Property taxes	\$ 2,243,719	\$ 0	\$ 2,243,719
Business and occupational licenses	2,096,756	0	2,096,756
Restaurant tax	517,019	0	517,019
Interest and investment earnings	1,563	8,534	10,097
System Development Charges	0	108,070	108,070
Other	187,839	10,524	198,363
Transfers	2,023,860	(2,023,860)	0
	<u>7,070,756</u>	<u>(1,896,732)</u>	<u>5,174,024</u>
Change in Net Position	(2,112,006)	428,080	(1,683,926)
Net Position - Beginning	<u>6,147,969</u>	<u>65,268,611</u>	<u>71,416,580</u>
Net Position - Ending	<u>\$ 4,035,963</u>	<u>\$ 65,696,691</u>	<u>\$ 69,732,654</u>

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2016

	General	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,320,508	\$ 113,261	\$ 1,433,769
Investments	0	575,219	575,219
Restricted cash	0	9,116	9,116
Restricted investments	0	149,276	149,276
Accounts receivable	138,306	28,875	167,181
Inventory	20,766	0	20,766
Land held for resale	264,101	0	264,101
Total Assets	1,743,681	875,747	2,619,428
Liabilities			
Accounts payable	1,176,309	9,998	1,186,307
Accrued payroll	256,704	0	256,704
Payroll taxes payable	12,223	0	12,223
Total Liabilities	1,445,236	9,998	1,455,234
Fund Balances			
Nonspendable	159,072	28,875	187,947
Restricted			
Roads	0	5,332	5,332
Cemetery	0	158,392	158,392
Assigned			
Land Acquisition and Industrial Dev	0	485,523	485,523
Public safety	0	1,958	1,958
Cemetery	0	185,669	185,669
Unassigned	139,373	0	139,373
Total Fund Balances	298,445	865,749	1,164,194
Total Liabilities and Fund Balances	\$ 1,743,681	\$ 875,747	\$ 2,619,428

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2016

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the statement of net assets are different because :	
Total Fund Balances - Total Governmental Funds	\$ 1,164,194
Allocation of internal service fund balances	8,272
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	10,266,446
Amounts related to the retirement plan for the entity, which are not expected to be liquidated using Currently available Expendable resources:	
Deferred Outflows	761,173
Net Pension Liability	(7,270,165)
Deferred Inflows	<u>(893,957)</u>
Net Position of Governmental Activities	<u><u>\$ 4,035,963</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, 2016

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 4,784,906	\$ 0	\$ 4,784,906
Business licenses	32,458	0	32,458
Fines and forfeitures	40,130	0	40,130
Intergovernmental	302,396	382,832	685,228
Charges for services	235,958	235,215	471,173
Interest	493	1,070	1,563
Other	163,002	24,837	187,839
Total Revenues	5,559,343	643,954	6,203,297
Expenditures			
Current:			
General government	927,981	0	927,981
Finance	865,039	0	865,039
Public safety	2,767,550	432,606	3,200,156
Fire	1,442,048	0	1,442,048
Recreation	546,413	0	546,413
Risk management	88,058	0	88,058
Streets	325,118	0	325,118
Cemetery	0	56,394	56,394
Capital outlay	1,613,111	0	1,613,111
Total Expenditures	8,575,318	489,000	9,064,318
Excess (Deficiency) of Revenues			
Expenditures Before Other			
Sources (Uses)	(3,015,975)	154,954	(2,861,021)
Other Financing Sources (Uses):			
Transfers in	2,496,029	109,302	2,605,331
Transfers out	(334,037)	(247,434)	(581,471)
Total Other Financing Sources (Uses)	2,161,992	(138,132)	2,023,860
Net Change in Fund Balance	(853,983)	16,822	(837,161)
Fund Balances, Beginning of Year	1,152,428	848,927	2,001,355
Fund Balances, End of Year	\$ 298,445	\$ 865,749	\$ 1,164,194

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, 2016

	Total Governmental Funds
Net Change in Fund Balances-Total Governmental Funds	\$ (837,161)
Amounts reported for governmental activities in the statement of activities are different because :	
Depreciation expense reported in statement of activities	(764,102)
Capital outlay reported in governmental expenditures	1,613,111
Book Value of Disposed Assets	(431,631)
Change in net position - self insurance fund	(29,268)
Amounts related to the retirement plan for the entity, which are not expected to be liquidated using Currently available Expendable resources:	
Net change in pension activity on retirement plans for entity	(1,662,955)
Change in Net Position of Governmental Activities	\$ (2,112,006)

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET POSITION-PROPRIETARY FUNDS
Fiscal Year Ended June 30, 2016

	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	\$ 10,686,531	\$ 0	\$ 0	\$ 10,686,531	\$ 32,951
Receivables (net of allowance for doubtful accounts, \$129,171)	2,280,540	0	0	2,280,540	10,856
Prepaid expenses	20,439	0	0	20,439	0
Inventory-parts and supplies	1,957,137	0	0	1,957,137	0
Total Current Assets	<u>14,944,647</u>	<u>0</u>	<u>0</u>	<u>14,944,647</u>	<u>43,807</u>
Noncurrent Assets:					
Restricted Assets:					
Cash	0	8,702	194,511	203,213	0
Investments	0	0	4,142,459	4,142,459	0
Total Restricted Assets	<u>0</u>	<u>8,702</u>	<u>4,336,970</u>	<u>4,345,672</u>	<u>0</u>
Capital Assets:					
Land	1,059,777	0	0	1,059,777	0
Construction in Progress	494,654	0	0	494,654	0
Distribution systems	87,076,051	0	0	87,076,051	0
Plant and buildings	18,709,464	0	0	18,709,464	0
Vehicles and Equipment	10,208,564	0	0	10,208,564	0
Less accumulated depreciation	(50,851,228)	0	0	(50,851,228)	0
Capital Assets, Net of Accumulated Depreciation	<u>66,697,282</u>	<u>0</u>	<u>0</u>	<u>66,697,282</u>	<u>0</u>
Total Noncurrent Assets	<u>66,697,282</u>	<u>8,702</u>	<u>4,336,970</u>	<u>71,042,954</u>	<u>0</u>
Deferred Outflows of Resources					
Deferred Outflows	545,581	0	0	545,581	0
Total Assets	<u>\$ 82,187,510</u>	<u>\$ 8,702</u>	<u>\$ 4,336,970</u>	<u>\$ 86,533,182</u>	<u>\$ 43,807</u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
June 30, 2016

	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	\$ 2,578,619	\$ 0	\$ 0	\$ 2,578,619	\$ 35,535
Accrued payroll taxes	20,456	0	0	20,456	0
Customer deposits	367,764	0	0	367,764	0
Accrued payroll	396,402	0	0	396,402	0
Bonds, notes, and loans payable	293,320	1,038,433	0	1,331,753	0
Total Current Liabilities	3,656,561	1,038,433	0	4,694,994	35,535
Noncurrent Liabilities:					
Bonds, notes, and loans payable	5,963,668	4,750,000	0	10,713,668	0
Unamortized issuance costs	0	(88,559)	0	(88,559)	0
Unamortized deferred refunding costs	0	(177,712)	0	(177,712)	0
Net Pension Liability	5,404,130	0	0	5,404,130	0
Total Noncurrent Liabilities	11,367,798	4,483,729	0	15,851,527	0
Total Liabilities	15,024,359	5,522,162	0	20,546,521	35,535
Deferred Inflows of Resources					
Deferred revenues	289,970	0	0	289,970	0
Total Deferred Inflows of Resources	289,970	0	0	289,970	0
Net Position					
Net investment in capital assets	60,440,294	(5,522,162)	0	54,918,132	0
Restricted for:					
Debt service	0	8,702	2,706,471	2,715,173	0
System capacity reserve	0	0	717,314	717,314	0
Other purposes	0	0	913,185	913,185	8,272
Unrestricted	6,432,887	0	0	6,432,887	0
Total Net Position	66,873,181	(5,513,460)	4,336,970	65,696,691	8,272
Total Liabilities and Net Position	\$ 82,187,510	\$ 8,702	\$ 4,336,970	\$ 86,533,182	\$ 43,807

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, 2016

	Business-Type Activities				Governmental Activities
	Enterprise Funds				Internal Service Fund
	Utility Operating Fund	Debt Service Reserve	Total Non-Major Enterprise Funds	Total Enterprise Funds	Self- Insurance Fund
Operating Revenues:					
Charges for services	\$ 34,658,612	\$ 0	\$ 0	\$ 34,658,612	\$ 1,403,831
Utility surcharge	73,375	0	0	73,375	0
Connection fees	158,751	0	0	158,751	0
Intergovernmental	351,391	0	0	351,391	0
System development charges	0	0	108,070	108,070	0
Contract services	264,590	0	0	264,590	0
Penalties	404,522	0	0	404,522	0
Miscellaneous	179,129	0	0	179,129	0
Total Operating Revenues	36,090,370	0	108,070	36,198,440	1,403,831
Operating Expenses:					
Purchases for resale	16,948,506	0	0	16,948,506	0
Personal services	6,311,863	0	0	6,311,863	0
Contractual services	1,245,079	0	0	1,245,079	0
Materials and supplies	2,216,411	0	0	2,216,411	0
Maintenance and repairs	1,080,541	0	0	1,080,541	0
Other expenses	2,433,527	0	0	2,433,527	1,433,228
Depreciation	3,371,469	0	0	3,371,469	0
Total Operating Expenses	33,607,396	0	0	33,607,396	1,433,228
Income (Loss) from Operations	2,482,974	0	108,070	2,591,044	(29,397)
Nonoperating Revenues (Expenses):					
Investment earnings	4,867	81	3,586	8,534	129
Lease revenue	10,525	0	0	10,525	0
Interest expense	(189,781)	(246,067)	0	(435,848)	0
Total Nonoperating Revenues (Expenses)	(174,389)	(245,986)	3,586	(416,789)	129
Income (Loss) Before Contributions and Transfers	2,308,585	(245,986)	111,656	2,174,255	(29,268)
Capital contributions	277,685	0	0	277,685	0
Transfers in	1,313,643	1,264,500	35,000	2,613,143	0
Transfers out	(4,637,003)	0	0	(4,637,003)	0
Change in Net Position	(737,090)	1,018,514	146,656	428,080	(29,268)
Net Position, Beginning of Year	67,610,271	(6,531,974)	4,190,314	65,268,611	37,540
Net Position, End of Year	\$ 66,873,181	\$ (5,513,460)	\$ 4,336,970	\$ 65,696,691	\$ 8,272

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, 2016

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 34,474,570	\$ 1,393,157
Cash received from grants	351,391	0
Cash payments to suppliers for good and services	(24,026,335)	(1,480,032)
Cash payments to employees for services	(6,285,873)	0
Other operating cash receipts	1,202,781	0
Net Cash Provided by Operating Activities	5,716,534	(86,875)
Cash Flows From NonCapital Financing Activities		
Transfers from other funds	2,613,143	0
Transfers to other funds	(4,637,003)	0
Net Cash Used by Noncapital Financing Activities	(2,023,860)	0
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(4,288,448)	0
Disposal of capital assets	612,990	0
Net Pension Liability	1,432,330	0
Principal paid on capital debt	(1,303,873)	0
Interest paid on capital debt	(435,848)	0
Contributed capital	277,685	0
Other receipts	10,525	0
Net Cash Used by Capital and Related Financing Activities	(3,694,639)	0
Cash Flows From Investing Activities		
Proceeds from disposition and acquisition of investments	(146,737)	0
Interest and dividends	8,534	129
Net Cash Provided by Investing Activities	(138,203)	129
Net Increase in Cash and Cash Equivalents	(140,168)	(86,746)
Cash and Cash Equivalents, Beginning of Year	10,826,699	119,697
Cash and Cash Equivalents, End of Year	\$ 10,686,531	\$ 32,951

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, 2016

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Reconciliation of Income from Operations to Net Cash		
Provided by Operating Activities:		
Income from operations	\$ 2,591,044	\$ (29,397)
Adjustments to reconcile operating income from operations to net cash provided by operating activities:		
Depreciation	3,371,469	0
Change in assets and liabilities:		
(Increase) Decrease in receivables, net	107,122	(10,674)
(Increase) in inventory	(427,571)	0
Decrease in deferred outflows	3,279	0
(Decrease) Increase in accounts and other payables	322,021	(46,804)
Increase in customer deposits	14,344	0
(Decrease) in deferred revenues	(291,164)	0
Increase in accrued payroll	25,990	0
Net Cash Provided by Operating Activities	\$ 5,716,534	\$ (86,875)

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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 2016 include both operating transfers and increases to restricted funds. A total of \$1,010,305 was allocated to the General Fund from the Combined Utility Operating Fund to cover administrative costs, using an indirect cost allocation. During fiscal year 2016, the Combined Utility Operating Fund also transferred \$1,264,500 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, 2016

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, 2016.

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, 2016

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 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, 2016

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, 2016

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, 2016

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, 2016, deposits in all bank account were covered by FDIC insurance or a properly executed collateral security agreement.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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 2016 fiscal year was \$.182 per \$100 of assessed valuation for real estate and \$.1912 for personal property.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Primary Government			
	Balance 7/1/15	Additions/ Completions	Retirements/ Adjustments	Balance 6/30/16
Governmental activities:				
Capital assets not depreciated				
Land	\$ 595,878	102,477		\$ 698,355
Capital assets depreciated				
Buildings and improvements	2,667,519			2,667,519
Improvements other than buildings	1,229,703			1,229,703
Vehicles	1,884,501	223,063	(50,373)	2,057,191
Equipment	2,494,743	759,117	(756,460)	2,497,400
Infrastructure	17,407,594	528,455		17,936,049
Total assets depreciated at historical cost	25,684,060	1,510,635	(806,833)	26,387,862
Buildings and improvements	(1,444,322)	(66,731)		(1,511,053)
Improvements other than buildings	(1,162,863)	(14,010)		(1,176,873)
Vehicles	(1,468,532)	(151,679)	50,373	(1,569,838)
Equipment	(1,365,980)	(99,641)	324,829	(1,140,792)
Infrastructure	(10,989,174)	(432,041)		(11,421,215)
Total accumulated depreciation	(16,430,871)	(764,102)	375,202	(16,819,771)
Depreciable capital assets, net	9,253,189	746,533	(431,631)	9,568,091
Governmental activities capital assets, net	\$ 9,849,067	\$ 849,010	\$ (431,631)	\$ 10,266,446

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

Note 5 – Capital Assets (Continued)

	Primary Government			Balance 6/30/16
	Balance 7/1/15	Additions/ Completions	Retirements/ Adjustments	
Business-type activities:				
Capital assets not depreciated				
Land	\$ 1,050,215	9,562		\$ 1,059,777
Construction in Progress	599,567	494,654	(599,567)	494,654
	1,649,782	504,216	(599,567)	1,554,431
Capital assets depreciated				
Plant facilities	16,632,276	39,227		16,671,503
Other improvements	1,945,161	92,800		2,037,961
Vehicles	1,297,901	134,780	(106,818)	1,325,863
Equipment	7,472,884	1,409,817		8,882,701
Infrastructure	84,968,443	2,107,608		87,076,051
Total assets depreciable at historical cost	112,316,665	3,784,232	(106,818)	115,994,079
Plant facilities	(11,720,888)	(401,522)		(12,122,410)
Other improvements	(1,289,647)	(67,441)		(1,357,088)
Vehicles	(886,862)	(90,417)	93,395	(883,884)
Equipment	(3,236,901)	(602,467)		(3,839,368)
Infrastructure	(30,438,856)	(2,209,622)		(32,648,478)
Total accumulated depreciation:	(47,573,154)	(3,371,469)	93,395	(50,851,228)
Depreciable capital assets, net	64,743,511	412,763	(13,423)	65,142,851
Business-type activities capital assets, net	\$ 66,393,293	\$ 916,979	\$ (612,990)	\$ 66,697,282

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Streets	\$ 476,519
Protection to persons and property	192,630
General government	59,116
Recreation	35,075
Cemetery	<u>762</u>
Total governmental depreciation expense	<u><u>\$ 764,102</u></u>

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

Electric	\$ 408,161
Water	1,290,845
Sewer system	908,093
Cable TV	527,723
Garbage	79,044
Internet	<u>157,603</u>
Total business-type depreciation expense	<u><u>\$ 3,371,469</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. The balance of this note was \$266,584 on June 30, 2015. On January 1, 2016, the E-911 Dispatch took over their own accounting, and the debt was transferred to their financial reports. The City did not make any payments on this loan in fiscal year 2016.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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, 2016 was \$5,855,000. Future principal and interest requirements are:

	Revenue Bonds	
	Principal	Interest
Business-Type Activities		
2017	\$ 1,105,000	\$ 155,390
2018	1,140,000	126,455
2019	1,165,000	93,305
2020	1,205,000	57,755
2021	1,240,000	19,840
Total	\$ 5,855,000	\$ 452,745

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, 2016 was \$1,534,396. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2017	\$ 79,347	\$ 30,293
2018	80,942	28,698
2019	82,569	27,071
2020	84,228	25,412
2021	85,921	23,719
2022-2026	456,217	91,984
2027-2031	503,947	44,253
2032-2033	161,225	3,235
Total	\$ 1,534,396	\$ 274,665

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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, 2016 was \$3,063,853. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2017	\$ 142,971	\$ 89,960
2018	147,319	85,612
2019	151,800	81,131
2020	156,417	76,514
2021	161,175	71,756
2022-2026	882,460	282,296
2027-2031	1,025,080	139,580
2032-2033	396,631	10,999
 Total	 \$ 3,063,853	 \$ 837,848

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, 2016 was \$1,658,739. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2017	\$ 71,002	\$ 48,791
2018	73,162	46,632
2019	75,387	44,406
2020	77,680	42,113
2021	80,042	39,751
2022-2026	438,246	160,723
2027-2031	509,074	89,888
2032-2034	334,146	15,250
	 \$ 1,658,739	 \$ 487,554

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

Note 6 – Long-Term Liabilities (Continued)

Changes during fiscal year 2016 and balances as of June 30, 2016, including the current portions, of the debt were as follows:

	Beginning Balance	Additions	Transfer to E911	Ending Balance	
GOVERNMENTAL ACTIVITIES:					
Other liabilities:					
Loan payable	\$ 266,584	\$ 0	\$ (266,584)	\$ 0	
Total other liabilities	<u>266,584</u>	<u>\$ 0</u>	<u>(266,584)</u>	<u>\$ 0</u>	
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Loan Payables	6,542,428		(285,440)	6,256,988	293,320
General Obligation Bonds, Series 2010	6,940,000		(1,085,000)	5,855,000	1,105,000
	<u>13,482,428</u>		<u>(1,370,440)</u>	<u>12,111,988</u>	<u>1,398,320</u>
Less:					
Unamortized issuance costs	132,839		(22,140)	110,699	22,140
Deferred amount on refunding	266,566		(44,427)	222,139	44,427
Total bonds and notes payable	<u>13,083,023</u>		<u>(1,303,873)</u>	<u>11,779,150</u>	<u>1,331,753</u>
Business-type activities					
Long-term liabilities	<u>\$13,083,023</u>	<u>\$ 0</u>	<u>\$ (1,303,873)</u>	<u>\$ 11,779,150</u>	<u>\$ 1,331,753</u>

Note 7 – Pensions and Other Post Employment Benefits

Plan Description

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. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. 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 17.06 percent.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

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 32.95 percent.

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

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous-duty</u>
2016	\$ 707,451	\$ 571,409
2015	\$ 748,455	\$ 565,832
2014	\$ 767,467	\$ 593,084

The City contributed \$1,278,860 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$515,038 to the CERS pension fund and \$192,413 to the CERS insurance fund for non-hazardous, and \$351,343 to the CERS pension fund and \$220,066 to the CERS insurance fund for hazardous duty.

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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board on an actuarial valuation. The employer contributes a set percentage of each member’s salary. Each month, when employer contributions are received, an employer paid credit is deposited to the member’s account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

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:

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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

<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.

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.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2016, the City has recorded a liability of \$12,674,295, which has been calculated by the County Employees Retirement System of Kentucky to be their proportionate share of the unfunded net pension liability. The net pension liability was measured as of June 30, 2015, and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. As of June 30, 2015, the City's proportion was .32272% for hazardous and .17956% for nonhazardous, which is a decrease of .006094% for hazardous and .00467% for non-hazardous from its proportion as of June 30, 2014.

As of June 30, 2016, the City reported a pension expense associated with the underfunding of the pension of \$1,300,908 in the Governmental Activities and \$1,133,414 in the Business-type Activities, which is its proportional share of the additional pension expense. The total pension expense was measured as of June 30, 2015, and the pension expense used to calculate the total pension expense was determined by an actuarial valuation as of that date. The City's proportion of the total pension expense was based upon a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

As of June 30, 2016, the City reported deferred outflows of \$761,173 in the Governmental Activities, and \$545,581 in the Business-type Activities. The total deferred outflows are the pension expense payments actually made in fiscal year 2016, which will be deferred as an expense until the fiscal year 2016, because they were paid subsequent to the measurement date of June 30, 2015.

As of June 30, 2016, the City reported deferred inflows of \$ 893,957 in the Governmental Activities, and \$289,970 in the Business-type Activities, which is its proportionate share of the total deferred inflows. The total deferred inflows were measured as of June 30, 2015 by the County Employees Retirement System of Kentucky by an actuarial valuation as of that date, and the total deferred inflows were used to calculate the City's deferred inflows. The City's proportion of the total deferred inflows was based on the District's long-term share of the net difference between projected and actual investment earnings on pension plan investments relative to the difference for all participating entities, actuarially determined. As of June 30, 2015, the City's proportion was .32272% for hazardous and .17956% for nonhazardous, which was equal to its proportion measured as of June 30, 2015.

Actuarial Assumptions- The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008-June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Nominal Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Inco	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.12%
Total	100%	

Discount Rate: The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

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

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 15,356,879
Current discount rate	7.50%	\$ 12,674,295
1% increase	8.50%	\$ 10,376,894

The Kentucky Retirement Systems' annual financial report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646. They are also available online at <https://kyret.ky.gov/employers/GASB/Pages/GASB-Library.aspx>.

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, 2016, the audits of these grants and programs were complete through 2015 and the City's compliance with applicable requirements has been established. The City's compliance with applicable requirements for 2016 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

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

Note 9 – Risk Management (Continued)

produce the funds necessary to fund the administrative expenses and the claims and claims expenses, and any deficiencies in the cumulative reserves.

Coverage by KLCIS consists of \$5,000,000 in general liability insurance with \$5,000 deductible. Coverage for property risk is \$22,790,381 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:

	2015	2016
Year	\$ 86,880	\$ 82,339
Current year claims	1,196,214	1,386,424
Claims paid	(1,200,755)	(1,433,228)
Balance at End of Year	\$ 82,339	\$ 35,535

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2016

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 2016.

Organization	Contribution
Planning Commission	\$ 46,425
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	27,000

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

Note 11 – Joint Venture

The joint city-county Emergency 911 Dispatch operation changed significantly during FY 2016. 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. Effective 12-1-08, the Board and the operation were funded by the E-911 fees, with any shortfall to be paid 60% by the County and 40% by the City.

On January 1, 2016, the Emergency 911 Dispatch operation took over their payroll and accounting functions, formerly performed by the City.

Note 12 – Subsequent Events

Management has evaluated subsequent events through November 22, 2016, 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, 2016

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 4,496,000	\$ 4,496,000	\$ 4,784,906	\$ 288,906
Licenses and permits	79,000	79,000	32,458	(46,542)
Fines and forfeitures	50,000	50,000	40,130	(9,870)
Intergovernmental revenues	516,290	516,290	302,396	(213,894)
Charges for services	207,000	207,000	235,958	28,958
Interest	2,000	2,000	493	(1,507)
Other	98,600	98,600	163,002	64,402
Total Revenues	<u>5,448,890</u>	<u>5,448,890</u>	<u>5,559,343</u>	<u>110,453</u>
Expenditures:				
Current:				
General government	861,610	861,610	927,981	(66,371)
Finance	863,150	863,150	865,039	(1,889)
Public safety	2,446,650	2,446,650	2,767,550	(320,900)
Fire	1,590,450	1,590,450	1,442,048	148,402
Recreation	550,200	550,200	546,413	3,787
Risk management	59,800	59,800	88,058	(28,258)
Streets	427,150	427,150	325,118	102,032
Capital outlay	1,542,503	1,542,503	1,613,111	(70,608)
Total Expenditures	<u>8,341,513</u>	<u>8,341,513</u>	<u>8,575,318</u>	<u>(233,805)</u>
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	<u>(2,892,623)</u>	<u>(2,892,623)</u>	<u>(3,015,975)</u>	<u>(123,352)</u>
Other Financing Sources (Uses):				
Transfers in	3,253,438	3,253,438	2,496,029	(757,409)
Transfers out	(360,516)	(360,516)	(334,037)	26,479
Total Other Financing Sources (Uses)	<u>2,892,922</u>	<u>2,892,922</u>	<u>2,161,992</u>	<u>(730,930)</u>
Net Change in Fund Balance	299	299	(853,983)	(854,282)
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>1,152,428</u>	<u>1,152,428</u>
Fund Balances, End of Year	<u>\$ 299</u>	<u>\$ 299</u>	<u>\$ 298,445</u>	<u>\$ 298,146</u>

Expenditures for the General Fund exceeded budgeted amounts by \$233,805.
This was funded by the prior year fund balance and transfers in from the Combined Utilities Fund.

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2016

	Municipal Road Aid	Land Acquisition and Building	Law Enforcement	Cemetery	Total Other Governmental Funds
Assets					
Cash and cash equivalents	\$ 5,332	\$ 85,369	\$ 5,272	\$ 17,288	\$ 113,261
Investments	0	400,154	0	175,065	575,219
Restricted Cash	0	0	0	9,116	9,116
Restricted Investments	0	0	0	149,276	149,276
Accrued receivables	26,665	0	0	2,210	28,875
Total Assets	31,997	485,523	5,272	352,955	875,747
Liabilities					
Accounts payable	0	0	3,314	6,684	9,998
Total Liabilities	0	0	3,314	6,684	9,998
Fund Balances					
Nonspendable	26,665	0	0	2,210	28,875
Restricted					
Roads	5,332	0	0	0	5,332
Cemetery	0	0	0	158,392	158,392
Assigned					
Land Acquisition and Industrial Dev.	0	485,523	0	0	485,523
Public safety	0	0	1,958	0	1,958
Cemetery	0	0	0	185,669	185,669
Total Fund Balances	31,997	485,523	1,958	346,271	865,749
Total Liabilities and Fund Balances	\$ 31,997	\$ 485,523	\$ 5,272	\$ 352,955	\$ 875,747

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, 2016

	Municipal Road Aid	Land Acquisition and Building	Law Enforcement	E911 Fund	Cemetery	Total Nonmajor Funds
Revenues						
Intergovernmental	\$ 246,201	\$ 0	\$ 0	\$ 136,631	\$ 0	\$ 382,832
Charges for services	0	0	0	175,115	60,100	235,215
Interest	47	315	11	0	697	1,070
Other	0	0	2,668	22,169	0	24,837
Total Revenues	<u>246,248</u>	<u>315</u>	<u>2,679</u>	<u>333,915</u>	<u>60,797</u>	<u>643,954</u>
Expenditures						
Current:						
General government	0	0	0	0	0	0
Public safety	0	0	55,658	376,948	0	432,606
Cemetery	0	0	0	0	56,394	56,394
Total Expenditures	<u>0</u>	<u>0</u>	<u>55,658</u>	<u>376,948</u>	<u>56,394</u>	<u>489,000</u>
Over						
Expenditures	<u>246,248</u>	<u>315</u>	<u>(52,979)</u>	<u>(43,033)</u>	<u>4,403</u>	<u>154,954</u>
Other Financing Uses:						
Transfers in	0	0	0	109,302	0	109,302
Transfers out	(245,500)	0	0	0	(1,934)	(247,434)
Total Other Financing Uses	<u>(245,500)</u>	<u>0</u>	<u>0</u>	<u>109,302</u>	<u>(1,934)</u>	<u>(138,132)</u>
Net Change in Fund Balances	748	315	(52,979)	66,269	2,469	16,822
Fund Balances, Beginning of Year	<u>31,249</u>	<u>485,208</u>	<u>54,937</u>	<u>(66,269)</u>	<u>343,802</u>	<u>848,927</u>
Fund Balances, End of Year	<u>\$ 31,997</u>	<u>\$ 485,523</u>	<u>\$ 1,958</u>	<u>\$ 0</u>	<u>\$346,271</u>	<u>\$ 865,749</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET –
NON-MAJOR PROPRIETARY FUNDS
June 30, 2016

	<u>Depreciation Reserve</u>	<u>Operating and Maintenance Reserve</u>	<u>Water and Wastewater Enhancement Fund</u>	<u>Lagoon Cleaning Fund</u>	<u>Total Non-Major Enterprise Funds</u>
Assets					
Noncurrent Assets:					
Restricted Assets:					
Cash	13,273	0	146,238	35,000	194,511
Investments	<u>517,038</u>	<u>2,606,160</u>	<u>571,076</u>	<u>448,185</u>	<u>4,142,459</u>
Total Noncurrent Assets	<u>530,311</u>	<u>2,606,160</u>	<u>717,314</u>	<u>483,185</u>	<u>4,336,970</u>
Total Assets	<u><u>530,311</u></u>	<u><u>2,606,160</u></u>	<u><u>717,314</u></u>	<u><u>483,185</u></u>	<u><u>4,336,970</u></u>
Net Position					
Restricted for:					
Bond reserves	100,311	2,606,160	0	0	2,706,471
System capacity reserve	0	0	717,314	0	717,314
Other purposes	<u>430,000</u>	<u>0</u>	<u>0</u>	<u>483,185</u>	<u>913,185</u>
Total Net Position	<u>530,311</u>	<u>2,606,160</u>	<u>717,314</u>	<u>483,185</u>	<u>4,336,970</u>
Total Liabilities and Net Position	<u><u>\$ 530,311</u></u>	<u><u>\$ 2,606,160</u></u>	<u><u>\$ 717,314</u></u>	<u><u>\$ 483,185</u></u>	<u><u>\$ 4,336,970</u></u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – NON-MAJOR PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2016

	Depreciation Reserve	Operating and Maintenance Reserve	Water and Wastewater Enhancement	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Operating Revenues:					
System development charges	0	0	108,070	0	108,070
Total Operating Revenues	<u>0</u>	<u>0</u>	<u>108,070</u>	<u>0</u>	<u>108,070</u>
Income (Loss) from Operations	0	0	108,070	0	108,070
Nonoperating Revenues (Expenses):					
Investment earnings	911	1,476	409	790	3,586
Total Nonoperating Revenues (Expenses)	<u>911</u>	<u>1,476</u>	<u>409</u>	<u>790</u>	<u>3,586</u>
Income (Loss) Before Contributions and Transfers	911	1,476	108,479	790	111,656
Transfers in	<u>0</u>	<u>0</u>	<u>0</u>	<u>35,000</u>	<u>35,000</u>
Change in Net Position	911	1,476	108,479	35,790	146,656
Net Position, Beginning of Year	<u>529,400</u>	<u>2,604,684</u>	<u>608,835</u>	<u>447,395</u>	<u>4,190,314</u>
Net Position, End of Year	<u>\$ 530,311</u>	<u>\$ 2,606,160</u>	<u>\$ 717,314</u>	<u>\$ 483,185</u>	<u>\$ 4,336,970</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, 2016

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable TV</u>	<u>Garbage</u>	<u>Internet</u>	<u>Total Operating</u>
Operating Revenues:							
Charges for services	\$14,911,038	\$ 4,425,333	\$ 4,034,033	\$ 6,647,262	\$1,484,354	\$3,156,592	\$ 34,658,612
Utility surcharge	0	0	0	0	0	73,375	73,375
Connection fees	1,957	81,060	17,205	58,529	0	0	158,751
Contract services	111,966	5,542	13,103	131,087	2,892	0	264,590
Intergovernmental revenues	331,361	0	0	0	20,030	0	351,391
Penalties	105,810	98,529	59,204	122,237	18,742	0	404,522
Miscellaneous	40,163	67,974	3,489	33,190	34,313	0	179,129
Total Operating Revenues	<u>15,502,295</u>	<u>4,678,438</u>	<u>4,127,034</u>	<u>6,992,305</u>	<u>1,560,331</u>	<u>3,229,967</u>	<u>36,090,370</u>
Operating Expenses:							
Purchases for resale	11,916,231	0	0	5,032,275	0	0	16,948,506
Personal services	981,494	2,034,997	871,635	1,235,795	884,952	302,990	6,311,863
Contractual services	182,180	212,633	240,944	115,099	402,106	92,117	1,245,079
Materials and supplies	139,869	615,952	341,416	621,095	274,244	223,835	2,216,411
Maintenance and repairs	211,596	373,296	164,853	262,942	43,432	24,422	1,080,541
Other expenses	164,689	571,794	760,786	474,981	42,756	418,521	2,433,527
Depreciation	407,422	1,285,398	912,451	528,415	79,424	158,359	3,371,469
Total Operating Expenses	<u>14,003,481</u>	<u>5,094,070</u>	<u>3,292,085</u>	<u>8,270,602</u>	<u>1,726,914</u>	<u>1,220,244</u>	<u>33,607,396</u>
Income From Operations	<u>\$ 1,498,814</u>	<u>\$ (415,632)</u>	<u>\$ 834,949</u>	<u>\$ (1,278,297)</u>	<u>\$ (166,583)</u>	<u>\$2,009,723</u>	<u>\$ 2,482,974</u>

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, 2016

	<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	\$ 4,867	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,867
Lease revenue	0	9,325	1,200	0	0	0	10,525
Interest expense	0	(172,047)	(17,734)	0	0	0	(189,781)
Total Nonoperating Revenue (Expense):	<u>4,867</u>	<u>(162,722)</u>	<u>(16,534)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(174,389)</u>
Income Before Contributions and Transfers	1,503,681	(578,354)	818,415	(1,278,297)	(166,583)	2,009,723	2,308,585
Capital contributions	0	8,000	269,685	0	0	0	277,685
Transfers in	0	123,643	0	1,190,000	0	0	1,313,643
Transfers out	<u>(954,627)</u>	<u>(664,724)</u>	<u>(1,120,928)</u>	<u>(479,490)</u>	<u>(50,144)</u>	<u>(1,367,090)</u>	<u>(4,637,003)</u>
Change in Net Position	<u>\$ 549,054</u>	<u>\$ (1,111,435)</u>	<u>\$ (32,828)</u>	<u>\$ (567,787)</u>	<u>\$ (216,727)</u>	<u>\$ 642,633</u>	<u>(737,090)</u>
Net Position, Beginning of Year							<u>67,610,271</u>
Net Position, End of Year							<u>\$ 66,873,181</u>

**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, 2016, 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 November 22, 2016.

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

November 22, 2016